



New Venture Failure workshop

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The Blue Screen of Death

A desi's misadventure in the land of opportunity.



A book on failure by
Jawwad Ahmed Farid



Quick Survey

- Why are you here
- What do you expect to hear
- What would you like to take back with you



My Profile

- 14 years
 - Technology, business, consulting, product development & finance
- 6 years
 - Unintentional Corporate Entrepreneurship - regular paycheck
- 1.5 years
 - Columbia Business School, Dean's list
- 7 years
 - Personal / Individual ventures



Caveats

- My personal opinion, not based on a formal research study
- Primarily based on my experience
 - Last fifteen years
 - 30 - 40 ventures
 - 200 plus engagements, assignments & projects



Why Failure?



Why Failure

- Religion --- Find God
 - Competitiveness --- Live a little, smell the flowers
 - Soul --- Introspection
 - Great Teacher --- Humility
 - Fear Factor --- Get over it
-
- Fools learn from experience, wise men learn from fools



Failure Types

- Type One - The no commitment date
- Type Two - The fair priced joy ride
- Type Three - Tail Spin



Business franchise?

- Barrier to entry
 - Economies of Scale – Scale
 - Scaling up?
 - Proprietary tech – IP
 - What is proprietary?
 - Switching Costs – Captive Customer
 - The power of niches



Top ten myths

- 1 Technology
- 2 Big Projects / Big sales deals
- 3 Perfect products
- 4 Solving the wrong problem
- 5 Heroes
- 6 Capital
- 7 Leadership
- 8 Diversification
- 9 Faith, commitment, and the inability to fail
- 10 Expectation Management



Technology

- Misunderstood?
- Misguided over investment?
- One dimensional problems?
- Business - Technology equation?
- The right solution?
- Taste the salad test?
- How can you fix it? – take control



Technology - Two

- Avicena LLC - e-education
 - Search engine format web based e-education firm -
 - On the run content customization
 - Next generation technology engine
 - No revenues - too busy building tech
 - Beta customers
- 2 years, \$200,000 in cash, buried May 2001



Big Projects / Big Sales Deals

- Due diligence
- Sales cycles
- Credibility
- Depth
- Small wins; not big hits
- Nature of cash flows
- Negotiation Leverage



Big projects - Two

- Case Study
 - From \$10,000 - \$1.2 Million in three years
 - \$ 7 Million project bid with the third largest bank on the planet
 - 3 - 10 - 70 resources in 18 months
 - 12 month due diligence cycle
 - project falls apart - firm over stretched and scaled up with no where to go
 - Dies a slow, painful death over the next three years



Perfect Product

- Opportunity cost of perfection
- Perfection Curve
- Minimum acceptable feature set
- Incremental perfection
- Generation skipping perfection
- Product management function



Examples

- Incremental
- Generation Skipping
- Opportunity cost of perfection



Solving the wrong problem

- Iteration required to solve a problem
- Problem spaces – constraints
- False optimal, non-optimal solutions
- Strength and character to admit that you are wrong
- Move on to the next iteration



Case Study

- Pensions & the North American market
 - Individual Pensions - sold direct to retail customers
 - Private labeled pensions - sold direct to retail customers
 - Private labeled pensions - sold direct via financial advisors
 - Pensions - intermediate between banks, broker dealers & insurance customers
 - Industry Standard Pension



Heroes

- Business is **not** about technology, it is **not** about products, it is **not** about marketing, it is **not** about finance, it is **not** about manufacturing; yes, you need all that but business is all about **PEOPLE**. You have to motivate people, sell people, work with people, leverage people, satisfy people.....and when you are done, you might have a little time left over for those other things.

» Source, MIT Entrepreneurship Center



Heroes

- Very human resources to solve insolvable problems - optimism
- Why do heroes fail
 - Don't know where to begin
 - Wait too long
 - Do too little / attempt too much
 - Compromise too much
 - Excess baggage
 - Power Transitions



Heroes

- C-Associates
 - 5 - 30 - 100 - 500 - 750 professionals in 10 years
 - New outside partners to take care of structural problems. Structural problems grow bigger
 - Problem ==> Control, Mandate, Competence
 - Issue ==> Price for solving structural problem



Capital

- Operating, Risk & Signaling Capital
- Underestimated needs
- The price of capital
 - If Greed > Control - get outside capital, board members etc
 - If Control > Greed - run your business on its own cash flow; keep your control.
 - Technology companies, VC firms and the kiss of death
 - The no cash discipline phenomenon
- Partners
- Nature of equity
 - The bandwidth problem
 - The customer solution

Leadership Contribution



Marginal impact on small groups

Significant cash flow distortion

Pay for performance problem

- LTC Management
- Tyco
- Martha Stewart
- Iridium
- Bombay
- Cridea
- Future Beef / FDR
- Industry Standard
- Asset management
- Diversified industrial
- Consumer products
- Telecommunication
- Novelty Furniture
- Peer to Peer Networks
- Meat processing
- Publishing



Leadership Defined

- **Moral Influence** “.. ability to change behavior..”
- **Weather**, “ ... the interaction of natural forces... the conduct of operations in accordance with the seasons...”
- **Terrain**, “...he knows the ground of life and death, he knows when to concentrate or divide his forces...”



Leadership

- **Command**

- “**Wisdom**... ability to recognize changing circumstances and act instantly”.
- “**Sincere**... leaving no doubt about the certainty of rewards as well as punishment”
- “**Humane**... appreciates and sympathizes”
- “**Courage**...seizes opportunity without hesitation”
- “**Discipline**...troops are in awe and are afraid of punishment”

- **Doctrine**

- “ ... organization, control, assignment of ranks to officers, regulation of supply routes and the provision of principal items...”



Focus on what?

- Focus on success
- Focus on getting to revenues first
- Focus on profitability
- Focus on team building
- Focus on competition
- Focus on relationships
- Focus on Scale / Expansion



Diversification vs. Focus

- Focus
- Do what you understand and do it well
 - The credibility factor – build as you go
 - The network and target market effect
 - Laser sharp focus
 - Laser sharp marketing
 - Laser sharp word of mouth advertising
 - Laser sharp products
 - Laser sharp Franchise



The diversification fallacy

- Why is diversification a four letter word?
 - You can't do every thing
 - You will not get paid for doing everything
 - You can't charge a premium as a generalist
 - You will confuse your audience and your target market
 - Your focused competition will eat you alive
 - There is no scale
 - Difficult to defend itsy bitsy little pieces
 - Lower return on investment
 - Difficult to build on
 - Distraction from core business



Faith & Commitment

- Sunk costs is an alien concept
- The importance of failing quickly
- The new venture life style
- When is a good time to quit
- Irrational exuberance & faith's place in the grand scheme of things



Inability to Fail

- The road to failure framework
 - Product
 - Customer
 - Capital
 - Economics
 - Team



Expectations Management

- Family
- Customers
- Vendors
- Employees
- Self
- Setting it up to fail

Expectations



There are no short cuts. There is no easy money

"Even if you work in a gold mine, you have to 'dig' every day."

"Three years of hard back breaking labor and then - we will get used to it"

"Customers are the cheapest, most certain and effective source of cash"



Quick review

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Entrepreneurs

- "I arise in the morning torn between a desire to improve (or save) the world and a desire to enjoy (or savor) the world. This makes it hard to plan the day."-- E.B. White

Final Thoughts



Rules of the Garage:

- Believe you can **change** the world.
- Work quickly, keep the tools unlocked, **work whenever**.
- Know when to work alone and when to work together.
- **Share** - tools, ideas. Trust your colleagues. No politics. No bureaucracy. (These are ridiculous in a garage.)
- The **customer** defines a job well done.
- **Radical** ideas are not bad ideas.
- Invent **different** ways of working.
- Make a **contribution** very day.
- If it doesn't contribute, it doesn't leave the garage.
- Believe that **together** we can do anything.
- **Invent**.

Credits



- MIT center for entrepreneurship
- Sun Tzu's Art of war
- Startup Roulette, Ten Myths that Kill
- The Alchemist, Paulo Coelho
- Living on the Fault Lines, Geoffrey Moore
- The blue screen of death, Jawwad Farid
- Amar Bhide, Ralph Biggadike, Bruce Greenwald, John Whitney, Columbia Business School



Q & A

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Contact

Alchemy Associates / Alchemy
Technologies

www.alchemya.com

jawwad@alchemya.com

+92300 251 9368