

How to Fail at Entrepreneurship

Dr. Jack M. Wilson, Distinguished Professor of Higher Education, Emerging Technologies, and Innovation



Entrepreneurship is not always easy

- There are many pitfalls.
- Often the entrepreneurs own statements raise red flags
 - “The market is wrong”
 - “We have not yet discovered our customers”
 - “We do not own (patent or other protection) the solution.”
 - “making money is not our primary goal”
 - Even social entrepreneurs need to focus on making money to support the social mission.
 - “The Goliath in our market *just does not get it.*”
 - “We have not figured out our revenue model.”
 - Mr. Wonderful, Kevin O'Leary, is ready to pounce.
 - “We have no competition” -unlikely
 - “Our financials are conservative.”
 - Prove it. These are all untested assumptions.
 - “We only need 2% of the market.”
 - If that were easy to get, then why did someone else not get it first?

The financial negotiations are always tricky.

- The entrepreneur always wants the highest valuation.
- The investor wants to be sure the valuation is low enough to allow them to make money.

- If you ask for too much money, it usually poisons the negotiations.
- If you ask for too little, you are cheating yourself and other investors.

- The key is to ask something that you can justify and that looks reasonable –even if you have to back it down a bit in the end.

Taboo businesses.

- Investors often feel that they will sacrifice their reputation and lose other deals if they invest in business that look bad to the outside world. For that reason they often stay away from businesses that look taboo.
 - Porn, drugs, gambling, and other illicit activities.
 - That said, there are some investors who have fund such investments profitable – although they have to take the hit on their reputations.

No skin in the game.

- If the entrepreneur has nothing to lose then the investor is nervous.
- Remember what Mitt Romney, then at Bain Capital said of investing in Staples
 - “It was a very difficult and painful process,” Romney would recall while testifying on Stemberg’s behalf. “We found Tom difficult to deal with from a negotiating standpoint.”
 - Stemberg and his lawyer were driving a tough bargain, trying to keep “a very large portion” of the company for the founder, while Bain and the other investors were “of course thinking we should take a large portion of the company.”
 - “It was very clearly our intent to [reward] Tom handsomely if the company did spectacularly well. On the other hand, we did not want Tom to receive any reward if he were to turn out to be not an effective chief executive officer,” Romney said in his testimony.

Avoiding dealing with troublesome people.

- The text “*Start up Opportunities*” calls this the “No Asshole Rule.”
- Travis Kalanick was fired as CEO of UBER even though he was the founder. He was seen as allowing a very unsavory climate at the company. His firing was reported along with other similar firings.
 - <https://www.cheatsheet.com/money-career/no-job-security-uber-travis-kalanick-other-fired-company-founders.html/?a=viewall>
- USA today: *CEOs depart after bad behavior*, April 28, 2016.
 - <https://www.usatoday.com/story/money/2016/04/28/ceos-behaving-badly/83641214/>



-
- “So what happens if you get hit by a bus tomorrow? Does the business also die?” –Kevin O’Leary
 - This is called the “Key Person Dependency”
 - Every investor in ILinc forced me to take a complete physical and be tested for almost anything that could kill me. Then they purchased an insurance policy on me to cover their investment.

 - Self Deception –Don’t drink your own Kool-Aid
 - “Above all, don’t lie to yourself. The man who lies to himself and listens to his own lie comes to a point that he cannot distinguish the truth within him, or around him, and so loses all respect for himself and for others. And having no respect he ceases to love.”
 - Fyodor Dostoyevsky, The Brothers Karamazov
 - Research in psychology has show that the best way to avoid this is to be continuously consulting others and listening carefully.