Jerry: Hi Tom.

Tom: Hey Jerry.

Jerry: Nice to see you again. Yeah.

Tom: Good to see you.

Jerry: Why don't you take a minute and introduce yourself to us?

Tom: So, I'm Tom Eisenmann. I'm a Professor at Harvard Business School, um, where I teach entrepreneurship, and, um, and le- lead a bunch of programs that train the next generation of entrepreneurs, um, a joint degree with... between the business school and the engineering school. Um, the business school has an entrepreneurship center called the Rocks, Rocks Center. So I'm f- faculty co-chair there. And Harvard, um, University overall has the Innovation Lab. I'm faculty chair of the Innovation Lab. And I've, I've, um, launched a bunch of different... helped launch colleagues', um, a bunch of different courses on entrepreneurship, entrepreneurial marketing, um, a product management course, and, and most recently a course on failure.

Jerry: Mm-hmm (affirmative). And, and I had the, the real pleasure of now being a, a guest in two cohorts of that course.

Tom: Yeah, that's right.

Jerry: And-

Tom: Thank you for that.

Jerry: Oh well, it was, it, it, as I said, it was really a pleasure for me.

Tom: We bring you in at the end. Um, it's... The course starts off, like a lot of things in an MBA program, all focused on analysis and business model flaws, and it ends all focused on people and leadership issues. So, uh, you were the perfect capstone.

Jerry: Oh. Well, thank you for that. And we're actually here to talk about your new book, uh, *Why Startups Fail*. I got my copy a few weeks ago and I was very excited and tweeted out a picture of my highly marked up version of the book. Um, I'll say a couple of quick things, you know, even going beyond my career as a coach and going back to my years as a venture capitalist, and even beyond that, back to my years as a reporter in the technology sector, I've been really tracking this whole question of the life and death of startups and, and what it actually means, both... You know, clearly those who know the show, know the work that

I do as a coach know that I am particularly interested in the emotional aspect of the journey. Um, as you've heard me say time and time again, I'm really interested in the human side of leadership because I think that's essential to creating great leadership.

Jerry: But this was a fun experience for me because I think you, you approach the whole question of why startups fail about as analytically as I've seen, and really evidence-based. And so I'm going to put you on the spot, you've probably had to do this several times for podcasts so far, um, in, in talking about the book. If you could identify one particular theme, uh, why do startups fail?

Tom: The glib answer is they run out of cash and can't raise more.

Jerry: (laughing) Right.

Tom: The reasons sort into early stage failure reasons and late stage. And, and, um, that was a surprise to me. It... you know, I, I had a sense that a lot of late stage startups would get into trouble and, boy, they do. You'd think they'd be out of the woods after finding a market, um, mobilizing a team and raising a lot of money and so forth. But they still... If the, if the, um, um, definition of failure is, uh, investors don't make money, and I think that's one definition and it's... I think it's a pretty good one, um, then something like one in three late stage startups fail.

Tom: Um, but, but still, um, not all the pieces in place, right. At a certain point, yo- yo-, you, you question whether something as big as Uber, um, or Dropbox these days is still a startup. I, I don't think so [inaudible]. It's a young corporation.

Jerry: Mm-hmm (affirmative).

Tom: But if you focus in on the early stage, um, the, the, the, the big one is a failure pattern in the book I call a false start. Um, just like track and field or swimming, where the athlete sort of, um, gets going too fast in an effort to get an edge and, um, gets called out for it and penalized, um, here, the entrepreneur in their, um, zeal to build and sell, um, with the entrepreneur's bias for action, um, gets going as fast as they can, and what they've done is they've skipped an upfront step of, of, of really, um, studying the market, studying the customer, figuring out, “Is there an unmet need and, um, and do, uh, of the many ways to solve it if I have indeed found an... a strong unmet need, do I have the right solution?” You know, th- th- these entrepreneurs, um, they have a, a, kind of vision burning bright, um, and they just go for it are fixed on a problem solution pair, um, an- and dive in.

Tom: And, you know, if you, um, if you just launch the thing, sometimes it works. Um, very often it'll miss the mark. And, and if you've only raised a year's worth of capital or 18 months' worth of capital, and you waste the first four months on a flawed version of a product that, if you'd only spent four weeks sort of in, in upfront work, um, that's tragic. And so the... so these companies have really boosted their failure odds. And so I'd say that's a, that's a big one.

Tom: And a close cousin is another failure pattern called a false positive. Um, just like, um, pandemic time, um, medical testing, uh, entrepreneurs are vulnerable to false positives and false negatives. False negative is tragic. It tells you, um, you, you, you, you don't have a good idea, you throw in the towel when in fact it might've worked, we'll never know. The false positive is, um, uh, you think you've got something great and you dive in headfirst and, and, and probably scale it up prematurely. And that happens often because there's, y- you know, there's almost always some foaming at the mouth, crazy, um, early adopter out there that wants what you have, um, and it can be a mistake to... Sometimes they're power users with very different needs than the mainstream customers you need to, to build a, a successful business. And if you steer too hard in the direction of the early adopters, you know, again, you can over commit in that direction and it's time consuming and expensive and tricky to, to try to come back to the mainstream.

Jerry: So, uh, so good, uh, example I think of a false positive might be a company that takes, uh, some early adoption signaling, uh, some, some quick, uh, build up of a user base, um, but not really having completed the product definition or, or really the value proposition.

Tom: Mm-hmm (affirmative).

Jerry: And the result is that they, they have an enormous amount of attention and they burn a little bit like a meteor across the sky. A comet-

Tom: I like that.

Jerry: ...right, and then they burn out.

Tom: Yeah.

Jerry: Am I getting that right?

Tom: Yeah. The line from Blade Runner, “The light that burns, twice as bright lasts half as long.”I love it and there are different ways you can, um, focus too much on the early adopters and never really understand that the mainstream needs are different. Sometimes the mainstream needs are similar, but they're just softer, weaker.

Jerry: Mm-hmm (affirmative).

Tom: And you assume that the enthusiasm, the word of mouth referrals, everything that, that, that gave you so much momentum in the beginning is going to sustain itself, raise a lot of money, step on the gas. And the next wave of customers turns out to be harder to get.

Jerry: You know, I'm having all this, uh... all these painful flashbacks to when I was an investor (laughing) and we had plenty of companies that had all this promise that, that, you know, amassed tremendous number of users, only to just flame out, uh, because they really hadn't solved some fundamental problems. I'm also, uh, picking up on the false negative narrative-

Tom: Mm-hmm (affirmative).

Jerry: ... which I really hadn't, until I read the book, hadn't really thought it through. And in that instance, I'll actually name a company that, uh, back in my days as an investor, Fred Wilson and I invested in, um, and it was called Kozmo.com, K-O-Z-M-O. Tthe plan with Kozmo was you could order kind of anything from a convenience store, from videotapes, back in the day when we would actually watch movies on videotapes, to ice cream. Sometimes, maybe even some illegal stuff. No, I'm kidding. And a bike messenger with a bright orange, uh, bag would go get the product and deliver it. It's kind of was Postmates before there was Postmates. It was DoorDash before there was DoorDash. It was, you know, Uber Eats before it was Uber Eats, so-

Tom: Yeah. And the astonishing thing is there's plenty of success with the companies you just named, and this was, this was essentially the same. Because I agree completely with you, there's a lot of false negative there and false positive because of the fal- ... the false positive, the early success and appeal, um, led a whole bunch of money to pour in, including money... not only your money, but money from Amazon.

Jerry: Right.

Tom: So the, the listeners who, um, who are intrigued by the story, I think there's a documentary, um, and, and it won't be hard to find. What I, um, remember best, I, I used to use this quote, um, in the year 2000 timeframe when I'd give a, uh, a lecture on what was going on. People were trying to make sense of the internet economy. And it was an article on the young barons of, of the dot-com boom in Vanity Fair, which still important today. It was more important culturally then, and, you know, with a full bleed images of... uh, full, full page images of, of the founders. And Joseph Park, um, who was a founder of Kozmo, who had, um... he was out of college, had been an analyst at Goldman Sachs for a couple of years, and watched this thing, like, like so many entrepreneurs in those days. He was quoted in Kozmo, and I can almost get it exactly. It's basically “Look, um, we've raised a quarter of a billion dollars. Um, what's the worst thing that can happen?

The worst thing that can happen is I lose it all, uh, and then I have an amazing application for Harvard Business School."

Jerry: (laughing).

Tom: (laughing). That would have been 2000. I'm sure the article appeared, like, right at the peak, right before the crash.

Jerry: Mm-hmm (affirmative).

Tom: And, um, in 2004, he showed up in my classroom.

Jerry: (laughing).

Tom: And there he was. Um, he, uh, he called it, he called it. Self-fulfilling prophecy, maybe.

Jerry: I've got my own Joseph's story, and Joseph, if you hear this, it's been a long time and we miss you. Um, but, uh, uh, this was back in the day. Before we invested, um, I was doing a lot of public talks and, and, uh, for about six to nine months, every time I would do a talk, there was this young guy, the same guy would be sitting right in the front row. And as soon as the Q and A period would begin, the hand would go up and it was Joseph. And, um, the thing that struck me about him was that he was, um, not only prescient, but he was persistent. And, uh, and, you know, you could argue, okay, maybe it was an over-reach, you know, in that statement about 250 million dollars is, you know, a bit of an over-reach, and, you know, there were a lot of things that they did wrong in terms of the execution. But we're both talking about, in effect, is a, a, a really interesting if you could remove the, the tragic aspect of it, right, the personal story, and you sort of take a step back and you say, "Okay, there's a lot in that story, um, uh, around what worked and what didn't." And we were talking about false positives and fa- false negatives.

Tom: Mm-hmm (affirmative).

Jerry: The false positives, I think, where the tremendous amount of adoption and the interest in it. Um, and what we didn't realize at the time was that people were just doing it as a gimmick. "Watch. Let me order a pint of ice cream," and, forty-five minutes later, some m- bike messenger would show up with pint of ice-

Tom: Yeah.

Jerry: This, by the way, was all before mobile apps were the dominant way to do things. Um, and what we weren't really tracking was the cost of each one of those deliveries, right. And, and here's another example of it. I remember the- there was a perception of needing to grab land, the great land grab.

Tom: Mm-hmm (affirmative).

Jerry: So we're going to expand very, very rapidly into a lot of different markets. Um, and I think that, that to use the language from your book, it was a false positive that led us to make, uh, uh, a belief system to make assertions about how the scale the business inappropriately, which then glossed over the false negatives that we saw, which was... when it started to collapse, which was, “Wait, people are actually interested in the delivery.” It's just how we're going about doing delivery wasn't the right way. Am I seeing that right, Tom?

Tom: Yeah, I think exactly. I, I, I actually, um, I can't remember the name, but, um, I recently, um, spoke to somebody who was a manager there and, and, uh, he pinned the tail right on the same donkey, basically said N- N- New York City was working pretty well-

Jerry: Mm-hmm (affirmative).

Tom: and if they had just fine tuned it in New York City so it got to the point where the individual transactions were profitable, sort of had ways to sort of get past the fad element and so forth, an- and had focused on that, that it was the, the rampant geographic expansion that killed the company. And, and it's just so many humans you have to mobilize to run a business like that. And to try to do that quickly, the delivery folks and then have the systems to manage them and, and dispatch them and so forth. I mean, tremendous challenge.

Jerry: You know, one of the things that I, that I see in that tale, and you, you do a wonderful job talking about the tale of Fab, for example, Jason Goldberg, whom we both know, and Rand Fishkin talked about his experience at Moz. One of the pieces that I, that I didn't feel, and maybe because I'm an old VC, didn't feel that you, that you really went deeper in, was the, the degree to which the investors were driving some of these decisions. Um, for example, uh, if I think back about the expansion of Kozmo- I remember, I wasn't on the board, but I remember when they got the investment from Amazon, from Jeff Bezos, it was, um, it was with the intent of expanding rapidly.

Tom: Right.

Jerry: You know, what effect does that, let's call it super enthusiasm on the part of investors, have in driving some of this?

Tom: Yeah, it's tricky. So, um, I think you're right. I think the book doesn't punch that up quite as much as it deserves. Um, it comes through very strongly in the course. So, so-

Jerry: Yes.

Tom: the course is built around many of the same stories that are in the book and more. And in, um, almost every instance, um... so, so your listeners will know that, um, Harvard Business School is structured around case study. So, um, we study a company, talk about it and, and, uh, with this course, I always bring the failed founder into class to, um... and let the students interact with the founder right from the start. So, um, "Why?" And, and, Could you have done things differently?" And over and over again, the students see that, um, the business built a lot of... I'm going to use passive voice or sort of not, not very deliberately. Um, there was a lot of pressure to grow fast. And what the founder usually says is, "I, I didn't have my arm twisted. They didn't make me do it. It was surely clear they loved the idea." And then the founder will go on to explain that the business model of venture capitalists is, um, if you have a portfolio of 60 companies and three of them are in 10 or 20, or, you know, in a great, great year, a hundred times, the original investment, you know, and 30% sort of make the money back or double or triple. By the way, doubling over 10 years is not that great an outcome, you know, i- if you could put your money in the bank, um, and then the rest of them will lose, um, most or every- or, you know, e- e- everything. And if you have a model like that, you need all 60 of them to have the potential to be a ten fold return.

Tom: So basically VCs are in that, as you were in that business. They're all in a business. And, um, it sort of understood with the founder that, um, "Don't take this money unless you're willing to sign up for that plan." And most entrepreneurs, I think in truth, don't need their arm twisted, right. Um, growth is how a lot of entrepreneurs keep score, um, so they tend to, um, they tend to come along. But it's only after the fact that I think they see how risky that is. So basically, you know, to use, um, maybe a cliche baseball analogy, is they're being asked to swing for the fences, and when you do try to hit home runs, you strike out a lot.

Jerry: Mm-hmm (affirmative).

Tom: And it's one thing for a VC with a portfolio of 60 companies to have a bunch of strikeouts, but they'll have the home runs. And, um, an entirely different thing for the entrepreneur who only gets one shot, or at least one shot at a time, uh, to do that.

Tom: And so a lot of these entrepreneurs in the class, basically... and Rand Fishkin at Moz would be a great example. You know, "No one twisted my arm, but I would not do it again," um, is, is the way he approaches it. And it's really very eye opening for my students because, you know, at elite business schools, basically we lionize venture capital, right. They're heroes, um, and you assume, if you're an entrepreneur coming out of Wharton and Harvard Business School, um, or Stanford, that you're going to raise venture capital. And, and, and so we see examples of people that probably shouldn't. There's lots of other ways to fund a business out there, um, and probably more entrepreneurs should be looking at those other ways.

Jerry: I want to lift up that point. I'm so glad that you, you talked about that lionization. I think that that correlates to another phenomena that I experienced, which is that, um, is the belief that completion of a venture round is in fact a marker of success. And y- yo- you're nodding because, you know, that there are way too many tales of failure after having raised capital, right.I wonder if you could speak a little bit to that.

Tom: It's worse in the sense that, not only completion of the round, but completion at the round... of the round at a high share price, at a high valuation, is seen as a marker of even greater success, right. You know-

Jerry: Mm-hmm (affirmative).

Tom: “We're a unicorn now.” I think too few entrepreneurs stop to think about the fact that, yeah, that was Series C, but you're almost certainly going to need a Series D, and, and unless D is a one and a half times or two times step up from C, um, you're in big trouble. Um, if it's sideways, or God forbid down in terms of the share price, um, all sorts of bad things happen. You know, em- employees wonder about the value of their stock options. Um, the, the, uh, the, the tech press, um, um, starts to second guess everything and it can unravel really fast.

Tom: So, you know, the higher the, the, uh, valuation in the current round, the more you're just setting the, the hurdle even higher the next time around. And for so many businesses, the way you reach that next hurdle is you keep growing. Um, and growth turns out to be (laughing) really, really hard to do profitably. You raise a lot of money and grow unprofitably, but sooner or later, this is a game of musical chairs and the music will stop and people will see that, um, there's a chair missing,

Jerry: You know, the, the, the, the, the thing that occurs to me is that there's a correlation between, uh, the, the... that non-arm twisting pressure, that in some ways begins with the student in the MBA program, right,, the lionization of the VC, there's also a correlation of a lionization of the successful entrepreneur, right, the Mark Zuckerbergs of the world, the Elon Musks of the world, and the belief system, that that is the path, right, and you put those two things together, then you get this sort of, um, uh, growth factor. Um, and you have an increase, in my view, an increasing tendency to either false negatives or false positives, or both- as we-

Tom: Mm-hmm (affirmative).

Jerry: ... talked about in the Kozmo story. Um, uh, I wanna, I wanna use a phrase with you that is really popular, uh, uh, and just sort of see how you react to it, move fast and break things.

Tom: Mm-hmm (affirmative).

Jerry: You're smiling.

Tom: I'm smiling 'cause, um, one of my, um, former students is now the founder and CEO of CloudFlare, I'll bask in that sunshine all day long, a 30 billion dollar valuation. Um, if folks don't know the company it's, uh, plumbing for the internet, makes the internet go faster and be safer. Matthew Prince, uh, just tweeted out, “Our, our motto is move fast and fix things.”

Jerry: (laughing).

Tom: An entrepreneur must, of course, have a bias for action, right? That's a big advantage, um, moving fast. And, um, and you have to have a tolerance for failure, that's breaking things. So, uh, you know, on the surface, the motto seems, um, s- seems right in tune with everything that makes an entrepreneur, an entrepreneur. Tolerance for failure and a bias for action. The thing I worry about is, um, conventional wisdom, and so, so much conventional wisdom that we give to entrepreneurs is mostly right and, or, or right, um, enough of the time that it feels good. ButI think the bias for action is a good example. That's what leads to the false start. You just wanna get going, right. Your image, your- yoursel- your identity as an entrepreneur is somebody who makes things happen. So let's build and launch the product.

Tom: And, and, and I think, um, move fast and break things is the same. It's, um, you know, ha- have you thought through the consequences of breaking things? 'Cause in a lot of these businesses... like, a lot of tech businesses are, are, um, are, are screwing up society in some pretty fundamental ways. Um, did, did, did you actually have your objectives in mind, so, so, you know, the difference between success and failure. Um, y- you know, are you viewing this as a, as a test or an experiment, or is it just willy nilly, um, you know, action for the sake of action?

Jerry: You know, I agree with that, and I'll build on it, um, with, with this. You know, one of the concerns I have about the phrase, the, the mantra, the call, that's implicit in that is that, um, it's almost like the two sides of that are equivalent. Meaning do this and do this, as opposed to do this, and don't worry about this-

Tom: Right.

Jerry: ... right. And I think what you're really saying in the tolerance for failure is move fast, yes, don't be so worried about breaking things, but make sure you fix the things that you break. Um, and I, and I say this with, with my... the bias that too often, it means move fast and break people-

Tom: Mm-hmm (affirmative).

Jerry: .... and not just things.

Tom: Yeah.

Jerry: You know, I come from a particular bias, which is, um, I often speak about the difference between content and container. And I say that, you know, a container without good content is meaningless, and content without a good container is useless. And so the very difficult job of building a successful company is to actually do something that has meaning, but actually do it well.

Tom: Yeah.

Jerry: And, and to be moving towards not taking pride in breaking things, or taking pride in, in a kind of over-fertilized growth rate, but building a, uh, a, a sustainable, scalable, repeatable business that, uh, that... such that what gets broken are the rules in th- in, in, in the industry that you're trying to disrupt, not the people and not the rules of governing running a good business.

Tom: Yeah. It resonates so well. This morning, I actually had a conversation with a former student. She, um, had done a lot of work in Silicon Valley in, um, performance marketing, growth, growth team stuff in, in, in startups, and now is doing, um, corporate venturing. She's, she's, uh, she's sort of moved over to a big company trying to do entrepreneurial stuff inside. And we're talking about some of the differences in failure patterns for a venture capital backed startup versus a venture inside a big company, and it's hair raising stuff. It's hard enough to do a startup. It turns out to be very hard to do venturing inside a big company.

Tom: But one of the things she said was fascinating. So I asked her, like, right, “Are you happy in this role? Um, this is probably moving slower, um, where you live.” She said, “Yeah.” Um, but she talked a little bit about the impact you can have in a big... when it works in a bigger company, you, you, you know, you're reaching tens of millions of people pretty quickly. And, you know, you run an A/B test and, and it has real impact.

Tom: But she said something else, which is, “Y- you know, when I was an employee at these Silicon Valley companies, it was growth at all costs. I wasn't on the growth team. so I was the linchpin, and there was tremendous pressure on me. And frankly, these young founders did not care. You know, I either delivered or I was out or useless.” And she said, “There's just... so there was no attention, um, f- for my growth, um, you know, as, a- as I drove growth. Um, and they just, they just wanted to, to grow the business at all costs, at all costs, human costs." And she said it's very different in a big company, that, uh, the team she works with the employees have objectives, people... personal growth objectives, people pay attention to that. And there's much more of an emphasis on personal development and professional development. So it was, it was pretty eye-opening for me, actually.

Jerry: I would never have thought that the experience at a large company could be, uh, that humanizing in that way, so I'm really pleased to hear that. And, and which then sort of leads me to what would be a classic Reboot podcast conversation, which is, let's talk about the human cost of this experience. Um, and, and, you know, in this way, I'm gonna, I'm gonna call upon not only the, the, the research that you put into the book, but really your experience over the years of working with these students and working with folks and really observing this with-

Tom: Yep.

Jerry: ... with your eye. What is the cost of failure?

Tom: Well, um, it plays out over time. Um, the- the- there's the cost of failing.

Jerry: Mm-hmm (affirmative).

Tom: It actually surprised me as I dug deeper, um, into the stories that inform the book, um, how protracted that is. You'd sort of think it's like, "Oh, we're okay today and next week we're not. We're going to shut it down." But the decision to, to, um, end the company, to shut down the company, plays out almost always over weeks, and more typically over months, 'cause there's always ups and downs and, you know, we can see what we want to see, and, um, people are depending on the, the founder. Um, um, they get their medical benefits for this person's having a baby and, and, um, you know, that's how sh- how she's gonna keep the family together.

Tom: "And these investors had faith in me. Um, and so people count on me. My image as an entrepreneur is somebody who persists. Um, my identity is all wrapped up in this thing. Um, it's going to hurt when I fail. I sort of know that either consciously or subconsciously, so if I can push it off (laughing) for a while, I can defer the pain. Um, and in so many instances, I have nobody to talk to. I can't talk to my investors because I need a bridge loan from them. So if I'm super candid with them about what a mess this is, um, I may not get that extra funding, um, that I'm hoping that we get a Hail Mary pass. And, um, I can't talk to my employees because I can't even be as transparent as I'd like to be, you know. So not only do I not get advice, but I sort of bottle it up. Maybe I'm lucky enough to be in a peer group, but YPO or something like that, where I can get some peer counsel. My personal relationships are in tatters. Um, my friends, um, are used to me not being there 'cause I'm working 70 or 80 hours a week. And, you know, and, and, and my spouse may be fed up with me. So, you know, that's not a great, uh, a, a, a great shoulder to cry on, or even just sort of good source of advice." So it's, it's bottling up all this pressure. Um, and, uh, "we try to sell the company."

Tom: And that's when we talk about false positives, um, everybody wants to see it, why wouldn't your competitors want to see what's going on inside your company? So they all talk to you and they kick the tires and they string it out, and, and you get the false hope that it's... this is actually going to be salvation. Uh, when it turns into acquihire discussions, then it gets really painful because you find out they're not going to take the whole team and they're sorting out winners and losers, and this team you've built is suddenly...So, the failing process is incredibly pressure packed and painful. And, and you're just trying to figure out, "Is it time to throw in the towel? And what if I were a terrible entrepreneur?"

Tom: Eventually they do. Um, and what I've learned from founders is that's incredibly cathartic, right. To actually... I mean... And it sets off a flurry of activity. We got to notify all the stakeholders, we've got to find a home for the employees, we've got to put assets in es... you know, money escrow and there's this, this whirlwind of things you have to do that keep you too busy to ruminate on the failure. Um, but eventually it dies down and, and the employees have all left and you're sort of for a period, often weeks, sometimes months, just the slow, um, tail end of the company. Uh, and that's when, um, uh, I think very often, uh, true clinical depression sets in, um, right, 'cause this person... If you're an entrepreneur. Your identity, um, is often the company and vice versa. The company is you, you are the company. It failed and it's inescapable to, to... Y- y- y-... There's no other conclusion you can draw than you f-... a big part of you that's failed. And so, um, it hurts.

Tom: And then, you know, I think the smart entrepreneurs at this point... And but- by the way, sometimes they put life savings into it. Um, if you don't have a spouse who's working or, or family means to sort of get you through, you're under this... you got the student loans due in a lot of instances. Sp you're under tremendous, um, um, financial pressure. You're under, um, weird personal pressure because it's not exactly human nature to sort of go rev up your relationships again, like, "Hey, let me tell you what just happened." Um, so, so a lot of founders will go into hiding, uh, which only makes it worse because it sort of reinforces the cycle of rumination.

Tom: The smart ones will find some distraction, a new hobby, exercise, something to alternate between rumination, which is inescapable, and, and distraction. So it's a very painful period. You know, then again, it's weeks, months, it varies, you then go into a less painful, um, period of reflection.

Jerry: Mm-hmm (affirmative).

Tom: And not everybody gets there, right. So, um, my class I've over-sampled on entrepreneurs who are actually pretty thoughtful about what happened, um, because I think there's more to learn from them. But, you know, out there, there's these two extremes of entrepreneurs who, um... Psychology, the, the... Like, Psych 101, freshman year of psychology, one of the first things you learn about is the fundamental attribution error, which is if you did something bad or, um, or, or had a mistake, um, it's, it's your lack of ability or, or, or will, desire, motivation. If I made the mistake since it's me, um, it must've been external circumstances or somebody else who dropped the ball. And so many entrepreneurs slip into that pattern, right. They blame their co-founder. They blame their investors for pushing them too hard. The regular- regulator did something, um, surprising. The comp- competitor did something irrational. And those founders haven't learned much, and they're likely to sort of get back on the horse and sort of ride the horse over the same cliff one more time.

Tom: At the other extreme are people that just keep beating themselves up, um, too hard, um, and take too much responsibility. “I- I- I'm temperamentally and by skill, um, ill-suited for the founder role. I should never do this again.”

Tom: So the pain, I think, um, starts to go away either because you've rationalized it away, um, incorrectly, or because you've truly reflected and sort of wrapped your head around it. And then you have this tricky question of what to do next. Sometimes all that's compressed into just, um, literally weeks because you're running out of money and, and, and you have no savings. Sometimes it stretches out over six months.

Jerry: You know, thank you for that. And I'm sitting here thinking that the next time I come to the class, maybe what we do is we have a, uh, class, uh, we, we have a conversation on grief and the grieving process.

Tom: Yeah.

Jerry: And the post failure process. Because, um, you know, one of the things I think you're doing that's really important is having a cogent, coherent normalizing discussion about failure, because you cannot be an entrepreneur unless you have the capacity to see the potential failure.

Tom: Mm-hmm (affirmative).

Jerry: Failure of the enterprise is not a failure of me. But a corollary to that is to teach people how to withstand that experience. Um-

Tom: Yep. Um-

Jerry: ... and in, in, in, in my experience, the people who have the greatest sense of an inner sense of self, the greatest sense of being able to see the intrinsic things that motivate them separate from the extrinsic sources of motivation, whether it's good grades in school or high marks in TechCrunch or the right valuation from the right VC, those people who can separate those two are the most likely to be able to fit into that category we call resilient, and able to figure out the next thing that I want to do, whether it's a startup or not, after the failure.

Tom: I hope we can do that next time you come. I mean, it's, it's sort of come front and center for me. The, the course has just been a half course.

Jerry: Mm-hmm (affirmative).

Tom: It's 14 sessions. But, um, I, I, I found a co-founder, um, one of, one of the failed founders. You'll know her from the book, the, um, Baroo, um, Lindsay Hyde, um, the, um, uh, founder... Baroo was a, uh, pet care service. And, um, uh, Lindsey and I will make it a full course, and the entire back half is going to be focused on how to fail-

Jerry: Oh, beautiful.

Tom: ...basically the personal experience. And we'll stretch it out, and explore every angle. What do people do next? How do they present themselves? It's fascinating if you actually find the LinkedIn profiles of, of a lot of failed founders and sort of see how people talk about what happened or don't talk about what happened.

Jerry: That's interesting. And, you know, and, and, and the truth is I think that there'll be better entrepreneurs by having a healthier non-lionized view of what venture capital, what investors can do.

Jerry: Tom, I want to thank you for coming on the show, but more importantly I want to thank you for the work that you're doing. Um, you know, in some ways you and I are doing similar work in the sense that we're doing the care and feeding of these entrepreneurs. And, um, I feel a deep respect for the work that you do. Um, and I thoroughly enjoyed the book, *Why Startups Fail: A New Roadmap for Entrepreneurial Success.* Um, thank you, Tom.

Tom: Jerry, thank you very much.