



Stanford eCorner

Achieving Grandiose Failure

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After five years of product build-out and \$40 million of capital, author Eric Ries shares his personal story of monumental startup failure. The important distinction that he draws is not that his company failed to execute. To the contrary, all went strictly to plan, hiring the best talent, releasing a well-tested application, and garnering ample media and user attention. But the fledgling enterprise was a monumental disaster because of "shadow beliefs" - a uniformly-held series of ideas the company never discussed or articulated. Among them, they believed that they knew what customers wanted, they erroneously believed they could predict the future, and they took solace in the idea that plan advancement equals measurable progress.



Transcript

I know none of you would do a plan like this. But maybe you have a friend, who's attempted this or may be thinking about attempting this in the future so let this be a lesson. Because we did something I called 'achieving failure'. We burned through about \$40 million building this company and after the five years of stealth R&D we failed pretty spectacularly. But what you got to understand: Nothing I say the rest of this lecture is going to make any sense at all if you don't grasp that we didn't fail to execute the plan. That was not our issue. We had a flawless execution. So we built a really amazing product, a really compelling technology; we did hire the best and the brightest and we had a great launch. We were in New York Times, Wall Street Journal, CNN, all right, all the right bloggers saying this is the future of the Internet. And we just had one small problem, which is that, although we got all these mainstream customers to try our product, none of them liked it.

And so we couldn't convert all that energy into a workable business. And so you ask, well how could all those smart people having worked on it for such a long time have come up with such a bad plan? It's because we were crippled by what I call "shadow beliefs". These are beliefs that were universally shared within the company, yet were never ever spoken out loud or ever written down. I'll share three of them with you right now. But first, that we know what customers want, which you have to believe that if you're going to devote a 120% of your time and energy into building a company. But the thing is, entrepreneurs have this ability - we call it the 'reality distortion field'. It's the ability to get people in their vicinity to believe things as if they were true. They're not strictly speaking or literally true. And one of those things is that people right now desperately need this new technology that we're building inside the reality distortion field. And I don't want you to get the idea that there's something wrong with that.

All entrepreneurs have it, good entrepreneurs, bad entrepreneurs. The issue is that there's another category of people that can use the reality distortion field and we call them 'crazy people'. All right. So if you want to create a cult, it's extremely useful to have the reality distortion field. So the crux of the issue is, how do you know if you're in a startup, and for those who were in a startup today, I know you're not in this situation but maybe you have a friend. Think about whether the vision that you're

following is the vision of a brilliant startup founder or of a crazy person. We'll get to have to tell the difference in a moment. Number 2, that we can accurately predict the future, which is something that crazy people sometimes do say, also startup founders. You ought to have a business plan if you're a startup and the business plan has to have spread sheet in the back in which you explain to your investors that in year five you'll make a hundred million dollars. Anybody, would like to admit to having that spread sheet in the back of their plan? Now, there's nothing wrong with having a spreadsheet in your business plan.

That's a good idea. The issue is, what happens when we start to believe those projections are literally true, like we're Nostradamus and we know what's going to happen. In startup number one, we had the spread sheet to say, in year one, we would have million simultaneous users, so on the engineering team, we were really excited while that means we need to build a serious, heavyweight architecture to support those million users when they show up. And of course when they didn't show up, not only how we wasted a lot of time on our architecture that no one was going to use, even worse we've lost the agility necessary to change that architecture because it was this big heavyweight monstrosity that was patent pending, but ultimately useless. And shadow belief number three is that advancing the plan is progress. When we're in conditions of extreme uncertainty and we don't know what to do, it's natural to just kind of fall back on what we can see and measure and the easiest thing to see and measure in a startup is milestones. So, in startup number one, we were very rigorous about making sure that we hit deadlines and we did what we said what we're going to do and we made the plan. And there's a reason why we were able to execute that good plan. We held everybody accountable for really doing good work. The only problem is we didn't have a mechanism for asking ourselves, "Is this plan any good? Is it worthwhile to advance it?"