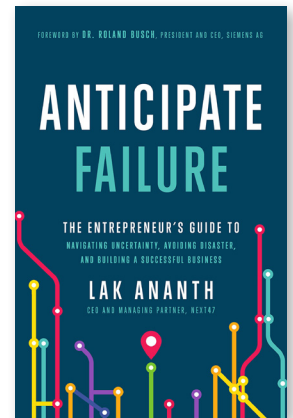


Anticipate Failure

The Entrepreneur's Guide to Navigating Uncertainty, Avoiding Disaster, and Building a Successful Business

by **Lak Ananth**



Contents

Failure Is Common

Page 2

Customer Failure

Page 2

Technology Failure

Page 3

Product Failure

Page 4

Team Failure

Page 5

Timing Failure

Page 5

Business Model Failure

Page 6

Execution Failure

Page 7

THE SUMMARY IN BRIEF

Building a business based on innovation is a perilous endeavor, and failures big and small are always around the corner. In *Anticipate Failure*, Lak Ananth—CEO of global venture capital firm Next47—describes the most common patterns of failure in innovation. He analyzes organizational failures, helping readers to understand root causes, and provides insights and coaching that will enable readers not just to avoid failure but to anticipate and work through it in order to achieve success.

Anticipate Failure is not a “do-these-things-and-you-will-succeed” prescriptive kind of business book. Instead, it is a coach and trusted companion that will help any business founder, executive, and manager get through some of the most difficult challenges they will face when they embark on innovation and building a new business.

Based on interviews with some of today’s most successful founders and executives, *Anticipate Failure* also contains riveting stories of high-profile failures in innovation. Read it, and then put the lessons you learn to work in your own business.

IN THIS SUMMARY, YOU WILL LEARN:

- Why first movers and great ideas don’t always win.
- The seven most common patterns of failure and how to avoid them.
- Fascinating stories of companies that failed and others that succeeded by anticipating, avoiding, or working through failure.

Failure Is Common

The Segway was a technological marvel that was touted to change urban transportation. Unfortunately for the company, it did not achieve that potential. These two-wheeled, self-balancing scooters didn't catch on for a variety of reasons, not the least of which was their high price. They became popular with just two groups of customers: tourists and mall cops. "Build it, and they will come" turned out to be a fallacy. Why did a world-changing technology not change the world?

British music conglomerate EMI used the royalties from The Beatles records it sold in the 1960s to help fund the development of the CT scanner—a device that fundamentally changed the practice of medicine worldwide. Although EMI invented CT technology, it was able to sell only a handful of the units, abandoning the market to Siemens and General Electric in 1976.

A common belief is that first movers win. But do they really? Why did second mover Siemens become the world's leading medical imaging company, while first mover EMI failed to sustain its advantage?

Seven Patterns of Failure

There are many ways to fail in the innovation and entrepreneurial journey. Anticipating them, preparing relentlessly for them, and navigating through them when they do happen is the way to achieve success.

Seven patterns of failure tend to dominate:

- Customer failure;
- Technology failure;
- Product failure;
- Team failure;
- Timing failure;
- Business model failure;
- Execution failure.

The sections below address each of these patterns, providing case studies and examples of companies that failed despite the best intentions and the many good things they had going for them. The goal is to sensitize you to failure to ensure that you know it is always right around the corner and you are ready to take it on.

Instead of failing, you can quickly pivot your organization in response to a fast-changing business environment. By

anticipating failure, you can do something about it when it knocks on your door. Instead of being caught flat-footed, you will be ready to take action when others are still wondering what happened.

Even when things are not under your control, when unanticipated events and challenges to your business hit you relentlessly and from every direction, you can *take* control.

Customer Failure

Imagine that you had an idea for a \$2,500 product with the strong potential to turn a significant portion of the fast-growing middle class of your country into customers. Sounds pretty good, right? Now imagine that the country we're talking about is India, and the potential market we're talking about numbers 300 million people.

If the product succeeds in India, then there's every reason to believe that it would do just as well in other countries, adding potentially billions of customers to the mix. This was the vision of Tata Group Chairman Ratan Tata, who envisioned the creation of a small, affordable "people's car" known as the Nano that would appeal directly to a large segment of India's population.

The hope was that at a price of 1 lakh rupees (about \$2,500 at the time)—for the base, no-frills model—would enable a significant number of people to trade in their uncomfortable and unsafe motor scooters for the more comfortable and safer Nano.

However, when Tata pulled the plug on the car 11 years after it was unveiled to the public, it had sold a fraction of that, just 300,000 units, with 70 percent of those sold within the first four years. Where did all those customers go?

What Went Wrong?

The Tata Nano had everything going for it—the personal support and vision of the powerful chairman of one of India's largest companies, the tried-and-true automotive technology that had been honed for more than a century, an inspiring social mission, and an untapped market of many millions of people. Yet the business failed.

The key reason behind the Nano's failure was that Tata Motors did not fully understand the needs of the customers it had targeted. Tata's managers were convinced they had a viable business idea, and so they designed the car, did the trade-offs, built the factory, and started marketing Nano

Always think in terms of, what is your offer? Is this the product offer that hits the bull's-eye and perfectly solves the customer's problem?

heavily. They jumped immediately from Ratan Tata's vision to execution of the product.

The company did not anticipate customer failure, and that doomed the Nano even before its tires hit the road for the very first time. If Tata staffers had spoken with more real customers, they would have found that their target demographic, first of all, cares a lot about their children's education. They care a lot about taking care of their older parents. They care a lot about buying a house. Buying a car is farther down the wish list.

People in this segment have many other things they want to buy before they start thinking about solving their transportation problem with a luxury item. To truly understand these concerns, you have to put yourself in your customer's shoes.

Coaching Through Customer Failure

The good news is that you don't have to fail when it comes to your customers. There are a variety of things you can and should do to anticipate customer failure and ensure it doesn't impede your success. Start with a hypothesis for your business. The hypothesis is usually, "There's a customer problem, and there's a product that solves that problem."

Next you'll create a business model to serve the customers you identify, but you must be careful not to step directly into execution. Verify and test each one of your hypotheses and iterate through them. Your goal is to fully understand,

- Is this a real problem?
- Is the problem threshold high enough that your target customers are really seeking a solution, or is it a minor inconvenience that they would be willing to live with forever?
- Are there enough customers with this problem?
- Is this a repeatable problem?
- What customer segments exist that have the problem?
- What other options exist to solve the problem?

Really get down to it in characterizing the problem, verifying

it, and making sure it fits with your hypotheses. If it doesn't fit, iterate. Always think in terms of, what is your offer? Is this the product offer that hits the bull's-eye and perfectly solves the customer's problem? If it doesn't, then try again.

Technology Failure

The Segway PT (Personal Transporter) was a marvel of technology: a two-wheeled, stand-up, single-rider electric scooter with a maximum range of 12 miles on a single charge at speeds up to 12.5 miles per hour. Introduced to the public in 2001 on ABC television's popular Good Morning America show, the product quickly captured the interest of the American public.

Inventor Dean Kamen billed the Segway PT as a replacement for automobiles, saying it "will be to the car what the car was to the horse and buggy." In 2002, Tobe Cohen, Segway's director of marketing and brand strategy, projected that the company would sell up to 100,000 units a year beginning in 2003.

In short, the Segway PT was poised to transform transportation as we knew it. That is, until it wasn't. The hype cycle soon wore off, and the reality of market adoption set in. The company struggled for many years to sell enough units to build a sustainable business. Segway finally pulled the plug on its electric standup scooter in 2020. Why didn't Segway's remarkable technology make it the winner it was predicted to be?

Not the Technology Itself

Yes, Segway's technology was amazing, but at a retail price of just under \$5,000, the Segway became a toy for well-heeled buyers, not ordinary consumers who either could not afford it or were afraid they would be making a life-and-death financial decision by buying one.

Beyond the high price of admission, the world was not yet ready to buy an electric vehicle—especially an electric vehicle with a range of just 12 miles on a good day and no protection of riders from the rain, wind, cold, and other elements.

The Segway PT lacked the infrastructure needed to truly transform transportation. The owners were pioneers who had to figure out where they could ride their vehicles, where they could recharge them, where they could park them, and so on.

Learning how to operate the scooter was a headache. Riding a Segway PT was different from riding a bicycle or motorcycle, requiring an entirely new set of skills. The first customers had to travel to regional training centers for lessons.

When we talk about technology failure, we are not focused on what innards the invention has and whether it actually works. Rather, we are talking about the cycle of adoption of technology where it really changes the world. The failure is failure of *adoption of the technology*.

The key point is that if you focus only on your own technology marvel, you may overlook the other factors that are required to make your technology successful in the marketplace. The adoption chain is just as important as the technology—perhaps even more so.

Coaching Through Technology Failure

The internal combustion engine, the microprocessor, and block-chain all were breakthrough technologies. The important thing to understand is the technology ecosystem. In order for your technology to be adopted successfully, the ecosystem involves who else needs to be on board, how you can empower the ecosystem or position yourself to reduce the risk of adoption failure, and how to enable people to get the full value of the new technology that you're creating.

“Build it, and they will come” is nothing but wishful thinking. If you allow yourself to be blinded by the brilliance of your technology and narrowly focused on execution in the market, you may fail to consider other innovations required for your technology to succeed.

Product Failure

The eventual winner in any category anticipates customer needs, starts with a compelling initial product, sees the future opportunity, and executes better than its competition on consistent progress. Let's consider some other notable examples.

Before Facebook became a worldwide social media phenomenon, with more than 2.7 billion monthly active users, there were MySpace—which was once the largest social networking site in the world—and Friendster. MySpace

quickly became an eyesore, an inconsistent hot mess with little structure. Friendster technology did not scale, degrading user experience with long page-load times and frequent service outages.

Facebook leaders took a different approach: curating their social network, building technology properly, improving rapidly to keep up with fickle consumer trends, and measuring impact all along the way. They readily admitted that they did not know what worked, but they continued, consistent with founder Mark Zuckerberg's motto: “Move fast and break things.” Then they relentlessly tracked the data on what people actually used, keeping what worked and discarding what did not.

Coaching Through Product Failure

How do you anticipate and avoid product failure? Let's start with first principles, and there is no better example than Steve Jobs and his response to a question at Apple's 1997 Worldwide Developer Conference. The question was about OpenDoc, a product that Apple once championed but Jobs killed after he returned to the company, first as a consultant and then as interim CEO.

The questioner was clearly peeved that Jobs had made the decision to kill OpenDoc, and he wanted to know the rationale. Jobs's response was timeless:

“You know, you can please some of the people some of the time. But one of the hardest things when you're trying to effect change is that people like this gentleman are right in some areas. I'm sure that there are some things OpenDoc does—probably even more that I'm not familiar with—that nothing else out there does. And I'm sure that you can make some demos, maybe a small commercial app, that demonstrates those things.”

“The hardest thing is, how does that fit into a cohesive larger vision that's gonna allow you to sell 8 billion dollars, 10 billion dollars of product a year? And one of the things I've always found is that you've got to start with the customer experience and work backward to the technology. You can't start with the technology and try to figure out where you're gonna try to sell it, and I've made this mistake probably more than anybody else in this room, and I've got the scar tissue to prove it, and I know that it's the case. You start with the customer, and not just one customer. You start with a need that a lot of customers might have.”

Avoiding product failure takes a lot of discipline to stay focused on what matters in serving the needs of a broad set

It's important for leaders and teams to keep in mind the next person they're going to recruit that is better than they are in some dimension.

of customers. If you look at the central tenet of how Jobs operated and what he learned as an entrepreneur, the art of innovation with products and doing something big is saying “no” to 99 things so that you can say “yes” to the one thing that will change everything.

Team Failure

When people think about the creation or invention of some new technology or product—especially a technology or product that becomes the basis of a transformative company—they often put their focus on one person. They might, for example, associate the emergence of the automobile industry with Henry Ford, or the invention of light bulbs with Thomas Edison, or the tremendous success of Apple Computer with Steve Jobs, or the global growth of Facebook with Mark Zuckerberg.

This is a mistake. While these individuals were instrumental in creating the inventions or companies they are associated with in the minds of the public, they didn't work alone. Each created a remarkable collection of talent, working together to achieve lofty goals.

The Traitorous Eight

One of the best examples in Silicon Valley is the group known as the “traitorous eight.” This was the group of eight people—Julius Blank, Victor Grinich, Jean Hoerni, Eugene Kleiner, Jay Last, Gordon Moore, Robert Noyce, and Sheldon Roberts—who left Shockley Semiconductor in 1957 to form their own company in Mountain View, California: Fairchild Semiconductor.

It was here that members of this team invented the first true monolithic integrated circuit—the foundation of modern-day computers. The true greatness of the traitorous eight was not recognized until much later when team members spun off and did great things elsewhere. They became the de facto startup incubator for Silicon Valley, directly or indirectly creating many other companies and sparking many other technologies and even venture capital.

In 1961, Jean Hoerni, Eugene Kleiner, Jay Last, and Shel-

don Roberts left Fairchild to join Amelco, which was then owned by Teledyne. In 1968, Gordon Moore and Robert Noyce left Fairchild to form NM Electronics, quickly re-named Intel. Eugene Kleiner eventually went on to found venture capital firm Kleiner Perkins Caufield & Byers, which funded numerous Silicon Valley startups, including Google, Sun Microsystems, Netscape, Genentech, and others.

Building Talent

How do you build such a remarkable collection of talent? Let's start with the basics. When you're in business-building or startup mode, you're going to double or triple the size of your organization every year. The job description of a team member you hire today probably will be different six months from now. Someone may be brought in to manage one product, and six months later they may manage 10 people and three products, and then it's going to grow from there. When you're hiring, you need to have plenty of runway or headroom.

Ideally, people grow with the company. But if they don't grow, you need the headroom to bring in others who will take you farther. The person who took you from \$1 million to \$10 million in revenue in a sales role may not be the person who takes you from \$10 million to \$100 million in revenue.

It's important for leaders and teams to keep in mind the next person they're going to recruit that is better than they are in some dimension. If you're running cloud engineering, how are you going to hire the next cloud engineer on your team who is better and knows more than you? That's how you strengthen your company, your bench, and your capabilities.

Finally, no new business, startup or otherwise, can afford to recruit people into key positions who are learning the basics on the job. Having top talent with both skills and runway in every key leadership role in a company is critical.

Timing Failure

We all know the old saying, “Timing is everything.” And while timing might not be everything, it is certainly an important part of the success of any business venture. Intro-

duce your new product or service too early, and customers won't be ready for it. Too late, and the battle for market share in a new category may already be over, and the barriers to entry too high.

Two Curves to Get Timing Right

Fundamentally, there is a right time for building massive success in a new business. That means there are many, many wrong times. Since none of us has a reliable crystal ball that will tell us when the right time is, we need to look at the data. There are two curves at work that determine whether the timing of your new venture is going to be right or wrong.

The first curve is technology capability at cost points attractive to the market. For a new product to be successful, different technology capabilities have to come together at a price point that meets the wallet of enough customers to make the business model work.

The second curve is market readiness. While you might have the technology capability to do some task—for example, to store your photos on a mobile device—if people aren't used to the idea of taking a digital photo, then they aren't going to buy a phone to take photos.

For a product to be successful, these two curves—technology capability at an attractive cost and market readiness—have to intersect. And when these two curves intersect, a window is created where it is the right time for a new product to come to market and for the company that introduced it to build market share.

The golden window of opportunity for smartphones was from 2000 to 2010. This was when all the technology and connectivity—as well as customer readiness and usage of the internet—intersected beautifully, and that's where the category leadership battles were fought.

When you are coming in before a window like this opens or after it closes, you're simply not in a position to win a significant market position. Every category of tech product has its own golden window of opportunity—from MP3 players to smartphones to enterprise software as a service (SaaS) to social networking to cloud computing.

Coaching Through Timing Failure

What steps do you take to identify market transitions and take advantage of them? And conversely, how do you avoid timing failure by being too early or too late?

Let's say you're a large company like Cisco. First, you must

have the radar out there to watch for these golden periods of market transitions. When you see something coming over the horizon, you must recognize that this is the time when market incumbents and losers will be established and when customers will be willing to switch. Therefore, this is the least expensive time to gain market share. Established companies have a hard time understanding and an even harder time pursuing this concept.

If you are a startup or an entrepreneur, then you're going to be willing to invest a lot in this type of window—even suffer heavy losses. You know that, in spite of all these losses, if the customers you acquire are valuable, and this is the only window where you can acquire them, then you can get a lifetime of profits from them.

If you don't have the capacity to compete early on, then you have to make a commitment either to acquire another company that's already in the market or to invest heavily in customer acquisition and product development.

Business Model Failure

Once you have found your customer, your product, and a match between the two, you'll likely be excited about your business opportunity. Make no mistake about it: Getting to this point is a real accomplishment. But once you've made it to this point, your business-building journey is not complete until you create a sustainable business model. This must be your focus.

Initially, it may or may not be clear what the business model is, and that's okay. In the initial period of uncertainty around the business, you need to have a hypothesis.

Three Levers

When you consider unit economics, you have three levers to work with: revenue, costs, and differentiation. Revenue and costs give you a snapshot of your financial position, while differentiation gives you a sense of sustainability. If you're able to make profits early on but you don't have loyalty or barriers, you're going to lose the business because other entrants will dilute your economics as they compete for market share.

Your job as you build your business is to consider each of these three levers. What are the sources of revenue? What are the sources of costs? What are the sources of differentiation? Then put all of these things together and see if your hypothesis holds on the unit economics. If it holds, then you have something in your hand. If it doesn't hold, spending a

Amazon faced execution failure on Christmas Day 2013, and as a consequence their customers were deeply disappointed.

lot of money is not going to get you where you want to go. You're not going to make it up in volume.

Revenue. From a revenue perspective, it's important to understand what would cap your upside. You might, for example, find some early adopters, but are you going to find enough mainstream adopters to keep that growth going?

Is it possible you'll encounter unanticipated interventions from regulatory agencies or have problems with cybersecurity or privacy? Those are unintended interventions into revenue growth, and you have to look into things with the potential for this kind of impact. You also have to keep making sure that you're delivering enough value to reach an increasing number of customers.

Cost. From a cost perspective, you want to get into all the costs of your product or service, not just one piece of it. What is your cost of customer acquisition? What is your cost of actually delivering that product or service on an ongoing basis and not just one particular transaction?

Are there going to be any third-party interventions? Will you need to share your economics with partners, and what are the costs of doing so?

Differentiation. Finally, from a differentiation perspective, why are you different, and how can you sustain this kind of profitable cycle of transacting? What are the barriers to entry, and do they make it difficult or easy for other people to enter? Is there customer loyalty? When you serve these customers, is there a reason for them to keep coming back to you?

Are you doing something in terms of a way to transact with the customer that's compelling for them? Are there switching costs once a customer adopts your product? Ultimately, differentiation and customer loyalty matter a lot to unit economics.

Netflix: A Business Model Success

A company that has an enviable combination of customer loyalty, barriers to entry, and a customer-friendly transaction model is Netflix.

In the early days, people hated Blockbuster, and they loved Netflix. They built customer loyalty because they didn't annoy their customers but, rather, gave great service. Even though it was not instant gratification, people wanted to go and transact again. They were willing to wait to get that DVD in the mail.

Similarly, instead of paying on a per-rental basis, Netflix offered a way to transact where you didn't have to think about it. They offered flat-fee subscriptions, and you could take as many DVDs as you wanted. They reduced this decision-making on a disc-by-disc basis into a set-it-once-and-forget-it type of thing. It was frictionless for customers.

One other thing was really important and different from Blockbuster: There were no charges for late fees. You could keep a DVD as long as you liked and return it whenever you wanted. At Blockbuster, if you were one minute late turning in your DVD, you were charged a late fee.

Remember: You can't defy the laws of gravity. You have to have a hypothesis. You need to break down your business model and unit economics to costs, revenue, and differentiation, and think through each category.

Execution Failure

Since the beginning, delighting customers has been a central tenet of Amazon's culture. During the 2013 holiday season, UPS was overwhelmed with an unprecedented and unexpected volume of packages from Amazon and other online retailers.

As a result, many Amazon packages scheduled to be delivered in time for Christmas Day gift giving were not, leading to numerous customer complaints. When all those packages arrived late, Amazon's customers were not delighted.

Amazon faced execution failure on Christmas Day 2013, and as a consequence their customers were deeply disappointed. Their leadership vowed it would never happen again. They realized that the only way to prevent a repeat fiasco would be to build their own delivery network, and they quickly set about doing just that.

When they began this new initiative, it seemed foolhardy for an online retailer—even one as large as Amazon—to replicate what UPS, FedEx, and DHL had spent decades creating and were already dominating.

By 2020, Amazon had become the fourth-largest U.S. delivery service, delivering more than half of its own packages to customers.

It's expected that Amazon will pass up both UPS and FedEx within a few years as it continues to invest heavily in expanding its transportation operations, including delivery trucks and even aircraft. In 2020, the company added 12 Boeing 767-300s to its Amazon Air cargo fleet, bringing it to more than 80 aircraft.

How did they do that? They turned execution failure into one of the most amazing feats ever of execution at scale. And they accomplished all this in just a few years—that's *transformational* execution. That's the reason why people fear Amazon and why Amazon is worth so much.

Four Aspects of Execution

When we say “execution,” what are we really talking about? There are four key ways that companies execute: focus, speed, relentlessness, and decision-making.

Focus is having clarity on what to do and what not to do and sticking with it. This requires having principles or criteria by which you are clear on what you're going to do and what you're not going to do. Saying “no” to many, many things so that you can say “yes” to what matters is the essence of focus.

Speed is moving quickly and with greater agility than the competition. If you can be faster in building the product, responding to what the customers want, building out a go-to-

market that's fit for purpose with the market opportunity, listening to customers, and incorporating their feedback in what you do, then that will differentiate you from everyone else.

Relentlessness is the idea that you're fighting the fight every day, over and over, and getting the details right—big and small. That kind of relentlessness also allows you to win segments of a large opportunity.

Decision-making is, of course, making choices between one course of action and another. In general, many people get the large decisions right. But then it breaks down into a number of micro decisions across the organization and getting a majority of them right. That's really the crux of what great execution is about.

There are hundreds of micro decisions to be made, and to execute and move the business forward, you need to get them right most of the time.

There's a seemingly limitless universe of opportunities out there waiting to be discovered, developed, and put into the hands of people who need them. People want to work for great organizations, with other talented and motivated people, and customers want to buy products they love, built by companies that share their ideals and values.

It's up to you to create these great organizations, to build products that people love, and to deliver the future.

By understanding how to anticipate the seven patterns of failure, you have gained the tools you need to become the ruler of your own destiny.



Lak Ananth is an Indian American venture capitalist who thrives on identifying industry-changing disruptions and acts on them as an investor in close collaboration with founders. He is the CEO and Managing Partner of the global venture capital firm Next47, which is backed by Siemens AG. Next47 partners with visionary founders from around the globe and serves them as they build companies that will profoundly advance how the world works. In addition to running Next47, he serves on the board of several companies that he has helped to grow beyond \$1B valuations.

From *Anticipate Failure: The Entrepreneur's Guide to Navigating Uncertainty, Avoiding Disaster, and Building a Successful Business* by Lak Ananth. Copyright © 2021 by Lak Ananth. Summarized by permission of the publisher, Ideapress Publishing. 185 pages, 978-1-6468-7072-1. Summary copyright © 2022 by Soundview Book Summaries ® www.summary.com, 1-800-SUMMARY.