

13.3: Why Early Failure Can Lead to Success Later

LEARNING OBJECTIVES

By the end of this section, students will be able to:

- Determine several reasons for business failure and explore strategies to overcome them
- Understand the root of fear of failure
- Learn to spot signs of fear of failure and take steps to overcome it

Your goal in your venture is to achieve success—ideally, fairly quickly—but most successful entrepreneurs experience some failures along the way. While these setbacks can be discouraging, they provide lessons and experiences that can lead to eventual success. Whether a new business is a retail store, restaurant, hair salon, consulting company, tech firm, or manufacturing plant, the truth is that many businesses fail within the first couple of years. According to Bloomberg, only 20 percent of new businesses find success within their first eighteen months.²² Data from entrepreneur.com and the Small Business Administration suggest that only 30 percent of new ventures succeed to the ten-year mark.^{23,24} For women and minorities, the percentages are even lower. Success and longevity are possible, of course, but it takes a lot of work, and sometimes it takes a second or third try.

Entrepreneurs recognize that failure is part of the success of being a business owner. **Business failure** is the ending of a business due to the lack of goal attainment, which can mean low levels of revenue and profits, or not meeting investors' expectations. Business failure can result in the loss of assets—such as revenue, equipment, and capital—and can cause trauma for the business owner. However, these failures often help entrepreneurs improve the outcomes for their next business, as they have now learned valuable lessons that can be applied to new projects.

As Jack Ma, billionaire founder of Alibaba (the biggest and most profitable online retailer in China) said, “No matter what one does, regardless of failure or success, the experience is a form of success in itself.”²⁵ Ma experienced many failures—including being rejected from job opportunities and universities he wanted to attend, and having his pitch rejected by all but one person in a room full of friends. But he persevered, founded Alibaba, learned as he went, and today runs China's largest online retailer with almost \$24 billion in revenue.²⁶

Another company, Quirky, launched by Ben Kaufman in 2009, was an initial failure. Quirky was a platform that allowed inventors to submit their ideas to a panel of Quirky experts who would then manufacture the product at a low price and sell it to different markets. Initially, Quirky gained \$185 million in funding and had support partnerships from Amazon, Bed Bath & Beyond, and Best Buy. Thousands of people flocked to the site and submitted their inventions to get seen and voted on. Unfortunately, Quirky struggled to sell many of the products at a sustainable profit margin and filed for bankruptcy in 2015 after investors stopped funding the venture. Fortunately, one of its businesses, the smart-home business section, was spun off and sold as Wink in September 2017. The company was rebooted by a new set of entrepreneurs with a better business model.²⁷

Common Contributors to Failure

There are some common reasons for failure that often combine to end a business. However, there are often ways to prevent these failures from happening. CB Insights, a company that mines and analyzes data for companies and uses machine learning to help them answer complicated strategic questions, researched the factors that contributed to the failures of 101 startups. Figure 13.3.1 shows some of the main factors they identified in their research.

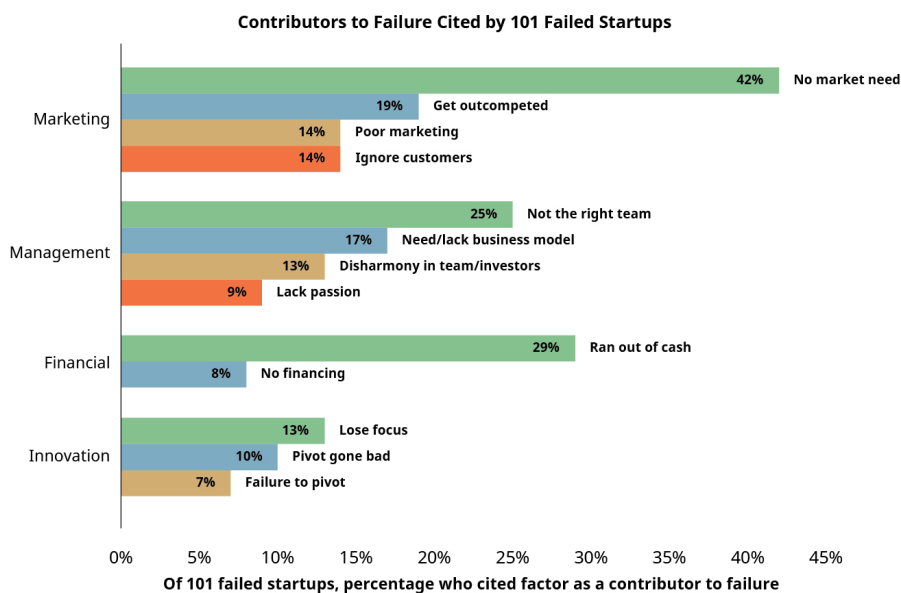


Figure 13.3.1: Startups that falter identify some common obstacles to success. (CC BY 4.0; Rice University & OpenStax)

In the following discussion, we expand on some of these reasons for failure and offer advice on how to avoid them. Considering the following failures will give you an idea of what may go wrong in a business but will also help you spot and correct them before you launch.

Marketing Failure

Some of the most common failures result from marketing missteps.

- *Lack of differentiation of product or service.* Creating or running a company with a me-too mentality and without a clear unique selling proposition or difference from other established businesses can be detrimental. Answering questions such as “Why should customers leave other companies to buy my product?” “What is a benefit I provide that no one else does?” and “If I open a yogurt parlor in a commercial area, what will help my business differentiate itself from all the other yogurt, ice cream, dessert, and fast food places?” can help create ways to be special rather than a me-too business. This also needs to be defined in your mission, within your products and their benefits, and a clearly defined competitive advantage that can be translated into a superior value proposition.
- *Missing the right customer.* Not reaching the target market can lead to failure. Perhaps for your travel tour business, you targeted single people ages 18–34 who like to experience travel in a different way, but maybe your true target—the people who want to book your tours—are couples with children and those 50 and over. You would have sent out marketing communications to the wrong age group. Or, the right message is not being conveyed and your positioning is off, preventing you from connecting with your true consumer. Testing your communication with various targets can help better define your customer.

Management Failure

These are some typical management challenges that can prove detrimental.

- *Passion wanes or not the right business.* Sometimes the reason a business fails is due to a simple reason: The founder has lost excitement over the business and is no longer interested in making it succeed. Other times, the problem may stem from not having the right focus or idea, which can come from a lack of awareness about trends in the market. Joel Delgado, a young entrepreneur who started El Paso’s first escape room called El Paso Disaster Room 915 in 2015, developed this business with three of his friends right after college. Although the business was very well received by young people who wanted this new form of entertainment, a few years later, he decided to close down the business and pursue a career in teaching. His passion had waned. Sometimes, entrepreneurs get bored with their startup, but there are ways to keep the business exciting by changing the product offerings.
- *Fighting founders.* Not agreeing over the strategies and direction of a business can deter companies from moving forward. If the founders are not working together and disagree too much, this can help dissolve the business quickly. Differing points of view can be healthy for a business, as these can bring other complementing perspectives, but when conflict doesn’t get resolved, it

can be difficult to continue moving forward. Some business partners have found themselves ousted by their business partners because the relationships have suffered a deep strain. This happened to Steve Jobs in 1985 when he was let go by his own company. Often, it is difficult to assess when conflict will arise, so it is recommended that business partners work with people who have the same love for the business and its core values, even if they bring different strengths and temperaments to the table. This may reduce fights and sustain relationships. Having a contract in place that defines who is in charge of what part of the business, their compensation, and what happens if anyone departs, is a good way to ensure that the investment won't be lost if partners decide to part ways.

- *Lack of planning.* One of the surest roads to failure is to not have a business plan or marketing plan. Even using the lean startup method requires some sort of planning before embarking on the process. Planning helps business owners flesh out ideas and understand the business better. Following a business plan and a marketing plan can help solidify where the business is headed, whether its viable, and what resources are required to make it work. For example, imagine a business owner who opens a restaurant in an already-crowded market only to realize how much competition existed in the area. If the owner had researched and planned ahead, the venture could have been differentiated through the type of food offered, the location, or different promotional tactics to build clientele. Failure to plan in a situation like this can result in struggling to keep afloat and can lead to successive challenges. For example, the owner might raise prices to compensate for lower-than-expected revenue, but higher prices may drive away an already fragile customer base, and the venture may not be sustainable.

Financial Failure

Cash flow, debt, and capital are just some of the many financial factors that play a large role in startup success or failure.

- *Lack of cash.* Lacking cash to operate the business can trample its operations and lead to a quick decline. If there is no cash flow, it can also indicate that perhaps the business model is not working. For example, consider our fictional restaurant owner. A lack of customers means a lack of cash flowing in as revenue. Loans can provide some assistance while working to build the clientele, but loans can go only so far. If the business doesn't grow and develop a sustainable cash flow, its ability to operate will come to an end.
- *Too much debt.* Significant debt can hurt a business because it needs to pay back its lenders. In the previous example, if the restaurant owner takes on too much debt, it may struggle to pay it back due to its lack of cash flow.
- *Lack of capital.* Not having sufficient capital can deter the business from expanding or even from meeting customer demand. Having a clear business plan can help determine the financial requirements, which are the estimated sales and profits required for the successful attainment of goals. Financing for the business can come from an entrepreneur's own savings, bank loans, investors, and even friends and family. Having the right funding to start or grow a business can make or break the business. For instance, our restaurant owner would need enough capital to invest in kitchen equipment, appliances, and furniture to start the business. Undercapitalization in a startup could shut the business down before it even gets up and running. Once the business is running, ensuring that financial goals are met through metrics such as sales and profits can help prevent shortages of cash flow, which is essential to keeping a business alive.

Innovation Failure

Innovation can be tricky because it requires creativity, risk, and often some subjectivity, taking into consideration feelings and intuition in decision making. Lack of innovation and missteps in innovation can be obstacles to success.

- *Lack of innovation or failing to change effectively.* Companies that don't change their strategies, technology, or products run the risk of jeopardizing the business. Similarly, those that do change but not with the right adjustments risk failure. The build-measure-learn loop can help avoid these pitfalls by discerning what consumers really want and need by asking for their feedback.

Blockbuster, an instant hit out of the gates in the 1980s, failed to innovate, or pivot its business model, and went out of business. The video store revolutionized the media and movie industry by displaying empty boxes of its titles on shelves categorized by genre (the VHS tapes were kept behind the counter) and keeping late hours for night owls and last-minute weekenders wanting to catch a flick. Using a computer system to track videos as they were rented, most of its profit was made by the fees charged for late movie returns. In 1987, the company was bought by Wayne Huizenga, an American entrepreneur who owned several businesses in different industries and who developed Blockbuster into a successful business by modeling McDonald's approach. The enterprise grew from twenty locations to over 9,000 locations. Blockbuster was then acquired in 1993 by media giant Viacom in an intricate transaction. As streaming and related technology entered the market, Blockbuster failed to innovate by not making necessary pivots to its delivery of entertainment and so could not compete with new technology. Over the ensuing decade, it became more common

to see Blockbuster stores with “store closing” banners, as shown in Figure 13.3.2, than it did to see a thriving store. There were other reasons why Blockbuster failed. Embedded with the lack of technology was the lack of fostering a culture of creativity from all of its employees, which hindered innovation. It lacked visionary leadership. It needed a culture of collaboration and teamwork to facilitate communication with stakeholders, such as employees, customers, and upper administration. Finally, it closed all but one of its stores in 2013.²⁸ By then, Netflix had completely changed the landscape of digital streaming services and left Blockbuster without a ticket to the show.



Figure 13.3.2: Blockbuster failed to change its distribution channel to cater to new generations of movie watchers. (credit: modification of “Blockbuster Store Closing, Ypsilanti Township, Michigan” by Dwight Burdette/Wikimedia Commons, CC BY 3.0)

ARE YOU READY?

Proactively Considering Failure

Consider the list of reasons for failure presented in Figure 13.3.1. Come up with solutions to each of those reasons, focusing on a business of your choice.

- How would you avoid the failure?
- What strategies or goals can you have in place to avoid the pitfalls of failure?

Fear of Failure

Even the fear of failure can be enough to lead a business to fail. Fear can freeze entrepreneurs and force them into a corner instead of advancing their businesses; it can freeze them from reaching potential clients and being profitable. When companies struggle, the owners may experience many emotions, such as pain, grief, shame, humiliation, self-blame, anger, and hopelessness. Business failure is hard to separate from personal failure, as the business is often associated with the identity of the entrepreneur. Managing these emotions can help business owners heal and continue moving forward to their next business. Reaching out for help to a trusted mentor or therapist can help provide guidance in dealing with these feelings.

There are likewise many stories of entrepreneurs who, despite their fears, continued working toward their goal and were successful. They kept going, determined that fear would not run their lives. Tony Robbins, author and serial entrepreneur, says that people are afraid of failure because it is painful, and people try to avoid pain and suffering at all costs. “Failure,” he says, “is the ultimate loss.”²⁹ But overcoming fear doesn’t have to be painful if you understand it as a program or detrimental thinking running in your mind. People are hardwired to believe they are not good enough or can’t do it. These patterns can be embedded in people’s minds and can deter creativity and success. Some signs of fear of failure are listed in Table 13.3.1.

Table 13.3.1: Signs of Fear of Failure

- Believing you are not good enough, you don’t belong, or you’re not smart enough to be successful.
- Feeling that you have to be perfect in everything you do and have a need for approval.
- Not wanting to adapt or be flexible. Not wanting to take on difficult clients or projects.
- Feeling anxious about performing, leaving things for later, and not following through with plans.

Table 13.3.1 Fear can freeze up entrepreneurs. The important thing is to let go of old thinking patterns and adopt a positive outlook. It also helps to move forward despite fear and have mentors who can help deal with negative thoughts and emotions.

Fear of failure often stems from thoughts of inadequacy or a belief that you don't have the experience and skills necessary to succeed, that you're not smart enough, and so on. Thoughts like these can prevent a person from starting or advancing their business. Individuals with a high level of stress about failure tend to lack self-esteem, have anxiety, be perfectionists, and tend to avoid new or unfamiliar things at all costs.³⁰ Fortunately, these traits and behaviors can be controlled and conquered.

Most entrepreneurs will tell you that, at some point, they had to fight their fears before they had any success.

Most entrepreneurs who succeed will tell you that behind every success there were many failures. Many people in general think that those who are great and successful were born that way. But that is simply not true.

Take Michael Jordan, for example. One of the most successful basketball players of all time, with five championship rings and thousands of points and assists, Jordan often said that he owed his success to failure. "I've missed more than 9,000 shots in my career. I've lost almost 300 games. Twenty-six times I've been trusted to take the game-winning shot and missed. I've failed over and over and over again in my life. And that is why I succeed."³¹ Michael Jordan, a kid who didn't make the varsity team in his high school, got his act together and propelled himself to stardom because he didn't give up when he failed. The same goes for entrepreneurs: Just because it didn't work the first time, it doesn't mean that they can't try again.

James Dyson, founder and inventor of the Dyson vacuum cleaner, had failed 5,126 times before he came up with his Dual Cyclone vacuum cleaner in 1993, fifteen years after he created the first version. When asked about how failure helped him, he said, "Failure is interesting—it's part of making progress. You never learn from success, but you do learn from failure. When I created the Dual Cyclone vacuum, I started out with a simple idea, and by the end, it got more audacious and interesting. I got to a place I never could have imagined because I learned what worked and didn't work."³² Dyson also says that he continuously embraces risk and failure, and allows his employees to explore that: "Nothing beats the thrill of invention. Letting people go out and try their ideas, getting them totally involved, and unleashing new thinking. They're not bound to any methodology—in fact, the stranger and riskier, the better."³³

Fear of Failure around the World

According to research, fear of failure is influenced by people's upbringing and cultural backgrounds. The **Global Entrepreneurship Monitor (GEM)**, an organization that researches entrepreneurship around the world, has studied this topic. According to its 2018–2019 report, Americans are not as afraid to fail in business as people from many other countries are.³⁴ This report includes those who would like to start a business but feel stuck because of fear of failure. Fear of failure is highest in Greece, Italy, Russia, and Cyprus, and lowest in Latin America and Africa. Usually, the fear is lowest in countries where there are few jobs and where people have to become entrepreneurial to survive.

WHAT CAN YOU DO?

GEM Data

Go to the Global Entrepreneurship Monitor at <http://www.gemconsortium.org/> and look up the report on entrepreneurship for the United States. Compare it with two other countries.

- What are the differences and similarities between the countries?
- What can you do to address some of the factors in the US that hinder entrepreneurial development? What can be done to improve entrepreneurial conditions in the two other countries you examined?

GEM also reports that women are usually more afraid of failure than men and show less confidence in their abilities (Figure 13.3.3). The research also shows that women tend to open ventures in consumer industries, whereas male-driven startups are often in manufacturing and tech sectors, and men receive more capital and incentives to open those businesses. This can be attributed to the lack of women in science and tech industries.³⁵ Other studies corroborate GEM's findings, showing that women are more afraid to start a business, they don't receive as much funding, and feel they have to prove themselves more than men to be taken seriously.³⁶



Figure 13.3.3: Research shows that women tend to be more afraid of failure and have less confidence in their abilities than men. Getting support from business organizations, programs, and mentors can help women build their self-assurance to begin or grow an enterprise. (credit: “Accomplished Achievement Agreement” by “rawpixel”/Pixabay, CC0)

What Failure Teaches You

Some would argue that, in reality, failure does not exist. There is only perceived failure, or obstacles that can become steps up the ladder to a better outcome. The importance in failing lies in learning how to get back up again. As Eric Ries dove into failure with his first company and felt the deep pain and disappointment of having to let go of an unsuccessful idea, he applied his lessons to create his new virtual reality company IMVU. IMVU then became a very successful experiment from which he derived the lean startup method. He was able to pinpoint his shortcomings and find ways to better himself and his performance. With his new company, he was able to get the product to market faster without it being perfect and ask for much-needed feedback from customers that he hadn’t received before.

Converting Lessons Learned to Success

Most successful business owners will tell you that success didn’t come to them easily. They had to persevere in pursuit of their goals to attain them. Converting their failures to lessons often led them to higher success than they had imagined. Entrepreneurs who can turn their obstacles into positive lessons can resurrect from failure.

Take Evan Williams, a visionary who launched a software tool to help users easily publish blogs. That venture, Blogger.com, was launched in 1999 and purchased by Google in 2003. The next year, Williams decided to establish Odeo, a platform for creating and sharing podcasts. Apple had been working on a similar platform and shared it earlier on iTunes to the demise of Odeo. Williams didn’t want to go head to head with iTunes, as this could potentially destroy his company, so he found a way to go in a different direction and establish a new way of sharing status updates and other data. Williams took that failure, and with a few friends, co-founded Twitter. We all know how that worked out: Twitter is one of the most popular microblogging tech platforms.³⁷

LINK TO LEARNING

Check out [Evan Williams’s TedTalk](#) where he takes you through iterations from actual Twitter users.

Kathryn Minshew, shown in Figure 13.3.4, also experienced failure but has learned from it. In 2010, she quit her job to create Pretty Young Professionals (PYP). She invested \$25,000 of her own money to develop a networking platform for women who were smart and passionate about their careers. After a few months, she and the three other co-founders started to disagree on some issues, including their approach to advertising. As they hadn’t completely formalized the ownership of PYP, two of the founders lost their investments, including Minshew. After experiencing the loss of her investment, her friendships, and the original idea,

Minshew persevered with a new opportunity and established The Muse. This platform is similar to PYP but added job listings, workshops, and advice. Currently, the site has over 4 million users and is a major competitor of LinkedIn. Minshew didn't let her first disappointment prevent her from starting a new venture. She applied the lessons learned in building the original platform to the creation of a new one—with the right contracts and right people in place.³⁸ Minshew now speaks at business conferences and events, sharing her mistakes and how she used them to lift herself up to launch a new venture properly. She hopes that her experience helps other entrepreneurs avoid the pitfalls she went through so they can be as successful.



Figure 13.3.4: Kathryn Minshew, co-founder of The Muse, used the lessons from her first business's failure and built a successful platform for professional networking. (credit: modification of "Kathryn Minshew" by "Techcrunch"/Wikimedia Commons, CC BY 2.0)

Being able to learn from different types of failure is as important as experiencing success because you get to know your strengths and how to leverage them. Failures can be seen as stepping stones rather than embarrassments. Feeling comfortable takes practice. Table 13.3.2 shares several tips on dealing with these dynamics.

Table 13.3.2: Tips for Converting Lessons to Successes

- Let go of the fear of failure: It is not as bad as you think.
- Experiment with your business and try new things; take risks if necessary.
- Go for it, even if you're not ready. Listen to your gut.
- Ask for feedback, and don't be afraid to hear negative things.
- Be willing to change when things are not working out.
- Learn from others and be willing to ask for help.

Coping with Fear

When coping with fear of failure, there are two strategies that entrepreneurs can use. The first way to reduce fear of failure is to modify your business strategy by changing the target outcomes for your business. Instead of aiming to make \$50,000 in the first six months, you can be open to the idea of a leaner start, learning about your customers and how best to serve them. Learning/growth goals can be just as valuable as hitting a revenue target in terms of overall success and longevity. Also, if a goal is not met, don't consider it a total failure: Refocus and ask yourself what you learned from the experience and how to apply that knowledge to a revised goal. More than likely you will find this experience has enhanced your toolbox to help you make changes within the business or start a new one.

A second way to reduce high stress is to practice some sort of meditation or breathing exercise that can help lower the anxiety created by fearful thinking. Reaching out to a mentor, support group, therapist, or counselor can also help alleviate fearful thinking.

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