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Case Studies On Failed Startups; How And Why They Failed?

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I. ABSTRACT

The term 'start-up' refers to a group of people, especially young and dynamic ones, who work together to start their own business to bring innovative services and products to make lives of customers easier and add value for themselves. According to Oxford Economics, around 9 out of 10 (90%) Indian startups fail within the first five years. In this article, we will discuss all of the complex and common reasons why start-ups fail through a case study on businesses which have failed in the past. This study is aimed to help aspiring entrepreneurs and researchers by evaluating some of the major ups and downs involved in several stages in a start-up's life. It is much needed to work on improving the success rate of start-ups in India. Here, we highlight some of the major reasons behind the failure of start-ups.

Keywords: Start-ups, entrepreneurs, India, startup failure, failed startups, case study, Indian startups

II. INTRODUCTION

Startups are the growing and emerging trend of fastest-growing, small companies with the emergence of the latest technologies. According to an academician and serial-entrepreneur in Silicon Valley, Steve Blank, startup refers to a small enterprise designed with a scalable and reliable business model [1]. According to Paul Graham [1], writer and investor, startups are a rapidly growing trend and business. But fast growth is not the only factor determining the complexity of startups. According to a leader in the StartupCamp community, MatejJariabka, startup is an innovative high-risk business with a great growth potential. The term 'startup' is labeled as a sign of creativity, uniqueness, and unconventional thinking [2]. A startup prepares viable products that may already exist in the market and meet one of these requirements – (1) higher entrepreneurial risk in making its presence in the market, (2) creating a blue ocean in an industry, and (3) it has a great growth potential following a successful start [3].

According to Bednár and Tarišková [3] there are five important reasons behind the failure of startups –

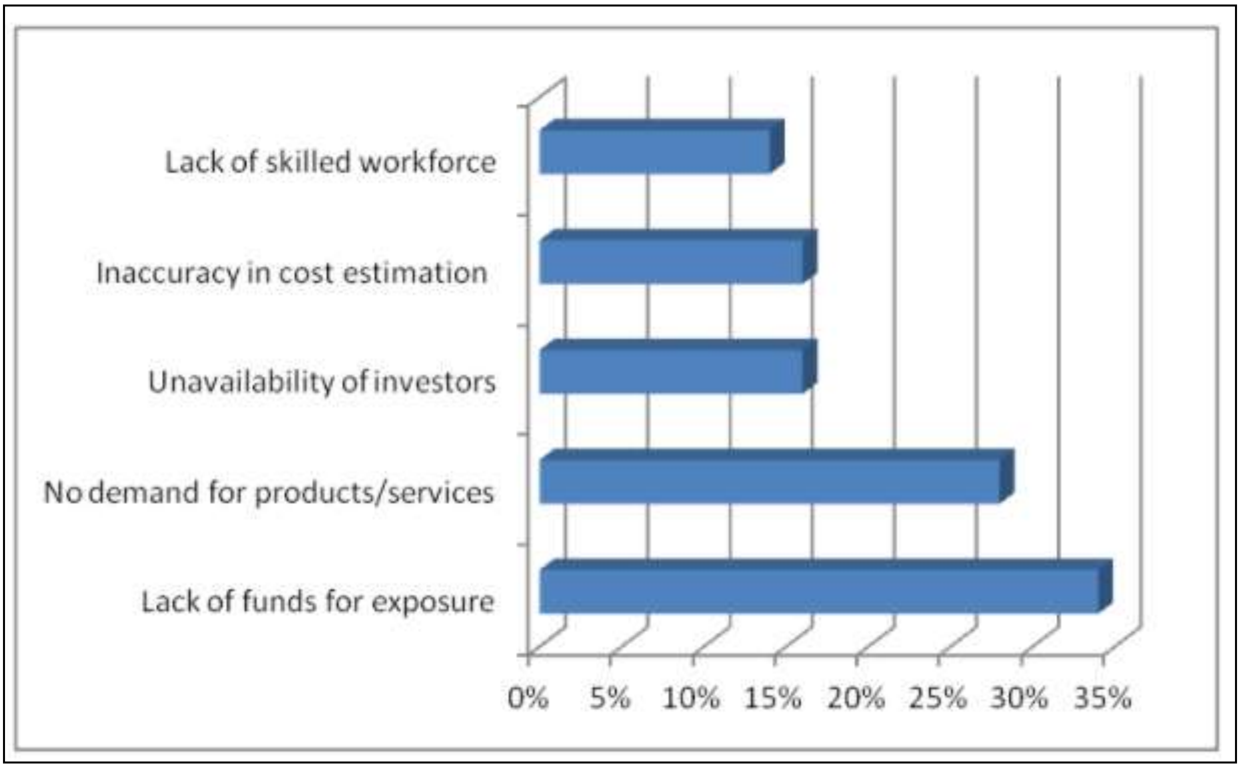

Fig. 1 – Causes of failed startups [3]

- Lack of funds for expansion – Getting enough funds for an idea, especially when the business is not generating revenue, is one of the important factors for the success of any startup. Startups seek financial help from outer sources like friends, family, development capital, VC (venture capital), crowdfunding, etc. Most startups cannot reach the stage of generating sales to get additional sources from their customers. Lack of funds poses other problems, such as capital expenditures, staff salaries, infrastructure, offices, financing an expansion, etc. [3]

- No demand for products/services – Lack of consumer's interest in the products and services offered by the startup is another major reason behind failure. It happens mostly because of lack of market research. The key here is to ask customers about their challenges and analyze the best solutions. Sometimes, early surveys seem promising but when startups launch their product, customers are no longer interested. Probably, it is because the timing is not right for launching their products or services, as either the market or customers are not prepared for it. Sometimes, startups are too late to launch the product [3].

- Unavailability of investors - Finance is the biggest reason for failure of startups. There are several issues related to it –

    - The startups disappoint the investors and cannot fulfill the goals. As a result, they lose investors' confidence.
    - Startups fail to produce solid evidence that can convince their investors about their significant growth potential (such as, huge number of app downloads, advance booking with buyers, success in crowdfunding, sales, etc.).
    - Investors often don't find the business model logical at all.
    - Lack of awareness among investors because product or service is ahead of its time.

- Inaccuracy in cost estimation – Estimating operating costs is one of the major challenges for founders. They don't make accurate calculations of overhead and direct expenses. Sometimes, they act under investors' pressure and produce only preliminary expenses and they have no idea exactly what materials will be used. They often fail to determine all expenses, such as labor costs, material costs, technological investments, etc. [3]
- Lack of skilled workforce– Experience, skills, creativity, teamwork, and quality of a team are the major factors that can mean the difference between failure and success of an organization. Startups mostly have to replace their business models and only high-

quality teams should do that. They don't have compatible people and they end up with people who seem professional at first but later turn out to be inefficient [3].

According to George and Padmadas [4], there is negligence in having women entrepreneurs in the existing entrepreneurial system. Including women as entrepreneurs can be very promising to promote a healthy environment. Along with several policies for entrepreneurship, the existing ecosystem is not yet sufficient to develop and encourage startups. An entrepreneurial environment must be provided to start uppers for their growth. A better support and reception system should be made to ensure a supportive ecosystem for entrepreneurs. Training programs should be developed for start-uppers and students should be encouraged towards entrepreneurship by adding the same to their curriculum. Finally, women should be included as part of the entrepreneurship ecosystem.

According to Sharma [5], an Indian company cannot lead the global market as they often come with lack of innovation which is needed exactly to resolve customers' issues. They need to understand consumers' needs but lack of innovation for invention of the product is real. Negative cash flow is one of the most important reasons behind failed startups. Constant cash flow is important for running a business successfully. Payment delay is another factor that breaks working operations. Lack of highly capable and dynamic people to execute company's strategies for long-term results is another problem. The entrepreneurs have to assess the competence of their teams. Lack of awareness about how to launch a product in the market is another major cause of failure [5].

Entrepreneurs should know about their target customers. They often delay in launching their products, which ultimately affect their market shares and profitability. It becomes harder to generate revenue due to late launch of the product. Taking feedback from customers and their complaints can also help entrepreneurs to improve their services and products. If they neglect customers' complaints and feedback, customers usually go to their competitors [5].

III. LITERATURE REVIEWS

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Startup revenue model failures

Startup is the fastest growing revenue or business model as a conceptual framework for income, revenue, or above average generation of ROI can be the key to success of a business or a core of the business model. **Bednar et al. [6]** discusses the whole story ofstartup monetization models. The study is aimed to define the revenue models and their types used in startups in Slovakia and to respond to the questions about differences in revenue failure of startups because of the pricing model, revenue model, and payment time. The researchers gathered data through one-on-one interaction with entrepreneurs and Tukey and ANOVA methods for significant and honest differences. The results were considered to be statistically significant on $p < 0.05$. There is a significant difference found between solid revenue models and not having any model at all.

Everything related to the startup environment is resulted from the demand for significant growth. Hence, a startup is an enterprise aimed to look for scalable and repeatable business models, creativity, unmatched thinking, and uniqueness. Irrespective of any category, the capital on operation and amount of money invested should not exceed the amount of money earned. If it happens, all the efforts will go into insolvency.

Key Challenges in Early-Stage Software Startups

Software startups are recently launched companies designed for fastest growth. The software startup environment is very unpredictable, dynamic, and chaotic. The contextual features which are most rapidly reported in a startup are identified in a systematic mapping study [7], such as high reactiveness, lack of resources, inflexibility, time pressure, dealing with fastest growing markets, and uncertainties. Even though there are similar contexts in startups, such as web and small companies, the coexistence of all such features poses a unique, new set of challenges [8], especially when they are entering the market for the first time.

Giardino et al [9] are aimed to know major challenges software companies face at the beginning. New markets are very uncertain and modern technologies pose different issues for startups that are completely different for mature companies. They focus on the major challenges that new-age startups face from idea to conceptualization. They used mixed-method research to investigate the major challenges, including detailed multi-case study and a widespread survey of the sample of 5389 respondents. The initial results suggest that the rise in uncertainty of technology and gaining the first paying customer are some of the major challenges, experienced and perceived by new-age startups. This study consists of deeper issues that new-age startups have to deal with effectively.

Causes of Small Business Failure in Uganda: A Case Study from Bushenyi and Mbarara Towns

The Civil and Public Service reforms and privatization that started in the 1990s brought a lot of small businesses to Uganda. Small enterprises were employing over 20,00,000 employees by 2002 and serving more than 60,00,000 customers at household and business levels. The entrepreneurs who established these enterprises did not have capital and business management skills, and many of them had a lot of troubles as such. A survey was conducted to understand the causes of failures of small businesses in Uganda with businesses in Bushenyi and Mbarara towns in the form of case studies.**Kazooba [10]** used detailed questionnaires and interviews to collect information from 133 small businesses.

The findings suggest that the small businesses failed because of diverse reasons and multidimensional causes, such as economic, political, cultural, social, and environmental factors and poor management. Practically speaking, most of them are interrelated. The survey concluded that some factors posed a significant risk related to startups. Start-uppers who have handled the initial hurdles in the beginning are more likely to have success in future. The business community is still affected by the challenges, despite having solutions sought over the years. The study has made a lot of practical suggestions against the failure of businesses.

Startup Failures in China and USA

There have been significant changes in the trend of international venture fundraising over the past decade. In China, the scene of venture capital was quite modest in the beginning of 2000s as compared to the US. However, investments of venture capital in China started to rise significantly every year since 2009. Several factors were responsible for the change from the US to China. The rising demand for VC funding was the first and most important reason. Leading universities like Peking and Tsinghua University started hosting competitions for startups to approach venture capitalists for funding. These startups were very desperate as compared to the startups in western countries. They were prepared to accept all terms set by the VCs.

This significant growth made both investors and founders overconfident. With the appearance ofXiaomi, Alibaba and other successful Chinese giants, there has been a rise in the number of venture and angel investors from a handful to around two thousand investors within two years. There has been a tenfold rise in valuations and Chinese startups have been put in the same range as the startups in Silicon Valley, without market stability and infrastructural support that Silicon Valley startups have. Investors found significantly higher risk of failure considering the short track record and less mature ecosystem and, hence, decided to move their support from China. Investors are getting anxious about the burn rates of startups in China, especially the younger and smaller ones. A report by **Foo et al. [11]** explores the reasons behind failure of startups in both China and the US, and finds the mistakes committed by the Southeast Asian business community to avoid its growth.

Startups' Roads to Failure

Small high-tech startups have always been praised for driving economic growth and innovation. Meanwhile, though the role of these startups is praiseworthy, it is also recognized that these startups adopt high-reward and high-risk strategies which lead to a low rate of success for these startups and a high rate of failure. Hence, it is curious to note that **Cantamessa et al [12]** focus on quantitative studies and successful startups seeking the determinants of success while avoiding important lessons that can be learnt by the stories of failed startups. The study fills the gap and provides a scalable and repeatable methodology for an unstructured database of documents about failure patterns of startups. The study analyzes a vast database including 214 post-mortem startup reports. Descriptive stats suggest the lack of proper business strategy as the main cause of startup failure in most of the cases.

Challenges and Issues Faced by Startup Companies in India

Startup India is a Government of India initiative to promote innovative and young start-uppers. These startups may access enough support and funding in the beginning but they will need to maintain a strong customer base later on. Startups in India face a lot of financial and marketing issues and implications. **Sharma et al. [13]** discuss several challenges they face by gathering data over a structured questionnaire from owners/founders of the startups. In addition, they also provide some suggestions to deal with marketing challenges.

A lot of programs have been conducted since the inception of this program in January 2016 by PM NarendraModi as part of his vision to transform India and make it the nation of job creators. These programs have focused on startup culture and recognized startups to ensure entrepreneurs getting many benefits of launching their own businesses in the country. The NASSCOM India Startup Report 2015 suggests that around 4 startups emerge in India every day and over $5 billion were invested in 2015. India has made it to third position globally for the largest number of startups, i.e. around 4200, with 40% of growth by the end of the year. The government of India is also looking forward to providing the best opportunities to startups to grow and thrive.

IV. Research Question

What are the reasons for startup failures?

A. *Research Objectives*

To study reasons for startup failures.

To do case study on several startup failures.

V. Methodology

The foundation of this study is the case study of various startup failures. All entrepreneurs were engaged in some form of businesses following various B2C and B2B models. We used secondary data to collect all the information needed for this study. We used different resources like research journals through Google Scholar, blogs, analyses of blog startups, reviews, news articles, and others to evaluate the causes behind their failure. Case study research helped us in exploring and understanding complex issues of start uppers.

A. *Case Study 1 – Crypto Startup Failure*

Founded by SandeepGoenka, SaurabhAgarwal, and Mahin Gupta in 2015, Zebpay was one of the most popular cryptocurrency trading apps in India with over 3 million subscribers trading successfully in Litecoin, bitcoin, and other digital currencies. They even secured the funding up to $1 million [14]. In 2018, Zebpay founders officially announced its shutdown. The Reserve Bank of India banned bitcoins and other digital currencies in banks and financial institutions. Due to this reason, the crypto market in India suffered a lot. Hence, they could not find another way to conduct their business. As a result, they cancelled all the unexecuted orders and credited all the tokens/coins to the Zebpay wallets of their customers [15].

B. *Case Study 2 – Bike Rental Failure*

A Chinese bike rental giant, Ofo was founded in 2014 in Beijing and started operating in India in 2017. It had secured funding of over $800 million from Alibaba Group [14]. Bike sharing has a lot of use cases and is a very popular concept in this day and age. There were many reasons behind the failure of this bike rental company, along with the competitors like Didi, Hellobikeand Mobike. Money wars are a very common concept in China where there is a great competition between venture-backed startups to grab customers. They bear referrals, subsidize their services, and try a lot of techniques to attract customers. An organization can have a higher market share by investing more money. The company which raises funds more aggressively is more likely to move ahead. Ofo also did the same and it successfully became a market leader like Mobike. Initially, Ofo performed well in the bike-sharing business but it soon ran out of capital and failed to sustain their operations against competitors like Alibaba, Hellobike, Mobike, and Didi. Even after deploying new bikes, they could not perform well [16].

In addition, Ofo also started their international operations in 2017. They improved their valuation by launching their branches in Europe, US, India, and other countries. But they also had to invest in a lot of bikes. It is not uncommon for Chinese companies to expand overseas, but they do so only when they win at their homeland or when it comes to avoiding bigger competitors [16].

C. Case Study 3 – E-Distributorship Failure

An e-distributor started with an aim to connect consumer brands with retailers, Just Buy Live Enterprise Pvt. Ltd offered retailers with a common ground to buy goods in different segments like fashion, cosmetics, automobiles, electronics, FMCG and others. It was founded in 2015 by SahilSani and Bharat Balachandra. The company also helped small and medium enterprises with unsecured loans, with funding of over $100 million [14]. However, this startup failed miserably and is no longer operational.

The company rose up to Rs. 136 Crore ($20 million) in January 2016 in Alpha Capital's Series A funding round. According to a report from The Ken, an e-tech news firm, the company was no longer able to continue their operations followed by constant inefficiencies because of the flawed business model of the firm. The report cited several former unnamed staff members of the organization. According to this report, the faulty business model was the main cause of shutdown as it caused a huge bleeding of cash. The firm also delayed salaries for their staff, fired their employees, and downsized their staff in various departments. The company had only a dozen employees, which was started with 400 employees, according to The Ken's report [17].

The company also announced raising $100 million in August 2017 from AliCloud Investment, an investment banking organization based in Dubai, for its Series B round. It was among the largest fundraisers at that time in the B2B e-commerce domain. However, the filings of the company did not mention any information about its funding of $100 in Series B round with the Registrar of Companies. The company had not disclosed the same for FY 2016-17. According to The Ken, fundraisers of $100 never existed at all. The organization was based on a brand-to-retail model which enabled retailers to buy goods directly from consumer brands, while eliminating the middlemen. According to the company, it had listed several popular brands like Xiaomi, Apple, Micromax, Samsung, Oppo, YU Mobiles, P&G, ITC, Patanjali, Coca-Cola, Unilever, Pepsico, Nestlé, and Amul [17].

D. Case Study 4 – Food Delivery Startup Failure

Founded by SandeepKannambadi and Sanjay Rao in 2015, Monkey Box was a food delivery service serving school children by supplying vegetarian meals approved by Recommended Dietary Allowance (RDA) and served over 1500 children with two delivery chains. The Bengaluru-based startup was supposed to have failed to have the base required to stay afloat. Backed by Blume Venture, this startup was looking forward to expanding its operations to other cities in India. It acquired a corporate-based nutritious food delivery venture, 75 In A Box, in 2017. On March 23, 2018, the startup confirmed on its official website that the company will be shut down temporarily [18].

According to the co-founders, Monkey Box could not fulfill its commitment and the team will resume its service with new strategies. It was the second start-up for SandeepKannambadi, Vijay Bharadwaj and Sanjay Rao which stopped operating. Earlier, they were the co-founders of SportingMindz, a sport analytics app in 2006. MonkeyBox served over 2,00,000 meals with FSSAI certified kitchens till date. According to the company, it had processed over 12000 orders every day in 150 schools in the east, south, and northern suburbs of the city and had 6000 subscribers. MonkeyBox also acquired RawKing, a cold-pressed juice delivery and manufacturing firm based in Delhi in May 2017 [18].

The company also raised $2 million from investors like Nspira and NB Ventures, along with Blume. They received the last funding as pre-Series A round in July 2017 but the amount was yet to be disclosed. Even after raising funds, the meal delivery service failed and left a question on its suspension. Its failure is definitely a hint that there is still a lack of scope in providing dedicated food delivery services for school kids [18].

E. *Case Study 5 – Motorbike Rental Failure*

Like Ofo, Tazzo Technologies Pvt. Ltd was a startup based on GPS-enabled motorbike rentals with live tracking of overspeeding and theft. This Hyderabad-based startup was founded in 2016 by ShivangiSrivastava, PriyamSaraswat, Vikrant Gosain, and PriyankSuthar, but it was shut down in 2018. However, it still secured the first round of funding worth $225,000 (around Rs. 1.5 Crore) from DSG. The startup had a humble beginning but it faced some external and internal factors that led the company to wind up, according to co-founder Saraswat. He further added that inability to raise further rounds and capital-based nature of the company were the main reasons for its closure [19].

According to Saraswat, motorbike rental is relatively big and a new segment to India. They were looking for ways to disrupt this segment but it needed a lot of capital to extend its operations to another level. Tazzo charged users on the basis of per kilometer and per minute like Uber and Ola. The charges were started from Rs. 5 per km, including insurance and fuel, without pickup and extra delivery charges. They were looking forward to fulfilling all urban commuting needs of customers. The business model was almost similar to that of Uber and Ola, but the only difference is motorbike [19].

According to Industry experts and analysts, startups need investors for long-term support in this segment. Scalability is the major challenge in this model. According to Vivekananda Hallekere, Bounce co-founder, a dockless scooter sharing company providing long urban connectivity, this business model is majorly online and operations intensive. The owners must manage cash at hand and its expansion mindfully. Any conflict in planning can make things worse. Eventually, it depends upon the way the owner operates. Monthly installments on inventory and fuel are the major aspects making this model highly dependent on working capital. According to Unicorn India Ventures managing partner, Anil Joshi, these businesses usually don't have a large number of users and their costs of customer acquisition are very high. These ventures need heavy investment in the long run. Those ventures take off significantly once they make their grounds stronger [19].

The business model of online bike rentals especially works in cities where a large population belongs to other places. In a country like India, more and more people own and use their personal vehicles. It goes without saying that this sector has great potential but it needs innovation and the right approach. Commuting is a major use case and a true problem. It is important to cut down on the use of private vehicles on the road and increase the use of public transport to control burgeoning traffic. There are still some ventures like Baxi and Rapido which solve commuting issues like Uber but they need to be aggressive. These business models are highly successful in countries like China which are a decade ahead from India, especially when adopting the latest tech-based solutions. India is quite slow in adopting those solutions [19].

F. Case Study 6 – Digital Marketing startup failure

Contentmart was a digital marketing startup that enabled content writers to use their skills and individuals/companies to hire freelance writers. The jobs included everything related to content. One of the main reasons behind their failure was lack of revenues which led to wind up in August 2018. The Gurgaon-based startup has retired their website within three years after its initial launch as the first content marketplace in India. Around 103,000 writers were connected to over 110,000 global clients in the company. They tried to provide services on the verge to Fiverr and Upwork. They conducted some tests from beginner to advanced levels for the writers to rank their websites, so that the clients can hire the talents accordingly [20].

At Contentmart, freelance writers provided a lot of services across digital, electronic and print media platforms, such as webpage content, blogs, articles, business writing, case studies, travelogues, academic writing, and whitepapers. The company also provided translation solutions from native speakers across the world in over 20 languages. Contentmart also had some facilities for its clients, such as fixed deadlines, free registration, options to check writer reviews, portfolios, and past experiences, built-in plagiarism checks, chat features, friendly support staff, safe and automated payments, and 100% refund if content is not according to the expectations. The company also announced to remove all its writers and clients’ details from its servers forever [20].

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G. *Case Study 7 – Ecommerce Startup Failure*

eBay made a foray in Indian market when online shopping was completely new for the majority of Indians in 2004. It was the time when Bazee.com and Indiatimesshopping.com were the only shopping sites that existed. The E-commerce scene was never the same for Indian shoppers. In 2017, Flipkart acquired eBay India by raising $1.4 billion from leading tech giants like Microsoft and Tencent. eBay also had made an investment of $500 million for equity stake in Flipkart [21]. On August 14, 2018, Flipkart decided to finish eBay India’s operations and it finally brought an end to an era of the company which brought revolution in online retail space in India. The San Jose-based giant has been through a lot of changes in the market since its 14 years in the country. eBay was truly an early mover but it failed to make the mark on Indian retail space and lost out to its competitors who entered much later [22].

According to several market experts and former eBay employees, the company could not understand exactly what Indian customers wanted even after so many years. Its “one size fits all” approach backfired for the company that could be the ecommerce leader like Amazon for having its first-mover edge. According to a former eBay executive, auctions were never meant for Indian customers and will never work. Attractive offers, discounts and upfront prices are what Indian customers crave for. The system of online auction was not that simple and it took several days to materialize. EBay was also lagging behind in terms of innovation and aggression in India [23].

Ecommerce was only a $20million industry in India in 2004 when people used to deal only with second hand items in a customer-to-customer (C2C) market. EBay found a great potential in Indian market and acquired Bazee.com for a whopping sum of $50 million in those days. However, it did not focus on its growth and technology till the 2010s. This global giant promised to invest only around $250 million till 2016, while Amazon had major plans with investment of around $5 billion since its inception in 2013 in India. In addition, Flipkart, a home-grown ecommerce giant backed by Tiger Global, has acquired the operations of eBay India for only $300 million. Later on, Flipkart raised around $1.4

billion from Microsoft, Tencent, and eBay, as part of a merger with eBay India. Since eBay was no longer handling any business in India, this merger did not do well [23].

When Flipkart acquired eBay India, they had only around 50 employees. eBay also laid off around 300 employees in 2016 from its Bengaluru-based R&D centre. LatifNathani, eBay India head, also left the company silently and moved back to the US. Poor management was also the reason according to a former employee. The first eBay India head, RajanMehra resigned in 2008 and AmabreeshMurty operated for five years before leaving in 2012 and found Pepperfry, an online furniture firm. When eBay's performance was lagging from 2008 to 2012, other ecommerce players were at their peak, such as Myntra, Jabong, Flipkart, and Snapdeal [23].

The ecommerce ecosystem in India had been through a massive revolution and changing market scenario when companies were designing their models complying with government guidelines. Several latest competitors like Snapdeal and Flipkart performed well without any legacy restrictions, while eBay's business started declining in 2012-14. EBay China also failed and Alibaba acquired its whole operations in 2005 [23].

H. Case Study 8 – Cloud Kitchen Startup Failure

India is a melting pot of different cultures and cuisines and each city and state of India has its own importance in terms of food. Advancement of technologies, rapid urbanization, and the rise in the number of families where both men and women work, have changed the eating habits of Indians. Today's customers are more inclined to order food instead of cooking at home. Customers are moving their focus from dine-in at a nearby restaurant to home delivery and takeaway. There are several opportunities for startups with the rise in digital technologies, internet penetration, and number of smartphones. Online food delivery is one of the fastest growing business models in India. SaurabhSaxena and Anil Gelra founded Holachef Hospitality Pvt. Ltd (Holachef.com) in 2014 to form an unmatched value in the food delivery ecosystem [24].

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Holachef had three main functions, viz. technology, food, and logistics. It connected chefs to customers within a city. Chef prepared dishes for customers and Holachef employed a lot of experienced chefs. Logistics department took care of delivery of fresh food items collected from several chefs to hubs and from hubs to end consumers. The backend and analytics team took care of website and app data, interface, and consumer behavior [25]. But Holachef has faced a slowdown over the years, especially in the food delivery space. Sustainability is the major factor where many startups failed even after having heavy investors' support and Holachef was one of them.

In 2018, Foodpanda, a food delivery platform owned by Ola, acquired Holachef in a distress sale, where financial terms and transaction details were not disclosed. It is believed that Foodpanda took over the equipment, kitchens, and employees of Holachef. With this deal, Foodpanda ventured into cloud kitchen domain, which was already ruled by the likes of Zomato, Swiggy, Faasos, and FreshMenu. Holachef founders were also proposed to join the leadership team of Foodpanda. Foodpanda chief executive, PranayJivrajka added that the company is aimed to build the largest cloud kitchen network in India and it will further enhance customers' food experience [26].

I. *Case Study 9 – Homestay Network Failure*

Stayzilla was one of the leading homestay networks in India backed by Matrix Partners and Nexus Venture Partners, the marquee VC firms. The Bengaluru-based firm was founded as Inasra in 2005 and later rebranded in 2010 as Stayzilla. It was the online marketplace for alternate stays and homestays in India, providing over 55,000 stays in 4500 towns in India. The platform connected travelers with homeowners who were interested in providing their homes for rent. The company was founded by YogendraVasupal with his college friend SachitSinghi and wife RupalYogendra. Indian Angel Network initially funded the company with $500,000 in Seed round. In 2013, Stayzilla raised Series A funds of undisclosed amount. In 2015, it was funded further with $20 million in Series B by Matrix and Nexus and, in 2016, with $13 million in Series C. The startup also faced competition from other travel and hotel booking sites like Airbnb, OYO, MakeMyTrip, Yatra, and Fab Hotels [27].

Simply speaking, Stayzilla enabled people in India to rent out their homes and host travelers. The concept of homestays was quite new when the company was founded in 2005. It was the time when Airbnb could not find its grounds in India. The market had no competition and was completely new for these companies. The founders already knew that a major overhaul is needed in the hospitality industry in India. Eliminating middlemen to book budget stays in major cities was a challenge but Stayzilla had completely changed the scene. Initially, they had some different challenges as India was on the verge of internet adoption. Providing a completely digital service was like a gambling for a company. But lack of internet connectivity soon became a matter of the past, and the company started rising up [28].

The founders were running Stayzilla out of their savings for the first five to six years. Though the company was not that big, it was sustainable. The company was still staying afloat with their investments. But they decided to look for funding to change their pace due to high ambitions. From 2013 to 2016, Stayzilla raised $34 million in four rounds. The founders were already clear that most of their funding would be used for scaling up their operations. Stayzilla became a giant by 2014, with a listing of over 15000 stays in its directory and a vast coverage of 11000 cities across the nation. They were also working with eco-tourism initiatives, enhancing CSR initiatives, and some state tourism departments by 2016 [28].

According to Yogendra, they could not focus on every city to keep the balance of supply and demand. Around a few years ago, there was no demand and supply of home stays. Hence, they invested in both awareness of guests and building homestays for them. Stayzilla could not find any market that was prepared to sell their product. So, they had to educate the market about this concept, how to use home stays to their advantage, and also the internet [28]. A lot of companies entered the tourism industry and offered discounts constantly to stand out in competition. But Stayzilla was already bearing losses due to high operation costs every year. Eventually, they lost their focus on the actual mission.

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Tourism industry in India is flooded with offers and promotions. But the Stayzilla team was only looking for bookings and marketing ROI without offering any discounts. The founders were also looking forward to offering over 5 lakh home stays by 2021. But the founders also observed that they have drained out most of their marketing budgets of the company in awareness sessions across the nation. They had only a 4% rise in revenue which was instantly beaten up by their operation costs [27].

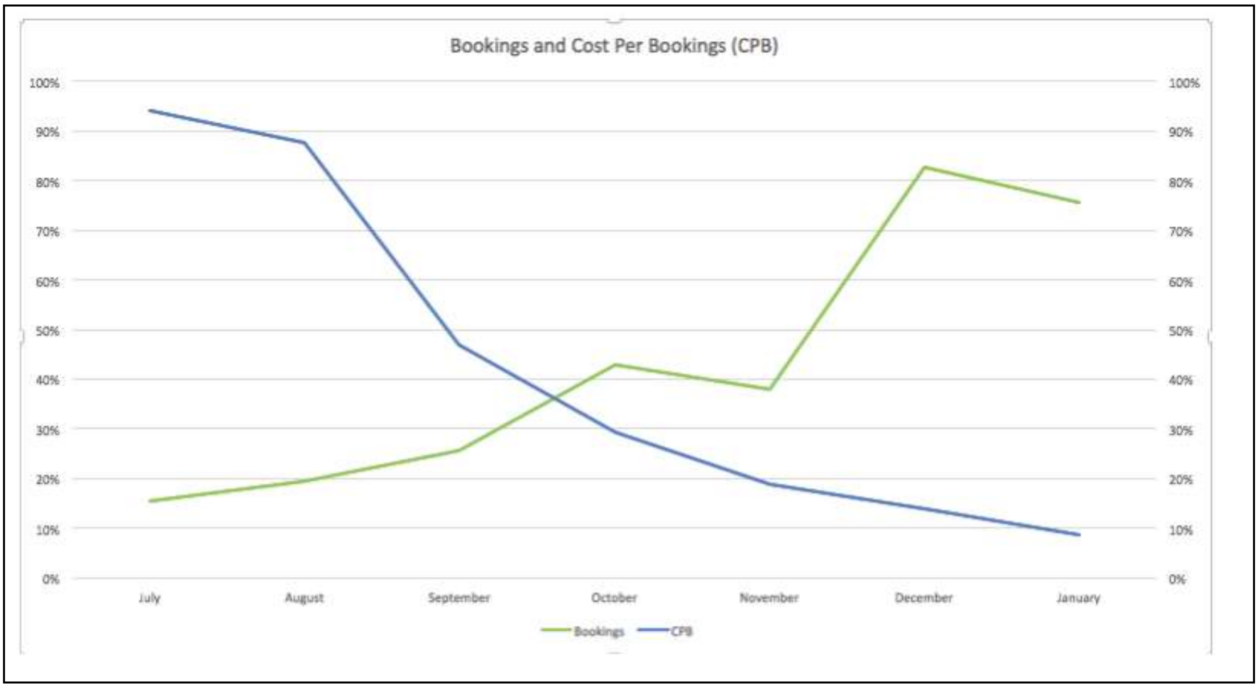

Fig. 2 – Percentage of Bookings vs. Costs associated with them [27]

Stayzilla signed several MoUs in 2016 with various states like Madhya Pradesh, Andhra Pradesh, Assam, Chhattisgarh, Uttarakhand, Punjab, Odisha, and Gujarat. They also established their homestays in Bengal and Sikkim to cover North East India. As a result, the company booked a lot of homestays to get the per-booking cost down. The Engineering, Design, and Product team of Stayzilla also added several new features like map view, 360^{o} views, property videos uploaded by users, and host-guest chats, etc. [27]

Everything was going well till early 2016 as the company raised Series C funding. But things started getting worse in the beginning of 2017 when the founder himself announced that they are turning all Stayzilla's operations down and planning ahead to come back with another business model in a blog post[1]. But in March 2017, the shocking news came all of a sudden that the company had over Rs. 17.2 million of unpaid dues which they had defaulted on and the founders were put behind the bars. The founders also received a notice for three months as a reminder to repay their loans. It is observed that entrepreneurs come out with a lot of aggressive moves like cheap pricing, which ultimately cause financial breakdown. What happened to the founders shows the volatility of startups. Even small fumbles can turn out to be a major trouble if things are not controlled before it's too late [28].

J. Case Study 10 – Telemedicine Startup Failure

Backed by Y Combinator, DocTalk was a Mumbai-based telemedicine startup founded by VamseeChamakura, AkshatGoenka, and Krishna ChaitanyaAluru in the year 2016. It enabled patients to share their reports and get prescriptions by connecting to doctors using its official app that had an electronic medical record (EMR) system integrated. It was well funded with over $5 million by several investors like Khosla Ventures, Matrix Partners, Altair Capital, and Vy Capital. But it still failed to achieve its acceleration through its business model [29].

In 2018, the CEO and co-founder AkshatGoenka resigned from his position over his personal and health issues. In addition, the company had also laid off over 100 employees while giving reasons about restructuring some of their non-performing and performing employees. Later on, they had only around 40 employees. It is also observed that the startup was facing strong competition from other healthtech services like Practo, Doctor Insta, Mfine etc. [30]

VI. RESULTS

The question "how and why startups fail" is one of the most debatable topics among academicians, corporations, startups, journalists, investors and the common public. After sifting through some of the case studies of startup failures, we identified some of the major reasons. One of the main reasons behind startup failures is wrong market timings. Entrepreneurs are often too ahead of their time and are not prepared for the solution of

[1] https://blog.stayzilla.com/stayzilla-will-reboot-its-operations-5cc5b854b368?gi=c585f9fc61ba

existing problems. Hence, their value proposition is not convincing enough for people to actually buy their products or services. There is a difference in products which are "must have" and "good to have" that start-uppers need to understand. They need to hear the buyers who are looking for the solutions of their extreme pain [31].

Business model failure is another major reason why startups fail. Entrepreneurs are overconfident about their products to gain customers on the onset. Just because they have designed a new or unique service, product, or website, they assume that customers will instantly make it to their doors. Their plans initially work for the first few years. Later on, it quickly becomes too costly to acquire and gain customers as compared to their lifetime value. Most entrepreneurs don't focus on the actual cost of acquiring customers [31].

Weak or poor management team is yet another problem for startups. They end up building services or products that no one is interested in and they also avoid validating their ideas before implementation. At the time of execution, they observe that the product is not getting developed on time or precisely. Financial problems are the next major issue. A CEO also needs to know exactly how much cash they have in hand and whether their company would reach a milestone where they can ensure a positive cash flow. Their valuation remains the same over time. Just because they have successfully raised a Series A round of funds within 12 months, it does not mean they are worth more. They must achieve some important milestones to improve their valuation [31].

Since the management cannot achieve another milestone before the company runs out of funds, the company's valuation is affected and they fail to raise more cash. It is the CEO who controls the accelerator. At the stage of development while refining the business model, they need to set the accelerator lightly to save cash. When the company is still finishing the product to meet the customers' needs, there is no need to hire so many marketing and sales staff. This common mistake leads to frustration and burn out in the end. Later on, when they finally prove that their business model works, they need to push the accelerator harder. It is not easy to know when to react [31].

VII. CONCLUSION

Startups are found mainly to explore new horizons of the market and create highly valuable solutions for customers' problems. Initially, they are created by designers and programmers for low cost to come up with something fresh and scalable. But they fail most of the time because of some challenges like lack of capital for expansion, wrong pricing, and management issues. Lack of market need is another major challenge for startups. Sometimes, the team fails to come up with the right business model to solve real-world issues. This paper analyzes the most popular examples of startup failures in India and reasons behind their failures. This study helps academics, corporations and entrepreneurs to learn from common mistakes of start-uppers. It is also observed that the first few years are crucial for startups as they decide their fate.

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