

# Paid to fail

FOR THE VENTURE CAPITALIST, FAILURE COMES WITH THE JOB



MICHAEL GURAU | MANAGING GENERAL PARTNER OF CLEAR VENTURE PARTNERS

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Too much early success in a startup can be as challenging to manage as not enough success. You try to ramp quickly to meet your success and discover that your CEO doesn't have the experience to scale a juggernaut.”

As I was sitting with Nanocomp Technologies Inc. at the Mass High Tech All-Star Awards for innovation last October, I reflected on my life as an early-stage venture investor. Nanocomp is arguably on the verge of a tremendous value-building opportunity. If the company can continue to find resources for growth and maintain its lead, everyone — management, investors and employees — should do very well.

It is said that a venture capitalist spends more time bemoaning failures than celebrating wins. In part, I suspect, that is because there are statistically more of the former than the latter. Good early-stage VCs “bat .333,” with the few wins making up for the many losses.

While the probability of economics working out at a fund level can be viewed with some dispassion, and while the joys of emerging and prospective successes can mitigate the challenges of a nonperforming portfolio, the human drama of failure — both for investor and entrepreneur — tends to dominate mind-share. After all, the investor plants a lot of seeds, knowing some will grow and some will not. For the entrepreneur, it's one plant.

Sometimes, companies fail for exactly the reasons that investors project: A company was too early to market, so customers aren't ready to buy; a company is too late to market, and competitors got there ahead of you or crowded the market with offerings so your company's story can't be heard above the noise; or a company doesn't get the product out as planned, on schedule, and on cost, and burns through too much money generating too little revenue too late.

Then there's the random and the unexpected. The market goes into an unexpected recession — slamming all the companies whose business-

es are tied to economic health — high-end retail consumer products, advertising-based media models, enterprise software ... the list goes on. Or a key person quits, or has a heart attack, or does something stupid and has to leave. Sometimes the company can recover; sometimes it's a knife through the heart. Any number of things can take a great idea and a strong financial foundation and flush them both.

The failure that's hardest for investors comes when that failure can be tied to something I did or didn't do. Mind you, I am responsible for all of my investments, success or failure. Whether it's an entrepreneur that I overestimated, a plan I signed off on, a technology that didn't pan out, I own it. I'm the one that believed and put my chips down. I'm the one who watched and advised from the board, who worked outside the board to co-develop teams and plans.

But there have been a couple of times in my career when a company's failure could be attributed even more directly to my failure. On those occasions, I feel the sharp and lasting pang of knowing that I didn't act soon enough; that, had I done something differently (changed the CEO, fought against a spending plan, made a different strategic decision), the outcome might have been different. Situations like this are, for me, the most agonizing at a personal level. This has happened in situations where things were going poorly (and failure to act exacerbated that dynamic) and in situations where things were going really well. Too much early success in a startup can be as challenging to manage as not enough success. You try to ramp quickly to meet your success and discover that your CEO doesn't have the experience to scale a juggernaut. Or your CEO gets so full of herself as a result of early success that she no longer listens to her investors or board. Not fun.

Having been in the business 14 years, I find that the more I know, the more I know just how much I don't know. For me, that's a driver. It makes me want to learn more, do better, try again. Seems like that's what I've been doing since I learned to walk. Guess I should keep at it. **MIT**

MICHAEL GURAU IS A REGULAR COLUMNIST FOR MASS HIGH TECH. HE CAN BE REACHED AT MG@CLEARVCS.COM.