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Scale-Up Toolkits

Building Sustainability

This toolkit includes:

- An outline of the common reasons why businesses fail
- Steps to take to reduce your risk of making these same mistakes

www.frogcapital.com/scale-up-methodology

01

Why businesses fail

Increase your chances of success by understanding why businesses fail

Reason #1

Failure of the Leadership / Management team

Especially pertinent when an unwillingness to delegate is demonstrated

Reason #2

No real market differentiation

Either due to a true lack of differentiation or due to a lack of demonstration of it through substandard marketing

Reason #3

Failure of the sales team

Often due to either underestimating the competition or not engaging with and understanding the needs of customers sufficiently, leading to poor retention

Reason #4

Unprofitable Business Model

Due to lack of differentiation between losses derived from investing for growth and unsustainable long-term trading losses

Reason #5

Poor Financial Management and Planning

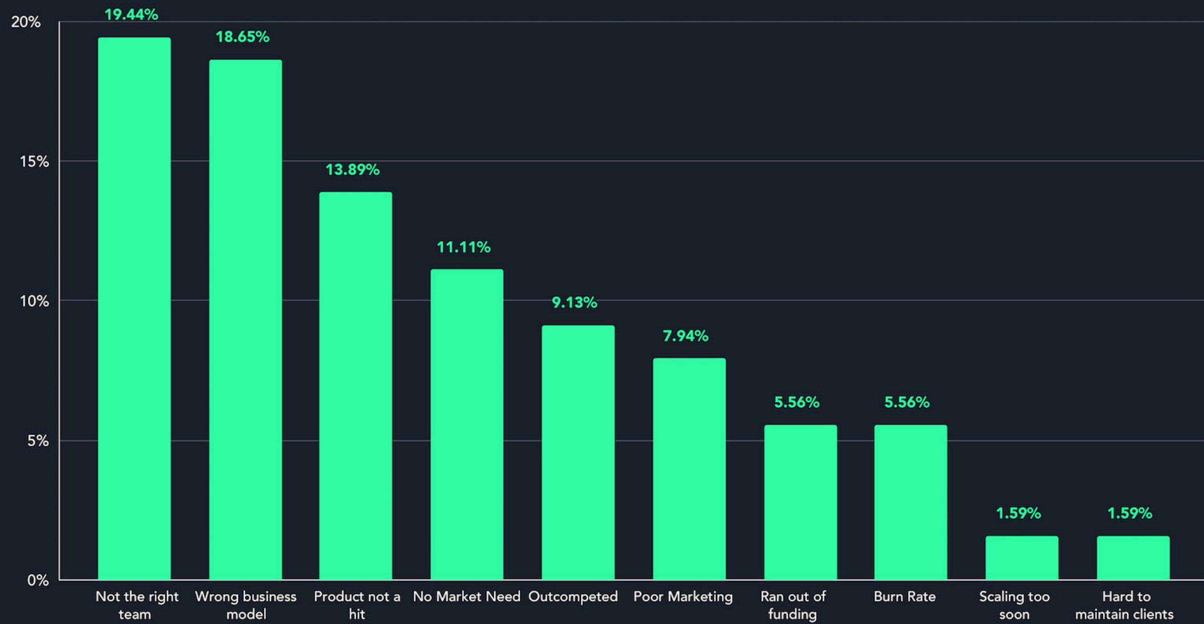
Too much focus on reporting historic finances and not enough attention to strategic financial planning

Reason #6

Expanding Too Quickly

A robust plan of action and in-depth understanding of the markets concerned is required before fulfilling any expansion goals

Autopsy suggest that 92% of start-ups fail within three years. Following an analysis of 300 failed startups, they were able to categorise the top 10 reasons for failure:



Source: Autopsy

Most of the reasons cited above are addressable with good external input; leaders can evolve, and teams can change; the business model can iterate to identify a profitable way forward and the market proposition can get better as learnings from mistakes are taken on board.

As CEO, your job is to ensure you have viable alternatives

The underlying reason in most cases is therefore the failure to address the changing needs of the business by making tough decisions in time to allow it to survive.

This could be due to a false assumption that trading was just about to turn the corner or that there was more time available than was really the case due to over-optimism on fundraising or underestimating cash burn.

Ultimately, an assumption (or often hope) that the issue will be addressed has turned out to be incorrect with insufficient time to change to a more realistic plan. Having a cash crisis is a failure to ensure that there are viable alternative options when assumptions prove incorrect.

Having a solid Plan B does not signify a lack of ambition

Whatever the root causes, the immediate reality of business failure is insufficient capital to support the needs of the business.

This could be working capital needs, capex needs or most commonly amongst venture-capital-backed businesses, long-term equity growth funding required to reach self-sustaining core business trading.

Some might argue that failure is in the nature of the risk taking required for success but being ambitious does not need to be an all or nothing tunnel-vision approach to ensure focus. It is perfectly possible to drive for huge success, whilst knowing what the plan B is at each stage should the assumptions for the ambitious plan fail to deliver.

Often success can be just a matter of timing and the essential element is making sure your business is still around to take advantage when all the pieces fall into place. Predicting business or consumer take-up of new disruptive technologies is incredibly difficult, so ensuring you can bide your time if you need to with a resilient plan is essential.

A solid 12-month plan will allow you time to strategically course correct

A resilient plan is one that is not reliant on everything going your way.

Your plan should be able to cope if opportunities arise but also provide options and crucially will identify the milestones that determine the last point at which a particular option can be taken.

For example, a cost-cutting programme will normally have no material net benefit to cashflow over a three-month period, given the upfront costs and disruption required to implement it. Good financial planning will highlight these issues and a quality CFO will ensure the scenarios receive sufficient attention in plenty of time to inform good decision making.

A resilient plan is also one based on current information, constantly updated for new learning and avoiding the defence of the status quo that is detrimental to progress (see Matthew Syed's insightful book, *Black Box Thinking*).

A common slogan in venture capital is fail fast and move on. This is great advice as long as the reasons for failure are thoroughly learnt and inform future execution.

Fundraising is highly dependent on external factors, and if you want your business to be truly resilient, being a great fundraiser as CEO is not enough to be sure in all circumstances. You also need the internal analysis as to how to make the most of what you have without external solutions.

So, what does it take to succeed?

To be successful, scale-up CEOs need to be incredibly driven and optimistic, or they would never start.

As a business grows to the scale-up phase, the optimism needs to be balanced with realism but not at the expense of ambition.

To avoid cash crises or worse, you must bring a constructive diversity of thinking into the senior management team and its influencers (including Non-Executive Director investors).

This will result in smart, experienced and diverse operators delivering viable alternatives – and will therefore provide the clearest visibility of long-term success.

See more at www.frogcapital.com/scale-up-methodology

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