How startups can learn to deal with the other F-word: Failure

Teresa Novellino, Upstart Business Journal

Poke around and you’ll find plenty of scary statistics about new business failures — so many that starting a company at all can seem like sheer lunacy.

While research varies widely, we’ve seen reports that as many as 90 percent of tech startups “fail,” and that anywhere from 25 to 75 percent of venture-backed firms do not return capital to their investors.

A huge part of being an entrepreneur is facing the possibility or the reality of failure, according to Brent Goldfarb, an associate professor of management and entrepreneurship at the University of Maryland’s Robert H. Smith School of Business.

By the same token, he also says that it is how you deal with failure that defines your success. To find out more about how to recognize a failing startup and how to deal with being that startup, we asked Goldfarb for his insight on the subject.

How many times should an entrepreneur fail at doing a startup before deciding to give up and go work for someone else? I don’t think there is any hard number to this. Many entrepreneurs might fail several times. The key thing is to learn from each failure so as to lower the chance of failure the next time. Every time there is a venture that fails, the market was giving feedback that a particular idea wasn’t working. If an entrepreneur is bull-headed in the sense that they do not respond to signals from the market, then maybe that person should go work for someone else.

Are there common signs that a business is on the wrong track that an entrepreneur should watch for? Perhaps the most important sign is lack of market traction. The flip side of this is that if the market is interested in an entrepreneur’s product or service, then this is a great sign that there might be a real business. Skilled entrepreneurs are constantly pitching their ideas to people so as to listen to their feedback. If much of the feedback is negative, the entrepreneur should evaluate whether those giving the feedback really have the knowledge to give an informed opinion. If they do have that knowledge, this is a sign that the entrepreneur is probably not on the right track and the idea needs to change.
Failing and giving up seems like defeat. Why should entrepreneurs not be afraid to fail? Every entrepreneurial venture is a way to figure out if a guess that the entrepreneur has about the market is true or not. If success were clear from the beginning, then everyone would be doing it. It is only an entrepreneurial venture if there is considerable uncertainty about whether it will succeed. Hence, failure is an integral part of entrepreneurship. However, often our best guesses about the future turn out to be wrong. When that happens, it’s foolish to keep going. As baseball’s famed philosopher [Yogi Berra](https://en.wikipedia.org/wiki/Yogi_Berra) said, “prediction is difficult, especially about the future.” The trick is to minimize the cost of failure. One way to do this is to figure out how much you can afford to lose and then make sure not to invest more than that. Then, if failure happens, it might not be so painful.

How can business owners navigate the emotional experience/fear of failure? Entrepreneurial failure is a difficult experience. It can even be similar to mourning. The key thing is to recognize it and still learn from it. When the entrepreneur is emotionally ready, they should try to systematically figure out what mistakes they made so as to learn for the next time.

Is it much riskier to run a technology business versus a traditional one? Some high-tech firms are able to protect their business using patents or other forms of intellectual property. Or they have started out because the co-founders have very unique skill sets. When that happens, it makes it easier to isolate themselves from competition. This can reduce risk. Some of my recent research suggests that patenting firms are less likely to fail than those that don’t patent. So in this sense, they might be less risky. However, this doesn’t mean that every business should pursue a patenting strategy. It is much more important to match the strategy to the type of business.