A Comprehensive Analysis of Why Startups Fail

Gowardhan Veerdhawal Dafale
gowardhandafale6@gmail.com
Indira University School of Business, Tathawade, Pune

Omkar Shirish Kshirsagar
omkarkshirsagar1803@gmail.com
Indira University School of Business, Tathawade, Pune

Vaishnavi Baban Ugale
vaishnaviugale161101@gmail.com
Indira University School of Business, Tathawade, Pune

Sanika Sunil Sankpal
sankpalsanika033@gmail.com
Indira University School of Business, Tathawade, Pune

Kunjan Atul Bhate
kunjanbhate50@gmail.com
Indira University School of Business, Tathawade, Pune

Mohit Satish Saindane
mohitsaindane720@gmail.com
Indira University School of Business, Tathawade, Pune

ABSTRACT

Young enterprises significantly contribute to fostering creativity and boosting national prosperity; however, many of them encounter substantial setbacks during their early stages. The study examines the major factors contributing to business failures by integrating scholarly works and analyzing real-world examples. Research suggests that an unmet marketplace need, coupled with insufficiently compelling offerings, continues to be the primary reason for failure in business ventures. Lack of financial resources, such as insufficient funds and poor management of cash flows, intensifies volatility. Business strategies lacking in scalability or profit potential frequently result from inadequate strategic foresight, leading to premature failure at the inception stages. Moreover, poor teamwork, disagreements among leaders, and a lack of flexible abilities impede productivity and strategic thinking. Exogenous factors like compliance hurdles, innovation shifts, and global economic fluctuations exacerbate inherent organizational flaws. This research incorporates findings from reports like the Startup Genome Report and analysis by CB Insights to classify failures based on both intrinsic factors related to strategy, finances, management, and extrinsic elements affecting market conditions and environments. The document underscores that achieving successful startups requires skill in strategy, precise market fit validation, robust management skills, and continuous improvement through repetition. This research provides an analytical model of how startups fail, helping business owners, financiers, and government officials manage risks effectively and make well-informed choices.

Keywords: *Startup Failure; Market Misfit; Business Model; Entrepreneurial Finance; Team Dynamics; External Challenges; Failure Frameworks*

INTRODUCTION

Startups are celebrated for their speed, innovation and potential to disrupt established markets; yet a striking proportion do not survive the first few years. The business issue this study addresses is straightforward but high-stakes: why do promising entrepreneurial ventures in India repeatedly fail to achieve sustainable scale or exit successfully? Failure here is defined as an involuntary cessation of operations, insolvency, or forced acquisition under distressed conditions—outcomes that waste capital, destroy jobs, and erode investor confidence. Pinpointing the proximate causes (cash burn, product–market mismatch, governance lapses, poor unit economics) and the deeper systemic drivers (market structure, regulatory frictions, access to talent and last-mile logistics) is essential to designing interventions that reduce the rate and cost of failure.

This problem matters for three reasons. First, the macroeconomic cost: India's startup ecosystem experienced waves of rapid firm creation followed by significant shutdowns—Tracxn data found thousands of closures in a single recent year—creating measurable drag on employment and investor returns. Second, the microeconomic impact: each failed startup represents lost founder opportunity, unpaid suppliers, and unused infrastructure; the social cost is concentrated in early-stage employees and small vendors who lack safety nets.

Third, the policy and capital implications: policymakers, incubators and investors need empirically grounded diagnostics to calibrate support (grants, incubation, restructuring frameworks) and to spot when capital should be conserved rather than doubled down. Without reliable, India-specific evidence about *why* failures occur, remedies risk being generic, misdirected, or favoring only the most connected firms.

Existing research and industry reports suggest the causes are multi-factorial rather than single-cause. Recent India-focused analyses highlight recurring themes: aggressive hyper-growth without validated unit economics, governance and financial discipline failures, inadequate localization of business models, and misalignment between investor expectations and founder capabilities. For example, ecosystem reports point to a funding cliff and a shift from quantity to quality of capital, which exposes startups whose business models had survived only under cheap capital. Case studies on individual Indian firms reveal operational missteps — overexpansion, poor partner networks, weak last-mile logistics — that turned early traction into unsustainable cash burn. These findings argue for a framework that examines (a) market fit and customer economics, (b) operational scalability and supply-chain fit, (c) governance and financial controls, and (d) ecosystem conditions (funding environment, policy and infrastructure).

The significance of this study lies in its potential to move beyond generic "lists of reasons" to an actionable taxonomy tailored to Indian market realities. By combining cross-case comparisons of Indian companies with ecosystem reports, the research can offer targeted recommendations: better milestone-based financing terms, governance checklists for founders, sector-specific scaling playbooks (e.g., foodtech vs. SaaS), and policy levers to reduce structural frictions. Practically, this helps investors make smarter diligence calls, helps incubators tailor mentorship, and helps founders decide when to pivot, downsize, or raise a bridge round.

In short, understanding *why startups fail* in India is not an academic exercise: it is a pragmatic necessity for an ecosystem aspiring to convert entrepreneurial energy into long-term firms that create jobs, pay taxes and innovate. The evidence already points to a mix of internal management faults and external ecosystem shocks; this study will interrogate those claims systematically, using Indian case studies and contemporary ecosystem data to produce recommendations that are both evidence-based and operationally useful.
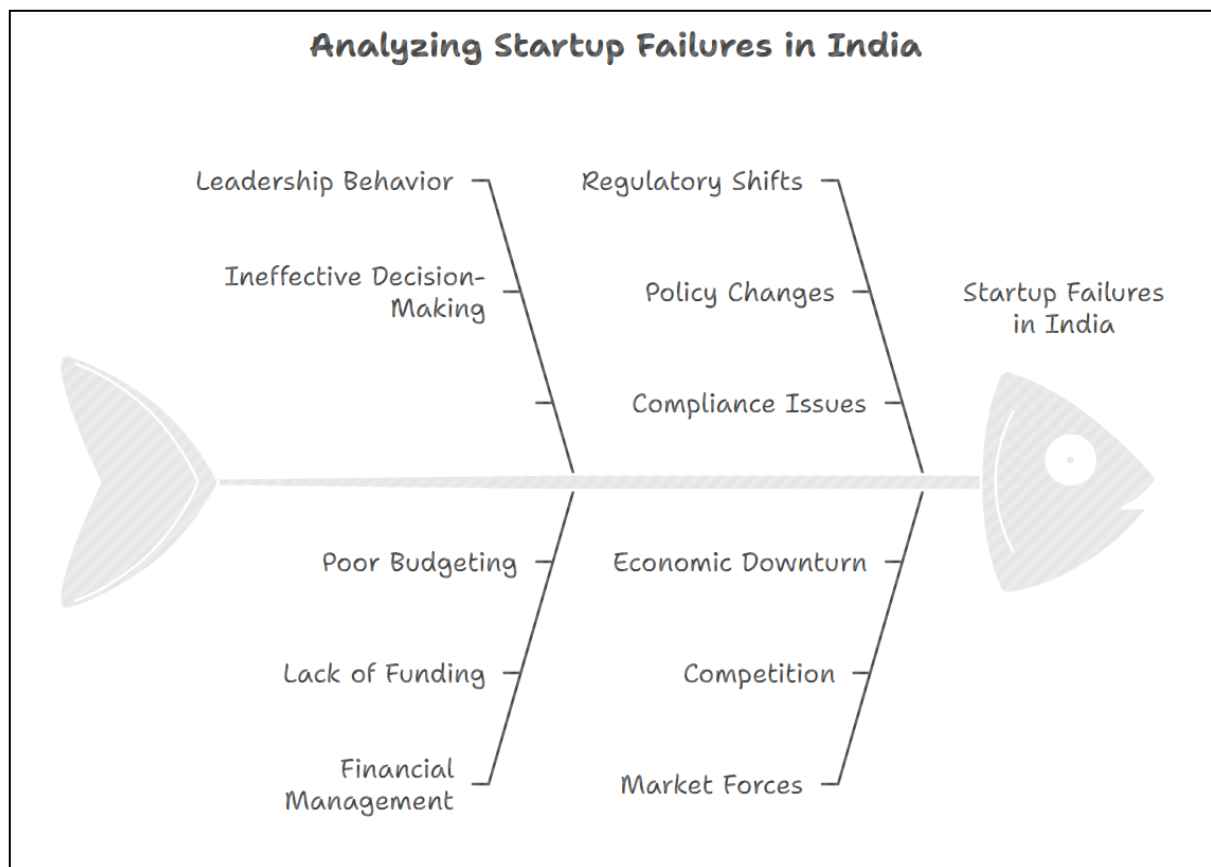
LITERATURE REVIEW — SUMMARY AND SYNTHESIS

The four uploaded studies you provided converge on a straightforward but important conclusion: startup failure is multifactorial, and the same broad themes reappear across contexts. However, the emphasis and implied remedies vary by study. Below I synthesize the core findings and methodological notes from each source and then pull these threads together into researchable gaps.

Competency and team deficits: qualitative post-mortems
A recent, rigorous thematic analysis finds that many failures can be traced to specific competency deficits within founding teams. Using 50 founder post-mortems and a startup-adapted competency framework, Szathmári et al. identify **information-seeking** and **customer-service orientation** as the most prevalent deficits (present in roughly 70% and 66% of cases in their sample), with other frequent problems including lack of technical expertise, weak analytical thinking and low flexibility. Their work argues for treating team competencies as a primary diagnostic lens when analyzing failure stories. This study is especially useful because it quantifies narrative evidence and offers a fine-grained taxonomy of behavioral and cognitive deficits to screen for.

Product–market problems and timing (high-tech focus)

Vedat Öndas's master's thesis on high-tech startup failure identifies product and market issues — product-timing (launching too early or too late), product design faults, missing sales/distribution strategies, and limited market size — as dominant antecedents of failure, alongside undercapitalization and management weaknesses. Because Öndas combines a systematic literature review with interviews of founders across several countries, the study gives both breadth and depth: product–market fit and proper go-to-market plans repeatedly surface as proximate causes of collapse in the high-tech domain.

Entrepreneurial characteristics, MVP timing and mentorship (Indian cases)

A case-based study from Bangalore compares failed and successful tech startups and highlights practical, stage-sensitive differences: successful firms tended to produce a Minimum Viable Product (MVP) faster, realize revenue sooner, assemble complementary founding teams, and actively seek mentorship and external validation. The Bangalore cases underline how founder experience, skill complementarity and the discipline to validate hypotheses quickly can materially change outcomes — a very practical set of lessons for practitioners in Indian ecosystems.

Ecosystem, diversification and internal vs external drivers (Kerala study)

Research from the Kerala context combines survey evidence with descriptive analysis and finds that while both internal and external factors matter, internal factors (team skills, planning, cash management, product strategy) often exert slightly greater impact on vulnerability than external factors. This paper also stresses weak ecosystem support (mentorship, incubation follow-through) and suggests policy and institutional fixes (better mentorship, entrepreneurship education, inclusive policies) as mitigation. Methodologically it uses convenience sampling and a structured questionnaire, which makes the results suggestive rather than fully generalizable, but the practical recommendations are directly relevant for local policymaking and incubation programs.

METHODOLOGICAL OBSERVATIONS

The studies use complementary methods: large-sample narrative analysis (50 post-mortems) with a coding frame (Frontiers), qualitative interviews across countries (Öndas), case comparisons (Bangalore) and survey-based descriptive work (Kerala). This diversity strengthens the overall evidence base but also reveals a gap: few studies integrate *quantified prevalence* (how often a given factor is the primary cause) with *contextual sequencing* (which problems appear first, which follow). In other words, we know what the common culprits are, but less clearly how they interact over time in Indian startups specifically.

Gaps and how this proposal will build on the literature

The literature you supplied gives a robust foundation (competency taxonomy, product/market and finance narratives, and Indian case evidence). Two clear opportunities for contribution remain:

1. **Contextual quantification for India.** Indian ecosystems have peculiarities (market heterogeneity, investor behaviors, incubator coverage) that merit a targeted mixed-methods study to estimate the relative importance of the themes above for Indian startups broadly — not only anecdotes or single-city case studies.
2. **Integrating competency and lifecycle views.** The Frontiers competency model provides a behavioral screening lens; combining that with a lifecycle view (MVP timing, revenue milestones from the Bangalore cases) would produce a practical diagnostic tool that founders and incubators can use to triage risk early. Szathmári et al. explicitly call for integrative frameworks to avoid fragmented knowledge; Öndas similarly notes the multiplicity of interacting causes. This proposal can pick up that call by designing measures that capture both competencies and stage-specific signals.

RESEARCH METHODOLOGY

Research Design

This study uses a combined exploratory–descriptive design to examine why startups fail in India. The exploratory element seeks out less-documented, refined causes both internal and external, while the descriptive element organizes and explains those causes using both real-world evidence and systematic secondary-data analysis. Startup failures are rarely the result of a single cause but for multiple reasons; instead, they arise from interactions between leadership choices, financial decisions, market dynamics, and regulatory changes. A blended design therefore provides the flexibility to uncover new themes and the structure to examine them strictly.

Rather than testing a narrow assumption, the research has used various patterns which have drawn from case studies, industry analyses, and academic reports. Early subjective identification such as leadership gaps, product–market mismatch, cash-flow fragility, and regulatory shocks guides a more focused descriptive analysis of selected Indian startups that have failed, notably Doodhwala and ZebPay. This approach allows the study both to surface recurring patterns and to situate those patterns in the specific conditions of the Indian entrepreneurial ecosystem.

Sampling Method and Sample Size

The study applies purposive sampling, a non-probability method appropriate for which is used for exploratory, qualitative work. The objective is not statistical representativeness but depth but rather to learn from cases that ignite different failure pathways. Selection criteria were as follows:

(1) evidence of prior traction or growth potential

 (2) publicly available documentation about the shutdown (news coverage, founder statements, industry reports). These are the documents which are available publicly.

 (3) the presence of distinct causal features (for example, operational breakdowns, financial mismanagement, or regulatory pressures).

On this basis, two primary cases were selected: Doodhwala, an example of operational storage and logistics and financing breakdowns in the hyperlocal delivery sector, and ZebPay, which illustrates how government policies, regulatory and ecosystem disturbances can disrupt a fintech venture. The effective sample therefore comprises these two in-depth case studies complemented by a wider body of secondary evidence. Each case was examined for internal drivers (leadership, team, product, finance) and external pressures (competition, policy shifts, investor sentiment). Themes were extracted through manual coding and repeated comparison to trace causal sequences. For example, how operational inefficiencies can cause financial distress, or how regulatory shocks can expose governance weaknesses.

To strengthen the analysis, findings from the cases were compared with insights from four scholarly studies and several industry reports, enabling navigation between both micro-level cases and macro-level patterns.

Data Sources and Analysis

Cluster	Category Description	Examples of Issues	Interrelation/Impact
1. Strategic	Refers to the overall business direction, value proposition, and market positioning.	Weak business models, poor product–market fit, unclear target audience.	Strategic misalignment can lead to funding crises and loss of investor confidence.
2. Financial	Involves financial planning, funding, and cash-flow management.	Funding shortfalls, poor cash-flow management, unsustainable cost structures.	Financial strain can reduce team morale and hinder operational performance.
3. Organizational	Relates to internal management, leadership, and human resource efficiency.	Leadership lapses, talent shortages, poor team coordination, operational inefficiencies.	Internal dysfunction can magnify the impact of strategic or financial weaknesses.
4. Environmental	Includes external market, legal, and competitive factors affecting startup survival.	Regulatory instability, rapid market shifts, strong competitive pressures.	Environmental challenges can intensify internal weaknesses, exposing startups to greater risks.

Rationale for the Method

A combined exploratory and descriptive approach is well suited to the subject because startup failure is a process that is not caused by only a single event but by multiple measurable events. The exploratory component captures subtle, evolving decisions and contextual dynamics; the descriptive component offers systematic comparison and clarity. The main purpose of sampling is to ensure the cases chosen are rich in instructional value and are not randomly selected. By combining diverse, credible secondary sources and side-by-side case-level detail with broader studies, the methodology aims to produce findings that should be both practically grounded and practically useful for entrepreneurs, investors, and policymakers seeking to detect early warning signs and build more resilient and sustainable ventures.

CASE STUDY
The rise and fall of doodwala
 Doodwala began as a hyperlocal milk and grocery delivery startup founded in Bengaluru in 2015. The idea was so simple but also promising to provide or deliver fresh milk and daily essentials to customers before sunrise. They operated on a subscription-based model. The founders saw an opportunity in this unorganized dairy distribution aiming to bring convenience to urban households through technology. Customers ordered milk, bread, fruits, and vegetables via the app, which the company sourced directly from local dairies and farmers. Initially, the company model gained strong attraction, especially among working professionals and families seeking reliability and freshness. However, by 2019, signs of trouble began to surface in Doodwala. Despite having a strong user base, Doodwala struggled to maintain the margins of the company. The operational costs also increased. The logistics in the early morning required heavy investment and management. They couldn't afford the cold storage, which shrunk their profitability. Moreover, intense competition from other big players such as Big Basket and Grofers made customer acquisition costs more expensive, and the company failed to sustain in a few metropolitan areas. The funding got tightened and investments turned cautious. Doodwala found itself unable to maintain cash flow and eventually leading to a shutdown. The failure of the company highlights the harsh reality of unit economics in delivery. Its dependency on discounts and aggressive expansion without achieving operational efficiency proved very fatal. The case stands as a reminder that convenience-based models attract quick users, and long-term survival requires financial discipline. Streamlined logistics shows value preposition. Doodhwala's companies story reflects the fine balance between innovation, execution, and defence success or failure in the Indian startup world.

The major reasons for the failure of Doodhwala:
1. Unsustainable unit economics due to high logistics and delivery costs.
2. High customer acquisition cost and intense competition
3. High and rapid cash burn and inability to secure further funding.
4. •Allegations of mismanagement and unpaid dues which lead to loss of trust.
5. •Operational inefficiencies in scaling early morning deliveries.

ZebPay: A Fintech's Fall and the Lesson of Resilience Amid Regulatory Shocks

ZebPay's story is a useful lesson in how external shocks, regulatory uncertainty, and internal choices can make an otherwise promising fintech. Founded by a small team in 2014, the main aim was to simplify bitcoin trading for Indian users, ZebPay expanded rapidly and became one of the country's best known crypto exchanges. But its progress hit rock bottom when India's central bank brought restricted banking services for crypto businesses in 2018; constrained banking access crippled the rupee on-ramps and forced the exchange to pause core operations.

The pause exposed other vulnerabilities. Leadership and ownership shifted during the downtime, and when the business returned, it carried fresh strategic differences about growth versus compliance. The episode revealed a classic startup fragility: reliance on a single external system banking rail. When those rails disappeared, revenue stopped disproportionately fast because ZebPay had not diversified income streams or built a large cash buffer. Customer trust and usability also suffered when deposit-withdrawal flows were interrupted.

Internally, the interruption magnified governance strains. Talent churn and the need to re-engineer payments and compliance slowed product iteration, making it harder to regain market momentum in a landscape that moved quickly.

For students of startup failure, ZebPay's arc is not a tale of a single mistake but a convergence: severe regulatory shock + business-model exposure + governance and cashflow fragility. Its partial recovery and restructuring also offer a positive counter lesson the value of contingency planning, regulatory engagement, and building modular systems that can survive external shocks. Learn, adapt, document, and build resilience.

Some of the major reasons for the fall of ZebPay:

1. The Reserve Bank of India's (RBI) in 2018 imposed ban on banking services to crypto businesses cut off essential rupee on-ramps, which forced ZebPay to pause core exchange operations which was main reason behind their failure.

2. Heavy reliance on a single external system (banking rails) caused revenue to stop rapidly when those services were withdrawn.

3. Lack of diversified income streams and insufficient cash reserves increased business fragility.

4. Leadership and ownership changes during the downtime led to strategic conflicts between growth ambitions and compliance focus.

LIMITATIONS

Even though research into why startups fail keeps growing, we keep running into a few big problems. For starters, people tend to focus too much on either what's happening inside the company or what's happening outside, rarely both. Take customer demand it's easy to blame the market if nobody wants your product, but a lot of the time, that's tied up with problems inside the startup, like a shaky business model or a team that just isn't up to speed.
There's also the issue of data. Researchers often rely on founders' own accounts or look back at failures after the fact, which opens the door for bias and selective memory. Most studies keep circling around the same basic causes money problems, not enough market need, team troubles but they don't pull everything together into a bigger framework that actually makes sense of it all. Because of this, findings across different papers feel scattered, and it's tough to apply the lessons broadly.

Another problem comes from how researchers choose which startups to study. They usually go after big-name failures or tech startups, ignoring quieter industries and different parts of the world. Without good long-term data, it's hard to see how causes of failure shift over time, so we miss out on the full story.
And then there's context. Not enough studies dive into how culture, laws, or local economies shape why startups fail. That makes it tricky to say whether findings really apply everywhere. Plus, everyone seems to define "failure" a little differently, which makes it hard to compare results or build stronger theories.

FUTURE SCOPE

Looking ahead, research needs to connect the dots instead of treating each cause of failure on its own. Pulling in ideas from different fields like using behavioral competence models to see how things like leadership, customer focus, or adaptability matter could finally move us past those endless lists of reasons and into more useful territory.

We also need to shake up how we study startups. Following companies over time would show when and how certain risks become critical. Including startups from more places and industries would help make the lessons stick beyond Silicon Valley. And mixing interviews with founders together with hard numbers would give us a fuller picture of what actually drives decisions and where the outside pressure comes from.

With more digital business data than ever, researchers can use new tools like advanced analytics and machine learning to spot early warning signs of trouble. And by paying attention to shifts in the global economy or policy changes, we might spot new patterns that help startups survive especially in fast-changing markets.

CONCLUSION

Startups rarely fall apart because of one huge mistake. It's usually a bunch of smaller problems piling up. A lot of founders get tripped up by thinking they know exactly what customers want or they figure the product will just sell itself. Even a great idea isn't enough if you don't build a solid business model that can actually survive those rocky early days. If you skip the basics like managing money well, making sure there's enough cash, or staying flexible when things change you're basically setting yourself up for trouble. Plus, it's easy to get caught up in chasing innovation and forget the really important stuff: what your customers care about, who else is out there competing with you, or how you plan to grow over time.

How things run inside the company matters just as much. If nobody knows who's in charge of what, if the team's disorganized, or if leadership just isn't stepping up, it slowly wears everyone down. And let's not forget all the stuff you can't control like a sudden shift in the economy, new regulations, or technology moving faster than you can keep up. If you're not ready for that, it can knock your business flat.

But honestly, the fact that so many startups fail isn't all bad news. Every business that goes under leaves behind lessons for everyone else. The founders who actually pay attention, dig into the data, and learn from what went wrong are usually the ones who find a way to stick around and get stronger.

In the end, startup failure isn't just about not being creative enough. It's about closing the gap between a good idea and making it actually work. You need more than a bold vision you need real planning, a clear sense of the market, and the guts to change fast when you have to. That's where success comes from.

REFERENCES

[1] https://accesson.kr/ajip/assets/pdf/42491/journal-7-1-79.pdf
[2] https://hbr.org/2021/05/why-start-ups-fail
[3] https://www.sdcollegeambala.ac.in/wp-content/uploads/2023/02/EDJUNE2022-P-10.pdf
[4] https://pmc.ncbi.nlm.nih.gov/articles/PMC10881814
[5] https://www.quora.com/Why-do-so-many-startups-fail
[6] https://www.ijresm.com/Vol.2_2019/Vol2_Iss12_December19/IJRESM_V2_I12_97.pdf
[7] https://accesson.kr/ajip/assets/pdf/42491/journal-7-1-79.pdf
[8] https://hbr.org/2021/05/why-start-ups-fail
[9] https://www.sdcollegeambala.ac.in/wp-content/uploads/2023/02/EDJUNE2022-P-10.pdf
[10] https://pmc.ncbi.nlm.nih.gov/articles/PMC10881814/
[11] https://www.quora.com/Why-do-so-many-startups-fail
[12] https://www.ijresm.com/Vol.2_2019/Vol2_Iss12_December19/IJRESM_V2_I12_97.pdf
[13] https://innovation-entrepreneurship.springeropen.com/articles/10.1186/s13731-025-00493-w
[14] https://innovation-entrepreneurship.springeropen.com/articles/10.1186/s13731-025-00493-w