

JAMIE PRIDE

UNICORN
TEARS



WHY STARTUPS FAIL
AND HOW TO AVOID IT

WILEY

CONTENTS

ABOUT THE AUTHOR	XIII
INTRODUCTION: THERE HAS TO BE A BETTER WAY!	XV
1 COUNTING THE COST	1
2 F IS FOR FAILURE	17
3 THE FOUNDER MYTH	33
4 IDEAS ARE CHEAP!	53
5 CASH IS KING	71
6 FOUNDER FITNESS	89
7 HOLLYWOOD GOT IT RIGHT	105
8 THE HOLLYWOOD METHOD™	119
9 FUNDING FITNESS	145
FINAL THOUGHTS	165
ACKNOWLEDGEMENTS	169
INDEX	171

INTRODUCTION

THERE HAS TO BE A BETTER WAY!

Over the past 20 years I have founded and funded numerous technology startups. During that time I have seen a clear pattern emerging: startup failure has become an accepted industry norm, and it has an impact that reaches far beyond financial loss to investors. Having experienced my own journey of failure as a founder more than once, I have felt the very real, deep, personal impact of that failure on me, my family and my colleagues.

As I sat at home, licking my wounds from my most recent startup failure, the thought of writing this book took hold — and it soon became an obsession for me. I started talking to founders, and what they shared with me didn't surprise me at all. Many of the first-time founders I spoke to were lost, with no map to guide them; even the more experienced founders, burnt out or stressed out, felt alone, isolated, with nowhere to turn for support. I was determined to write a book on startup failure *by a founder for founders*.

I quickly discovered that startup failure is ingrained in the ecosystem. Concepts such as 'fail fast', misunderstood and misapplied, are thrown around without much thought. The traditional venture capitalist approach to failure is to place a lot of bets on the understanding that,

while most ventures will fail, a very few may turn out to be ‘unicorns’ and return vast profits that will make up for all the losses. It is a very wasteful approach.

The financial waste in failed startups is fairly widely understood; less recognised is the largely unspoken issue of human waste. I’ve seen the dark side of startups: 49 per cent of founders in one survey reported some kind of mental health issue. By their own admission, more than 30 per cent of founders have experienced depression while 27 per cent have suffered serious anxiety. Founders are fatigued!

But isn’t the startup game meant to be fun, exciting and glamorous? Don’t we keep seeing successful startup founders smiling on the front pages of the business press, having completed their latest triumphant capital raising or IPO? The culture of ‘I’m crushing it’ makes it hard for founders to admit they are struggling.

The irony is that most startup failure is preventable. In its simplest form, startup failure is often a consequence of ‘self-harm’: rather than crumbling in the face of overwhelming external competition, startups typically implode. This is good news, because it means you can do something about it!

There is a better way. In this book you will learn:

- ▶ the three elements of startup DNA and how each one contributes to failure
- ▶ the 10 key reasons why startups fail
- ▶ how to become a fit founder, and why capacity is more important than capability
- ▶ how to develop the core founder characteristics of resilience, awareness and adaptability
- ▶ the myths that surround startups and how to bust them
- ▶ why Hollywood got it right, and the parallels between making a movie and founding a startup

- ▶ the Hollywood Method™, a structured approach to founding and building a startup
- ▶ the importance of investor-centred design, and how to develop your funding fitness program
- ▶ The 5 Ps of funding fitness and a surefire way to get your startup funded by the right investors, at the right valuation, in the shortest possible time.

So why should you listen to me? What do I know about startups? Well, in short, I've made a lot of mistakes so you don't have to. I have gone through the personal pain of startup failure. I've felt the sting of losing investors' money and the embarrassment and stress of large-scale public failure. And I'm still here. I can teach you the lessons I've learned firsthand.

Not only am I a founder, but I am also a venture capitalist. This gives me a unique perspective. I have sat on both sides of the table and have insights into how each player in the game thinks. I truly love what I do, and I am on a mission to help build better founders and a better venture capital ecosystem to support them.

You might say I am a misfit. I hope you can identify with that. Most founders I know are nonconformists. They don't thrive in the corporate world. They are passionately committed to bringing their ideas into the world, but they are struggling. It doesn't have to be that way. Founding a startup should be one of the most rewarding, exciting and challenging things you do in your life. I hope reading this book will help you enjoy those rewards and avoid your own unicorn tears.

CHAPTER 6

FOUNDER FITNESS

On 9 July 2015, I listed my first company on the Australian Stock Exchange (ASX). REFFIND, a human resources technology company, allowed businesses to better communicate with their employees. It had a web portal for company content and a mobile application for employees to use. I had founded the company in 2014 and had good early success with some high-profile customers.

At the time, some great technology companies listed on the ASX, so we decided to list our business through an Initial Public Offering (IPO). The next four months are a blur. I spent weeks travelling between Sydney, Melbourne, Hong Kong and Singapore briefing institutional investors on the IPO. I was packing in eight to ten meetings a day, not to mention countless lunches, dinners and drinks. To add to the load, I had to step in as interim CEO just before listing. On the day of listing, I weighed 120 kilos, felt like shit and was completely exhausted. Then the hard work began!

The IPO was a success: we raised the capital easily and were many times oversubscribed, meaning there was far more demand than stock available. In fact, we had more than \$50 million in demand and only \$8 million of stock available.

The stock performed well at first, but investors then sold off hard. Over the course of the 30 weeks following listing, our stock price

went from 20c to almost \$2 (reaching almost \$200 million in market capitalisation) and back again. It was the worst time of my professional career. As the saying goes, 'Success has many fathers; failure is an orphan.' We went from being a darling to a dog. And with that went a lot of things that I hadn't expected and certainly wasn't prepared for.

Firstly, I wasn't in good physical shape to deal with the stress. And stress there certainly was. Angry calls from investors, tough questions from the board and an increasingly hostile business press. And then there were the internet trolls — 'heroes' on discussion boards who are the best armchair generals in existence. I was spending more and more time in damage control, and less and less in managing the business. It had a huge personal impact on me.

It started with sleepless nights. I couldn't switch my mind off, constantly turning over what I should be doing. I was getting maybe two or three hours' sleep a night then getting up and working a 12- to 14-hour day. I became increasingly frustrated and angry at work and at home. Then came the death threats from nutcase investors. When your family is threatened, it puts things into perspective.

Things got progressively worse, and I started thinking dark thoughts. I felt I had no one to turn to. I was depressed and was self-medicating. The easiest way to get to sleep was to drink a bottle of wine every night. My board was hostile, though they had been all for the strategy when the stock price was going up. The stress and exhaustion were taking their toll. After six months, I was a physical and mental wreck. I had never felt this bad before. I felt like a failure at work and at home.

One night I was sitting on the lounge with my wife and was hit by massive chest pains. I couldn't breathe. I went to the emergency department at the Royal North Shore Hospital and was rushed to the cardio ward. I thought I was done for. After two days of tests, the results came back: I hadn't had a heart attack, but I did have acute pericarditis, which is an inflammation of the fibrous sac surrounding my heart. I was told it was most likely the result of

being run down. Two Nurofen later and I was right for discharge. I kid you not!

For me, this was a wake-up call. It was time to make a change. That crisis forced me to think about what was really important to me: my health, my family and things other than work. It was time to put my life into perspective. I took some time off and got a personal trainer — Dan Adair, an absolute legend. He kicked my arse and got my diet in order. I lost 30 kilos, did the run leg of a corporate triathlon and am now the fittest and healthiest I have ever been. Oh, and I resigned from REFFIND.

Although it had a terrible personal impact on both me and my family, this experience changed my life for the better. It taught me an enormous amount about what it takes to be physically, mentally and emotionally fit enough to run a startup. I learned it the hard way — firsthand.

THE STAKES ARE HIGH

When we think about startup failure, the first thing that comes to mind is the financial impact — investors losing their money, which is terrible. But we sometimes forget the human impact — on founders and on the teams they lead. I've experienced this personally. I know and have spoken with many other founders who face a tremendous amount of stress and pressure. They have put their personal reputations on the line with investors and with their teams. They must deal with the fear of failure, the risk of public embarrassment, negative articles in the press, even hostile investors showing up at their homes. I've known founders who are massively depressed, even suicidal.

But it's not only founders. Many people are affected. When startups fail, people lose their jobs. They must go home and tell their partner that the startup they were working for has gone under and they need to find a new job. Startup failure has an enormous human impact. Reducing it not only decreases financial loss but ensures we will

have founders and teams with innovative ideas who are willing to come back for a second try. We want to keep that talent in the startup ecosystem.

FOUNDER FATIGUE: THE ELEPHANT IN THE ROOM

Part of my motivation for writing this book is to call out the elephant in the room: I call it *founder fatigue*. It's almost taboo to talk about the human aspects of business, but they are real. I see founders struggling with this, thinking, 'Should I stay unemotional? Should I be impervious to this stress?' The reality is that most founders suffer stress in one form or another, and it's a lonely place to be if you don't have a support network around you.

To a certain degree, our business environment tries to take the human element out of the workplace. There are unspoken rules: no tears at work; you shouldn't even be angry at work. I suggest that's just impossible to achieve because businesses are full of human beings. But it's important to get out in front of it. When you put a small team in a high-pressure environment you can get a lot of conflict and toxicity. With the right mindset, on the other hand, you can have teams that work exceptionally well together.

Most first-time founders come from the corporate world, where companies usually shy away from this level of introspection. They don't have to deal with it. If you're in a company with 5000 people, there are so many cogs in the machine; there are processes and systems that buffer the organisation from the ebbs and flows of the individual's mood swings. One person's impact in a corporate environment is far less than it might be in a startup where the teams are small and each individual's contribution is much greater.

The conventional wisdom is that founders need to be like Apple's CEO, the late Steve Jobs, or the product architect of Tesla Motors, Elon Musk, or Facebook's Mark Zuckerberg. Idolised as they are, it

is easy to forget they are human beings with flaws and failings like everyone else.

EXTERNAL PRESSURE

Adding to the pressure that founders place on themselves is the pressure exerted on them by their boards and by investors. There is an unfortunate recurring theme in startups: many founders are dumped by their own boards or by the investors who initially backed them. This is far from uncommon. Steve Jobs (Apple), Travis Kalanick (Uber), Andrew Mason (Groupon), Jerry Yang (Yahoo), Rod Canion (Compaq) and Jack Dorsey (Twitter) are just a few examples.

Various reasons and justifications are given, some of them fair, some not. Sometimes they are just looking for a scapegoat or a change. Whatever the reality, this historical pattern means founders are often wary of their boards and their investors, and often obsess over control. It further cements the importance of choosing your boards and your investors wisely. Regardless of the reasons, it is a mistake to lose founder DNA from a company.

BE PREPARED

Being physically, mentally and emotionally ready as a founder is critically important. Long experience has taught me that an incredible amount of stress is placed on founders. If you're not physically and mentally ready for it, it can have a horrible personal impact. Insomnia, depression, anger, lashing out at others — if you're not ready for the pressure, the process of founding and operating a startup is going to suck.

As a founder, you are normally focused on your product, your business model, your team, the competition — everything but yourself. With 270 other things on your to-do list, reviewing your own strengths and weaknesses is usually the last thing on your mind.

I suggest you need to come first. It's all about being prepared. There is a motto in the military: 'Train hard; fight easy'. If you have thought through the challenges, and prepared for them, then the actual events will be way simpler to deal with. If you're ready, you'll be calmer, more energised and less stressed, and you'll be able to keep both your physical and mental wellbeing in a good place too.

Myth: You need to work 24/7

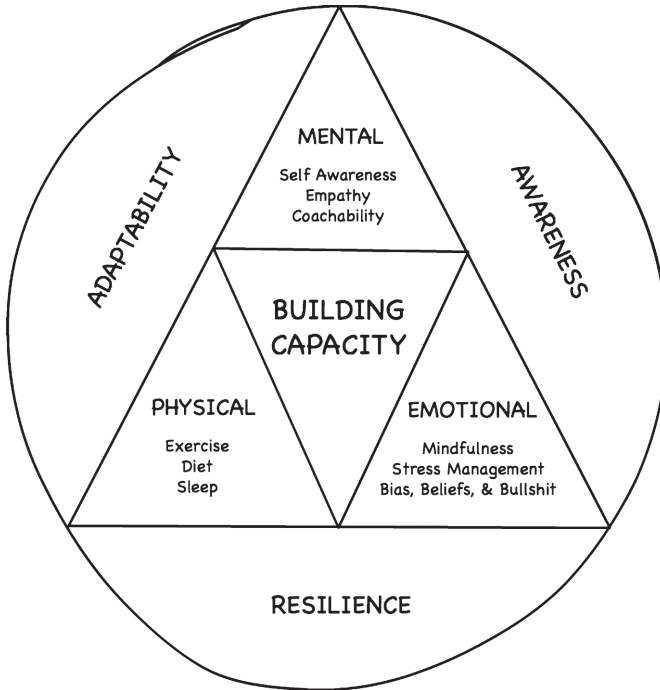
There is no doubt that startups are about hustle. It should be an endeavour that you're passionate about and want to spend significant amounts of time on. But too many founders burn themselves out. With founder fatigue you are no use to anyone — you can't lead your team effectively, and you won't make the best decisions. The startup community is moving away from the view that founders are expected to work themselves to the bone. Hustle, yes — just don't wipe yourself out.

CAPACITY + CAPABILITY = FOUNDER FITNESS

To be a great founder you need both capacity and capability. Often founders work only on building capability — that is, learning the specific skills they need to do the job. While having these skills is essential, having the capacity to go the distance is far more important. Capacity gives you reserves. It's your fuel tank. It provides you with a solid foundation on which to build skills.

The Founder Fitness model (figure 6.1) focuses on building capacity in three key areas:

- ▶ physical
- ▶ mental
- ▶ emotional.

FIGURE 6.1: FOUNDER FITNESS MODEL

LET'S GET PHYSICAL

Given the intensity and focus required to found a startup, a lot of entrepreneurs slip into the habit of ignoring their health and wellbeing. They stop exercising, eat poorly and operate on minimal sleep. It's crucial to be in great shape as a founder; you need your body to go the distance. Having been extremely unfit for a large part of my career, I know this firsthand. You don't need to become a professional athlete or gym junkie, but getting yourself in decent shape will serve you well.

You also need to give the 'startup diet' of beer and pizza a miss. It's so easy to cut corners and eat badly, cramming down something quick and easy at lunch, then countless dinners with investors and prospects, but it all adds inches to your waistline and means you'll

be lugging around more than just your new product ideas every day. It should go without saying that alcohol doesn't help either. I know from direct experience how founders use alcohol to self-medicate, whether to ease the stress or to drink themselves to sleep. It may work in the short term, but the next day you feel like crap. You can't run a successful startup with a perpetual hangover.

Last, but most important, is sleep. Many founders wear exhaustion like a badge of honour, boasting on how little sleep they get. Sleep is the wonder drug. You can't operate 24/7. Lack of sleep makes you irritable and means you will function well below your best. Get your sleep, even if it means taking a power nap during the day. I know I feel so much more creative and resilient when I am sleeping well.

EMPATHY IS THE NEW BLACK: MENTAL FITNESS

Some would say I don't mind picking a fight when it comes to challenging startup founders. In fact, I am looking to see how mentally fit they are. What best indicates mental fitness for me is *coachability*. When a founder pitches me a startup, I look for cues that indicate how coachable they are. It is a critical factor in determining whether or not I will invest.

Being coachable comes down to a number of factors. It starts with how self-aware you are. This quality often develops as you get older, but I have met many young self-aware founders who are coachable. How well do you know yourself and what makes you tick? What gets you out of bed in the morning? What are you good at and what drives you crazy? Are you self-aware enough to build a team around you who complement your strengths and offset your weaknesses? Can you keep your ego in check? Do you understand how you will deal with failure but also how to deal with success? I've seen success go to a founder's head, making them arrogant and unpleasant to work with.

In his bestselling book *Emotional Intelligence*, Dan Goleman discusses the concept of EQ, or emotional intelligence. People with high EQ have the ability to recognise their emotional responses and to manage and adapt them depending on the environment. They also have a high level of empathy, which can be defined as the ability to understand and share the feelings of others. A well-developed ability to empathise with others sets great startup founders apart. Being empathetic improves your ability to lead and motivate a team, and increases your capacity to craft a fantastic product for your customers through understanding the problem they are trying to solve.

Being coachable also manifests in how well you take criticism. One technique I often employ when being pitched to by founders is to criticise one aspect of their idea or business. The response is always enlightening. Some founders go straight on the offensive, hitting back without even listening to what I've said. Others fall silent. The answer I am looking for is 'Why do you think that?' I'm looking for a sense of curiosity and openness, as demonstrated by founders who try to understand *why* I am criticising their idea. Those founders are coachable. Being able to listen and respond to criticism will help your startup, especially if the critique is coming from someone who has experience in your field. It doesn't mean you can't be passionate. The world needs passionate founders. But if you are so passionate that you aren't willing to listen to feedback, you will leave a lot of great advice on the table.

This leads me to my pet hate when it comes to founder behavioural traits: arrogance combined with ignorance. When I come across a founder who is both inexperienced and arrogant, I run for the hills. There is no single clearer indicator that a founder will nuke a startup than this. It is a ridiculously dangerous combination. Founders who exhibit these traits are usually grounded in one or more of the startup myths. They underappreciate the skill and dedication that is required to be successful, and they have an ego that is out of control.

These founders are uncoachable and reckless, flying by the seat of their pants and destroying relationships both inside and outside of their company.

Life is way too short to work with these kinds of founders. Luckily most of them never get funding.

FEAR IS THE MIND KILLER: EMOTIONAL FITNESS

If there's one word that encapsulates the startup founder experience, it's fear. Fear of failure. Fear of disappointing your team and your investors. When you raise capital, many of your investors are investing in *you*, especially in the early stages of the business. They could be friends and family or well-regarded angel investors. You're putting yourself and your personal brand on the line. And others are trusting that you will be successful and won't let them down. I know what it's like to have people you know and care about lose money. It sucks.

It's exciting to be funded, but once you are it can be incredibly scary. You think the only way to quell that fear is to work around the clock like a complete lunatic. You feel a terrible burden and sense of responsibility. Just dealing with the fear can be a hurdle for some. You need to stay focused, confident that if you build a business on a solid idea and with a solid business model, you have a good chance of success.

Knowing that you're going to experience this fear is the first step. Don't worry. You're not alone. Everyone has a fear of failure, of disappointing people, of letting your team down. It's important to acknowledge the fear, but not to let it overwhelm you.

Sometimes the fear drives self-doubt. Are you good enough to do this? Mike Cannon-Brookes, co-founder of Atlassian (a fully

certified Unicorn), has spoken about *imposter syndrome*. At a recent TEDx talk he put it like this:

Have you ever felt out of your depth, like a fraud, and just kind of guessed-slash-bullshitted your way through the situation, petrified that at any time someone was going to call you on it? It's not a fear of failure. It's not a fear of being unable to do it. It's more a sensation of getting away with something, a fear of being discovered, that at any time someone is going to figure it out.

Successful or not, it's natural for startup founders sometimes to have a sense of self-doubt or anxiety. Dealing with it requires a combination of preparation and mental attitude. This book and other resources will help you build competence. Knowing the blueprint to building a successful startup will go a long way to reducing the anxiety you feel when you don't know what to do and are working in the dark. Develop a healthy mental attitude and resilience. That attitude is partly self-confidence, but self-awareness is even more important than confidence. Having the right mindset helps.

A FITNESS TEST

To help you prepare for what lies ahead, it's time for some hard questions. Here are 10 questions you should ask yourself:

1. How physically fit am I? Can I afford to lose some weight? When was the last time I went to a gym or did some exercise?
2. How good is my diet? Am I indulging in too many boozy work lunches? Do I eat comfort food when I am stressed?
3. What does my alcohol intake look like? Am I drinking too much to deal with the pressure?
4. Am I getting enough sleep? When was the last time I got a good night's sleep? Do I suffer from insomnia? Do I need to take pills to help me sleep?

5. How calm am I? Do I meditate? Am I willing to give it a try?
6. Do I have a hobby or outlet outside of work? Am I able to switch off or am I in a constant state of anxiety, waiting for the next email?
7. How are my relationships? Am I spending enough time with my partner and family and giving them the attention they deserve?
8. How have I historically dealt with stress and pressure? Can I recognise when I am stressed, and do I have strategies to deal with it?
9. How do I handle criticism? Am I open to it, or do I shut down and get defensive?
10. Have I ever suffered a major setback? How did I react to it? How did it affect me emotionally and physically? What did I learn from it?

Start with some introspection; it is good practice. How do you deal with a crisis? How do you deal with criticism? What leadership role are you going to play in a team? This is about developing your EQ and getting to know yourself better, and building self-awareness.

Then have some conversations with your family — your partner, your wife, your girlfriend, your husband. You might say, 'Hey, potentially this could be a very stressful time. I'm going to need your support.' Having these honest exchanges before things go too far can go a long way to protecting and even strengthening those relationships.

OVER TO YOU: 3 STEPS TO BECOMING A FITTER FOUNDER

As a founder, you need to look out for your fitness, both physical and mental. Your team and your investors are counting on you to go the distance, so spend time on yourself in order that you can help others. Here are three things you can do that will help you to build resilience, awareness and adaptability.

STEP 1: GET PHYSICALLY FIT

It's time to get a sweat on. You need a base level of physical fitness to run a startup. Eat a healthy diet, take regular exercise and get plenty of good-quality sleep at night. It's hard to deal with high levels of stress if you're not physically well. An honest assessment of your physical health is the place to start.

You don't have to become a triathlete, but starting a basic fitness program is going to help you tremendously. Join a gym — hire a personal trainer if you need that extra push — or just start walking every morning. Good eating habits are even more important. I've eaten countless of crap work lunches, washed down with bottles of red wine, that not only piled on the weight but slowed me down mentally.

You need to be physically fit enough to deal with the day-to-day demands you place on your body.

STEP 2: GET MENTALLY FIT

Stress test your mental and emotional fitness. How do you respond to criticism? How do you deal with stress? How have you dealt with stressful events in the past? Have you started a business before? What was the most stressful event in your life? Do you feel that you understand how difficult and stressful this is going to be? How have you dealt with past failure in your life?

Pause, reflect and clear yourself some mental space. The best way to do this is through meditation. If you haven't tried it before, I recommend it. You don't need to become a monk. Even 10 minutes of meditation a day can have a huge impact. There are great apps out there — my favourites are Headspace and Smiling Mind — apps that you can download onto your smartphone or tablet to make learning to meditate fun and easy.

Consider getting a life coach. Lots of people find it useful to talk things through regularly with a neutral person. It can be a great emotional and mental outlet. Choose someone who allows you to unload some of your issues and talk through decisions, fears and other worries, someone who won't be judgemental and who can provide an outside view.

STEP 3: SWITCH OFF

One important element in your overall wellness will be your ability to switch off. By their nature, most startup founders are obsessive compulsive and think about their business 24 hours a day and seven days a week. Most are adrenaline junkies who feed off the energy and fast tempo. But this constant state of mental alertness takes its toll. I understand this all too well, as I find it hugely difficult to switch off.

Top athletes know that to achieve peak performance they need to have rest days and an off-season that gives them time to recover and regenerate. It's no different in business. Running at

100 per cent for extended periods is not okay. As impossible as it may seem to you, you need to learn to switch off — at both a micro and a macro level.

What this means will differ for each person. Some people prefer to work in the evenings; some find their mornings more productive. Whatever your preferred working style, it's important to take some time away from work every single week to rest and recover. Devote this time to people and activities that aren't work related. Catch up with friends and family, pursue a hobby or sport — anything that allows you to switch off.

At a macro level, it's important to schedule regular annual holidays so you can reset. It usually takes me three or four days off work to even get to a place where I can enjoy a holiday. Make sure you take enough time off to be fully rested. Don't feel guilty about taking time off. Develop the mindset of a performance athlete, and when you return to work, you will be more refreshed and better positioned for the next big challenge.

RECAP

The more you know about yourself and how you react under pressure, the greater your chances of business success. How are you going to respond when things go bad? Learn more about yourself, so you can better interact with others and respond positively to events when things don't work out well in your startup. Self-awareness and preparation are the keys to successful relationships.

Understand that it's all about 'train hard, fight easy'. The more physically, mentally and emotionally fit you are going into a startup, then the better you will weather the inevitable storms. This preparation will give you the strength and confidence you need. You may even relish stressful events, rather than fearing them, because you will have the tools you need both to anticipate the issues and to deal with them effectively when they occur.

WHAT'S NEXT

In the next chapter, we're going to explore a practical process that will help you build your startup from the bottom up. It's a structure that will help you build a world-class business. And, strange as it may seem, we'll discover that there is a lot we can learn from Hollywood.