

Why Businesses Fail

Let me tell you a story. It starts with three smart, ambitious and talented entrepreneurs. Each has an innovative idea. All start a company. Each goes on to achieve a level of notable success. Then the worst happens. Each business fails. Are we left with three sad stories? Maybe, but then again success and failure are closely intertwined. In fact, the knowledge gained from failure is often the catapult to future success; that's why understanding why a business failed is so important. At recent Northwest Entrepreneur Breakfast meeting three entrepreneurs shared insights into why their business failed. Their 20/20 hindsight about what happened, and what they could have done differently provides an eye opening reality check for other would-be entrepreneurs.

The wrong mindset and approach

What drives an entrepreneur to success can also be their Achilles heel. For example, taking the position that "we are right", and trying to convince others they are wrong, isn't easy and doesn't always work. This mindset is often representative of a larger underlying problem. If the market doesn't understand that they are wrong, they also might not understand that they have a problem and won't run to buy the product. This was partly why Pascal Stolz, founder of IT Networks, a company focused on connecting IT buyers and sellers, decided that it was critical for his business to build the product first. The thought was that a working product would provide proof. The failure came from the blind belief that the market would come—because we are right. Although one big client was landed, others didn't follow. Pascal's advice: "If you don't know where your revenue is coming from you don't deserve to be in business." It's important

to know where you are headed, to be focused on revenue, and to have milestones for making it all happen. Fulfilling these steps will prove if your vision is right.

Too ambitious of a plan

Investors love to invest in big ideas. That's partly why many entrepreneurs try

Executive Insights



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to come up with the next big thing. Without a big idea, it's hard to get funded. Yet big ideas can backfire too. That's one of the key problems that Marcelo Calbucci, founder of Sampa, a family website creator, experienced. Looking back he says the company lacked a solid business model and what they were trying to accomplish was too broad. Ultimately this led the company to narrow its focus. The problem was that this required too much shifting, too late into the game. Marcelo explains, "We opted to focus on the consumer market, but due to the market size and the limitations of our business, we kept having to reduce market scope. We also wasted time the first two and a half years creating a website that only engineers could use." Each company change involved a reactionary, trial and error approach. Marcelo's advice: "Be proactive about planning and don't bet too much of your personal stake on the company." Looking back, Marcelo regrets forgoing a salary for 40 months, and selling too large a stake of his personal assets to launch the business.

Have the right expertise in place

Mikhail Seregine founded ClayValet, a shopping recommendation engine

powered by real people. He says, "Although our company had strong technical talent, we lacked business expertise and without it, we couldn't raise the money needed to succeed." Mikhail believes that with the right business expertise the company would also have been faster to pivot and change. They also lacked a good business model and instead used customer feedback as a guide. Mikhail's advice, "Although customer feedback is critical, it shouldn't be the only thing steering the company". Those issues aside, Mikhail's biggest regret is personal. "I still regret that I lost my investor's money."

Words of Wisdom

It takes guts to share a failed story with the world. No doubt Pascal, Marcelo and Mikhail will turn their start-up lessons into future successes. For those among us that haven't yet tried to launch a business, they advise would-be entrepreneur's to:

- Don't be too ambitious and always have a Plan B; things won't go as you expect.
- Establish early warning signs and be ready to pivot.
- Balance being tenacious and stubborn—know when it serves you and when it doesn't.
- Hire the talent you need when you need it; businesses need a wide variety of expertise to succeed.
- Have the confidence to trust your gut; don't rely only on customer's feedback to leverage market opportunities.

These "Executive Insights" are based on monthly presentations provided by leading entrepreneurs at the Northwest Entrepreneur Network (NWEN.org), a non-profit organization dedicated to helping entrepreneurs succeed. The

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