Before You Launch:

An Exhaustive (and Exhausting) Protocol for Aspiring Entrepreneurs Sixty-Four $64 Questions

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SAMUEL Neaman Institute FOR NATIONAL POLICY RESEARCH

Entrepreneurship | 03/25

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March 2025

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Abstract

Some 90% or more of startups fail. Is this high failure rate inevitable?

Many believe that high risk is innate and inherent in entrepreneurship – 'baked in the cake'. In this study, we argue that the failure rate can be significantly reduced by the intelligent use of a pre-launch protocol -- a list of sixty-four "$64 questions", that ask startup entrepreneurs to consider in advance the challenges and pitfalls they may face in future – in order to anticipate and prepare.

Forewarned is forearmed. Second-time and third-time entrepreneurs have far greater chances to succeed. We claim that considering the 64 key questions can help entrepreneurs avoid some of the basic causes that lead to failure, and improve the first-time odds.

It is better to ask some of the questions than to know all of the answers.

--James Thurber, The Thurber Carnival (1945)

Introduction

Some 90% or more of all startups fail. The statistics for the US, for example, are daunting:

“About one in five startups will fail in the first year. Eventually, 90% will close shop. Even unicorns, startups that manage to reach stratospheric valuations, eventually go bust 99% of the time. And only 1% of startups are valued at $1 billion or more. Disruptive companies that threaten to take their industry by storm also have a ninety-plus percent failure rate. 30% of startups fail within three years. 50% don’t make it past five years. 70% close down in 10 years. Only 40% manage to turn a profit. Those profitable ventures belong to only 8% of entrepreneurs or 1 out of 12. A third of startups don’t have even $5,000 in cash at their disposal at launch.

One of the most significant expenses is payroll cost. Of the 0.05% of startups that manage to secure venture backing, 75% fail and swallow up their investor’s funds. Success rates increase with experience – first-time founders make it just 18% of the time, while second-time and beyond see greater success. Poor ideation or market research is also rampant, with studies showing this stage is often rushed or misconstrued. Finding a product-market fit takes 3X more time and effort than most founders estimate, and they overrate the value of their idea by 255% on average.” [1]

After many years of working with entrepreneurs, the authors find these dry statistics painful, embarrassing and frustrating – not the least, because we strongly believe the odds of failure are much higher than necessary. Humanity is deprived of many potentially great ideas, by flawed implementation –- by missteps that could have been prevented.[2] Moreover, the startup literature is heavily weighted in favor of success stories [3] and reflects a paucity of accounts of failure.

Some experts claim failure is ‘baked in the startup cake’. Radical innovation, it is said, is highly risky. Nothing ventured, nothing gained…. And so on. We hear this argument often.

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[1] Source: https://54collective.vc/insight/startup-businesses-fail-in-the-first-year-survival-tips/

[2] In [13], the two authors, along with an experienced entrepreneur A. Gal, published a book, written as a novel, about a startup that fails by making typical blunders, then fixes them and succeeds. It was written after finding that starry-eyed entrepreneurs simply tend not to read boring analyses of pitfalls.

We reject this claim. 90% failure or higher is *not* inevitable. It is a result of causes of failure that can be anticipated and, in most cases, mitigated if not prevented.

In this research paper, written primarily for entrepreneurs, we ask: Before you launch – think ahead. Ask the key questions that you will face, as you build your startup and scale up. Try to answer them as best you can –- and, at worst, be aware of the crucial decision-points you will face in advance.

Forewarned is forearmed.

James Thurber, an American humorist, was right. It is vital to ask the questions related to building a successful startup before launch. Entrepreneurs may feel they know all the answers, and often do -– but what if they are answers to the wrong, or less crucial, questions?

We begin by presenting data on startup failure rates in Israel, dubbed Startup Nation, showing a large percentage of startups we call 'walking dead' or 'zombies' (alive but not growing and unlikely to achieve scale) Next, we survey research on the major causes of failure. Finally, we present our 64-question pre-launch exhaustive protocol.

Is 90%-95% Startup Failure Inevitable?

The Israel Venture Research Center (IVC) is a leading Israeli source of data for startups. In a comprehensive study of 10,000 Israeli startups, 1999-2014, startups were categorized into failed, running (but 'walking dead') and successful (acquired or independent and profitable and growing). It was found that only 461 meet the 'successful' criteria, or just under 5 per cent. The 95% failure rate is broadly compatible with startup failure rates found in other countries. (See Figure 1).

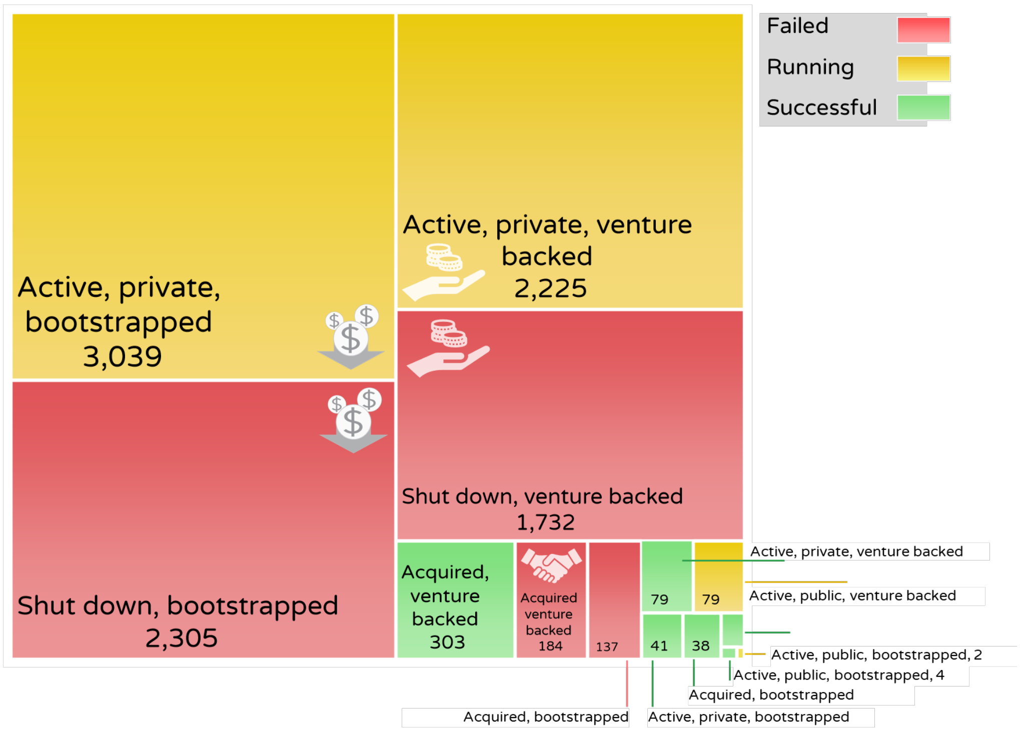

Figure 1: Israeli Startup History 1999-2014: Failed; Running; Successful

Source:[2] IVC/ReversExit, Israeli Startup Success Report 1999-2014. Tel Aviv: Jan. 28, 2015

Figure 1 reveals a result that is more disturbing, perhaps, than bankruptcy and failure. Many companies *do* reach the product development stage – but fail when it comes to market reach. They achieve minimal revenues, and are classed as "running" – but do not succeed in growing, nor will they. More than half of the 10,000 Israeli startups studied (5,264) are such 'zombies', walking dead. They are technically 'alive', they take up 'oxygen' (skilled manpower) but do not contribute to the economic wellbeing of society. They usurp valuable resources that more promising startups desperately need.

Why do startups fail?

Figure 2 presents the results of a study of startup failure in the US. The percentages add up to more than 100%, because many startups fail for more than one main reason. A cursory glance at the five leading causes of failure suggests that all five can and should be mitigated by careful preparation, anticipation and planning.[3]

Running out of cash may be a result of poor cash flow management and spending on non-vital items. No market need may be a result of insufficient initial research of potential

[3] See also [10] for a lengthy set of post-mortems for startups that failed. See also [12] for an analysis of success and failure for software startups.

customers. Flawed business models may be caused by a failure to figure out monetizing value creation very early.

Being outcompeted is often exacerbated by a lack of thorough market and competitor analysis beforehand. Legal challenges may arise when patent infringement occurs, stemming from sloppy patent searches. Not the right team? Hiring was done badly.[4]

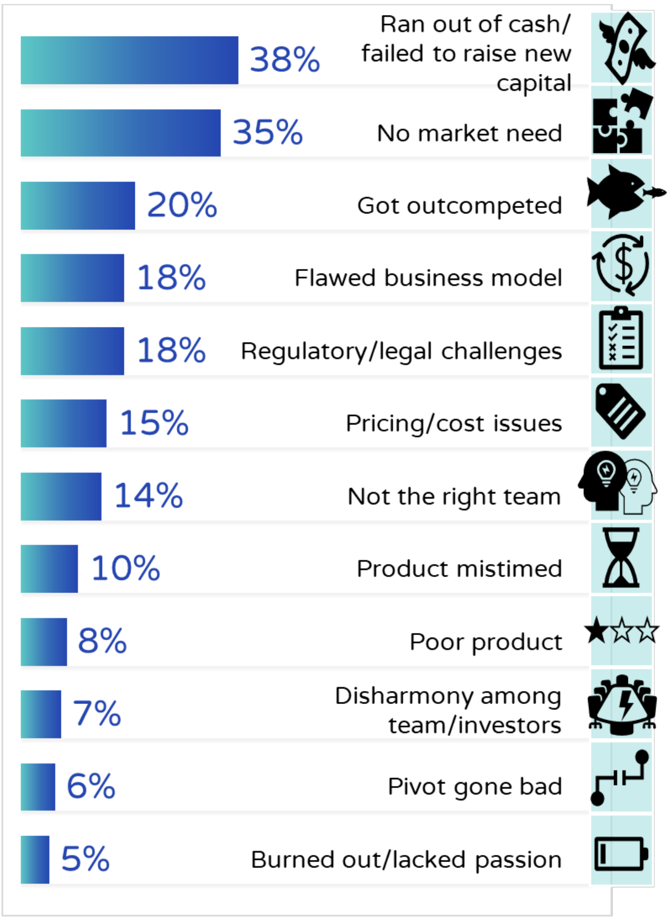

Figure 2. Causes of Startup Failure

Source: [5] https://www.cbinsights.com/reOndasearch/report/startup-failure-reasons-top/

[4] See [6] [7] and [8] for a few of many studies of hi-tech failures, and [9] and [10] for reviews of the large literature on the subject.

The 64 Dollar Questions: A Pre-Launch Protocol

A protocol is defined as a well-defined procedure or set of rules, guiding a crucial activity. In virtually all complex endeavors that involve serious risk, especially those related to human lives, some form of protocol or orderly procedure exists.

For example, before a commercial airline flight takes off, the pilot and/or co-pilot do a walk-around, physically inspecting the aircraft, before going through a lengthy protocol to ensure that electronics and mechanics are all in working order. No flight would take off without completing the protocol.

Hospital emergency rooms have detailed protocols for more than a dozen intakes. Medical research has detailed protocols to ensure veracity; an entire journal is devoted to them in the realm of surgery. In hospitals, deaths are known to occur due to errors in administering medication; detailed protocols have been shown to prevent a high proportion of such fatal errors.

Launching a startup can be an exciting and fulfilling experience, but it is important to approach it with a disciplined, strategic mindset. Thoroughly investigating and evaluating a business idea before initiating a startup can help make informed decisions and increase the chances of success.

Here below are our 64 “$64” questions startup entrepreneurs should ask well in advance. It *is* indeed more important to know the questions – the key ones.

Some questions are more important than others. We have subjectively marked ones we regard as **critical to the startup’s success in bold**, and ones we believe are very important, *in italics.*

There are eight categories: Market insight and competitive positioning; product-market fit and value proposition; people and organizational structure; innovation and technological edge; business model and scalability; financial health and investment readiness; operational resilience and risk management; customer and market execution.

Pre-Launch Protocol

Market Insight & Competitive Positioning

1. How does your strategic vision align with market trends and future opportunities?
2. How does your team stay updated on emerging market insights and competitive shifts?
3. How do your leaders communicate market insights to the team and investors?

4. How does your company culture support continuous learning about customer needs and competitors?
5. How do you build trust with customers and stakeholders regarding market positioning?
6. What key skills does your team possess to analyze and respond to market trends?
7. How agile is your team in responding to rapid changes in the competitive landscape?
8. How strong are your relationships within your industry ecosystem for gaining market insights?

Product-Market Fit & Value Proposition

9. How does your vision ensure long-term product-market alignment?
10. How does your team incorporate customer feedback into product iterations?
11. How effectively does leadership articulate the product's unique value?
12. How does your company's culture reinforce customer-centric innovation?
13. How does your brand reputation enhance customer trust in your value proposition?
14. What key skills enable your team to refine and adapt the product-market fit?
15. How do your internal processes ensure rapid product iteration and market responsiveness?
16. How do you leverage external networks to validate and improve your value proposition?

People & Organizational Structure

17. What is your strategic vision, and how does your strategic vision drive team structure and hiring decisions?
18. How do you foster a learning culture that enhances team capabilities?
19. How do leadership and communication styles impact team cohesion?
20. How does your company culture attract and retain top talent?
21. How does your company build a trustworthy reputation as an employer?
22. What competencies are critical for your team's success, and how do you develop them?
23. How do your processes ensure talent development and adaptability?
24. How do you engage with external talent networks for recruitment and mentorship?

Innovation & Technological Edge

25. How does your strategic vision ensure a continuous focus on innovation?
26. How do you encourage a learning culture to keep pace with technological advancements?
27. How does leadership foster an environment of innovation and risk-taking?
28. How does your culture promote experimentation and cutting-edge development?
29. How does your brand reputation position your company as an industry innovator?
30. What technical skills are essential for maintaining a technological edge?
31. How do your processes support rapid innovation cycles and agile development?
32. How do you collaborate with external networks for technology adoption and R&D?

Business Model & Scalability

33. How does your strategic vision ensure long-term business model viability?
34. How does your company learn from past successes and failures to improve scalability?
35. How do leaders communicate the business model effectively to investors and stakeholders?
36. How does your culture support scaling while maintaining core values?
37. How does your brand reputation impact investor and customer confidence in scaling?
38. What financial and operational competencies are required for successful scaling?
39. How do your internal systems ensure efficient scaling with minimal friction?
40. How do your industry partnerships and networks support business model expansion?

Financial Health & Investment Readiness

41. How does your strategic vision guide long-term financial planning?
42. How does your company enhance financial literacy and decision-making?
43. How do leaders communicate financial performance transparently?
44. How does your culture promote financial discipline and responsibility?
45. How does your brand reputation affect investor trust and funding opportunities?
46. What financial management skills are critical for your company’s sustainability?
47. How do internal processes ensure sound financial decision-making and compliance?
48. How do your investor and industry relationships impact funding opportunities?

Operational Resilience & Risk Management

49. How does your strategic vision incorporate risk mitigation strategies?
50. How does your company build resilience by learning from operational challenges?
51. How do leaders prepare the organization for crises and uncertainties?
52. How does your company culture promote a proactive approach to risk management?
53. How does trust in your brand influence your ability to navigate crises?
54. What key operational skills help your company manage risks effectively?
55. How do internal processes ensure operational continuity in high-risk scenarios?
56. How do you leverage external partnerships to strengthen operational resilience?

Customer & Market Execution

57. How does your strategic vision ensure effective go-to-market execution?
58. How does your company leverage market data to improve execution strategies?
59. How do leaders communicate execution strategies to ensure alignment?
60. How does your culture encourage a customer-first approach to market execution?
61. How does your brand reputation impact customer acquisition and retention?
62. What sales and marketing competencies are essential for strong execution?
63. How do internal processes optimize market execution and customer engagement?
64. How do external partnerships enhance your go-to-market strategy and execution?

How to Use the Protocol

There are at least two ways to use the startup protocol:

a) Qualitative. Use the questions as the basis for vigorous discussion by the startup team. Focus on, and prioritize, key action items; delegate the most crucial questions that demand answers.

b) Quantitative. Choose a comparable startup that in your view has achieved sustained and sustainable success. Study it carefully. Perhaps, interview the founders. Use it as a benchmark. Using a scale of 1 to 5 (1 = poor, 5 = excellent), answer the 64 questions and estimate your startup's score for each. Identify weak points, where scores are 1 or 2. Decide on actions, arrange to return to the protocol in an appropriate period of time, to re-evaluate. Pay close attention to the bold-faced items, which are of critical importance. Aspire to raise your overall aggregate score significantly through advance planning.

Conclusion

We present our rather lengthy protocol with some trepidation. Facing this exhaustive, and admittedly exhausting, list of questions, some budding entrepreneurs may be deterred from launching. If so, then perhaps they may not have had the drive and motivation to undertake a hugely difficult and risky venture, blithely steering their ship onto reefs they were unaware of.

Entrepreneurs: If it suits you, launching a startup is a highly meaningful and high risk venture. You can create value for thousands or millions of people. You can make your clients healthier, smarter, happier or wealthier.

But be aware, it is not unlike running a dozen or more 110-meter hurdle races, one after the other, knowing that if you stumble at any of them – each 110 meters has 10 hurdles, 42 inches high – you will not win the race or even complete it. Like an Olympic 110-meter hurdler, preparing for each hurdle in advance is crucial for success. The initial excitement of a dramatic innovative idea should be tempered with the hard slog of preparing to manage the details. Failing to do so can be fatal.

Finding an experienced mentor can be extremely helpful. Often, this is a key advantage of launching in incubators. [12]. But such mentors may be difficult to find and enlist.

Even being a unicorn (startup valued at one billion dollars or more) or major disruptor does not exempt a startup from high risks of failure. Founders often underrate or miscalculate the risks, blindsided by their own theories and oversight in certain sensitive areas. One of many paradoxes is this: The energy springing from boundless optimism is vital for success – yet often proves fatal, when inevitable, but still unanticipated, crises come straight out of the blue.

Startup entrepreneurship requires head-in-the-clouds creativity coupled with feet-on-the-ground pragmatism. In short: Discovery and delivery. A shortage of delivery has sunk many startup ships – unnecessarily.

We believe our protocol may find productive use in implementing policies that foster entrepreneurship. Requiring candidates to respond to the protocol questions in order to qualify for grants can not only improve the success rate of startups that qualify for grants, but also greatly improve the quality of submissions – and improve success rates even for startups that launch despite not receiving a government grant.

In addition, written responses to our protocol by applicants may be helpful in improving success rates of policy initiatives that offer grants and other forms of support to startups [14] [15].

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