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**Learn The Facts**

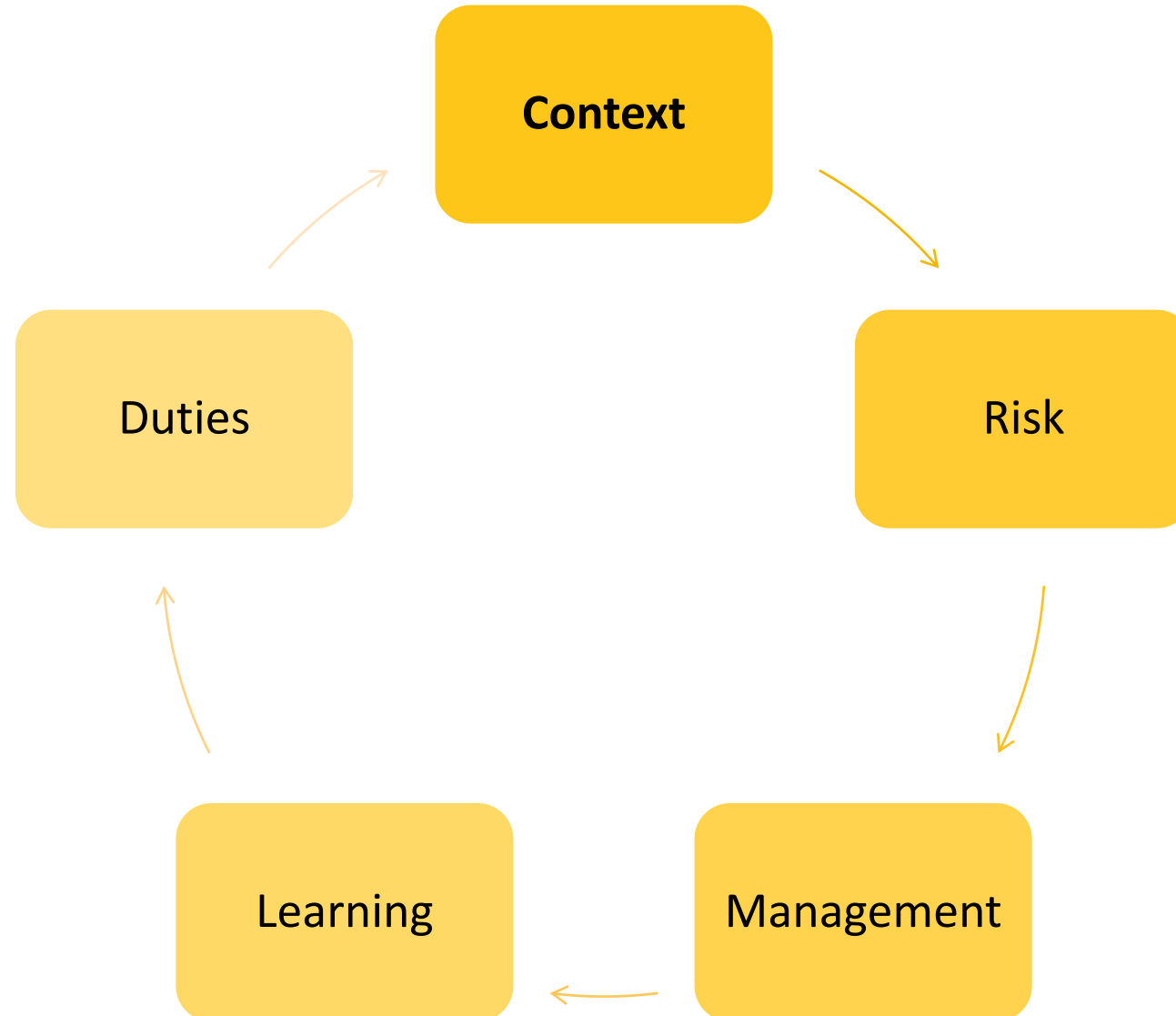
**Why starts-ups and  
business sometimes fail**

Advisory. Restructuring. Solvency.



# Today's discussion

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# Context

# Failure is not bad



# Memorable quotes

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“Only those who dare to fail greatly can ever achieve greatly.”

- Robert F. Kennedy

“There is no failure except in no longer trying.”

- Chris Bradford

“I have not failed. I've just found 10,000 ways that won't work.”

- Thomas A. Edison

“Success is not final, failure is not fatal: it is the courage to continue that counts.”

- Winston Churchill

# Statistics don't lie

How many Australian startups survive the first 3 years?

Table 6 Survival of Entries by Main State, June 2016 – June 2020 (a)

	Entries in 2016-17	Survived to June 2018	Survival rate	Survived to June 2019	Survival rate	Survived to June 2020	Survival rate
	no.	no.	%	no.	%	no.	%
New South Wales	115,078	89,522	77.8	71,484	62.1	60,932	52.9
Victoria	88,281	69,073	78.2	55,308	62.6	47,363	53.7
Queensland	64,103	49,508	77.2	39,422	61.5	33,645	52.5
South Australia	17,682	14,203	80.3	11,717	66.3	10,200	57.7
Western Australia	31,961	24,758	77.5	19,503	61.0	16,619	52.0
Tasmania	4,322	3,518	81.4	2,910	67.3	2,530	58.5
Northern Territory	1,988	1,535	77.2	1,193	60.0	1,014	51.0
Australian Capital Territory	4,599	3,627	78.9	2,911	63.3	2,477	53.9
Other Territories/Currently Unknown	191	142		117		94	
<b>Australia</b>	<b>328,205</b>	<b>255,886</b>	<b>78.0</b>	<b>204,565</b>	<b>62.3</b>	<b>174,874</b>	<b>53.3</b>

Why do startups fail?

A survey by CBInsights<sup>[2]</sup> that covered employees and founders from 101 startups analyzed the reasons why those companies failed. The main results were as follows:

- **42%** of startup businesses fail because there's **no market** need for their services or products.
- **29%** failed because they **ran out of cash**.
- **23%** failed because they didn't have the right team running the business.
- **19%** were **outcompeted**.
- **18%** failed because of **pricing and cost issues**.
- **17%** failed because of a poor product offering.
- **17%** failed because they **lacked a business model**.
- **14%** failed because of poor marketing.
- **14%** failed because they ignored their customers

## Sources

[1]<https://www.abs.gov.au/ausstats/abs@.nsf/mf/8165.0#>

[2]<https://www.cbinsights.com/research/startup-failure-reasons-top/> NB – USA Statistics

**Failure isn't inevitable**



# Examples

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Billy



Hegs Pegs

In my experience the following behaviours contributed to two start-up failures I have personal knowledge of:

- Blind faith/no planning
- Over aggressive time frames
- Lack of capital/excessive cash use
- Failure to build relationships
- Overcrowded market
- Poor people management

- Poor stakeholder management

Ensuring these risks are considered and treatment plans created will help management



# Avoiding failure



## Understand cashflow

- Profit does not always equal cash flow
- Working capital – what does this mean
- Capex is not on the P&L
- Debt servicing in not on the P&L

## Early warning signs

- Tax can't be paid
- Creditors are aged greater than 45 days
- Superannuation not remitted
- Stop supply
- 3 months headroom

# Bounce back



# Learnings

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Reputational damage

Learnings – twice as much and twice as long

Engaging with professionals

Asset protection – plusses and minuses

# Takeouts



# Duties

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The most common business structure for startups is a company.

With limited liability comes a raft of fiduciary duties that directors must be alert to

Insolvent trading is one of the most commonly talked about offences

If you are not using a company and operate as a partnership or sole trader beware of personal liability

# Final Tips

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Cash is king

Flag posts and plan

Network and learn

Early warning signs

Be aware of fiduciary duties

Asset protection can be limiting

# Thank You

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Heard Phillips Lieberenz is an Adelaide based specialist corporate insolvency firm that has been established for 10 years.

We focus of providing our services to businesses in the SME sector.

We aim to provide the highest quality personalised service, seek to deliver above expectation financial returns and are known for our ability to provide credible and reliable solutions for businesses in financial difficulty.



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