Why I failed

A guide of what not to do when starting your own business

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Revision 0

Introduction

They say expertise is having made every single mistake possible, well here's a place to organize my thoughts on what I have learned from driving a business into the ground and trying to make myself a bit more of an expert by that definition. I'm assuming anyone who is reading this is either me or someone interested in not repeating my mistakes. If you are reading this and you are someone other than me (or maybe even myself after a psychotic break), you're probably interested in being an entrepreneur since you're reading books about it, so we can consider this a baby step toward a bit more of expertise by hopefully avoiding mistakes in your future.

I'm a very enthusiastic person by nature and generally an optimist. That sort of "well, let's go do it!" attitude is what led me to entrepreneurship in the first place. I want to be clear that I'm in no way discouraging entrepreneurship and I share that psychological itch that needs scratching. I may start something else someday. Maybe sooner, maybe later, for the time being I'm healing the wounds from my mess where I need to fix the problems I caused to myself and the people closest to me both financially and through personal relationships.

Entrepreneurship is a wonderful thing, it should just be entrepreneurship done well. I've become very critical of a lot of the "motivation" industry as it's often people trying to hear what they want in order to convince themselves of what they already feel in trying to become a new Steve Jobs, Bill Gates, Jeff Bezos, or any other visionary that truly broke the mold when trying to create a sustainable business that fits well into the existing ecosystem. That said, I truly hope this isn't a demotivational text. It should be quite the opposite, in that I hope it does encourage you to go out and build what you want to see in the world! You've never heard of the vast majority of successful entrepreneurs and there are millions of them.

Most books will tell you exactly what you need to do, this isn't one of those books. I'm writing this because I failed miserably and now have to write this as a service to organize my own thoughts, but hopefully I can do some good in the world and help other people to avoid my pitfalls so when you go out and make your own vision into a reality, hopefully you won't make these mistakes.

Many of the lessons I state will seem exceedingly obvious. I'm sure you'll say to yourself "well, of course you shouldn't do that!" Obviously, I agree, but one of the biggest lessons to take away from all of this is just how hard it can be to see what is so obvious when you're in the middle of trying to make a successful business.

I will also try my best to avoid jargon and make this is in plain English. MBA's may be able to have an emotional response to "amortization schedules caused a liquidity trap", but most, non-cybernetic, people get lost in that sort of academic language compared to “my debt payments left me with no cash to operate” even though both conveying the same point. At the end of the day, I am interested in business (why I went all-in in the first place) and don’t mean to malign people who have studied business extensively. I have some very good friends who are MBA’s and assume they are also friends, at least so much as their electrical innards can process emotion.

A very important caveat in all of this is that my specific case is a reflection of my experience opening a restaurant located in Madrid, Spain and some of the details may matter quite a bit there (particularly when getting into things like taxes, licensing, etc…), though I’ll try to just avoid numbers where possible and make the lessons as generalized as possible so it doesn’t really matter if they are euros, pounds, dollars, or wampum. I am trying to make universal lessons as accessible as possible, but when it’s all said and done, I’m just trying to give my own cautionary tale.

Additionally, while I did start my business in the second half of 2019, I failed entirely on my own before anyone had even heard of a weird cough coming from China, and most people had no idea what a coronavirus was. That said, an important lesson in all of this is that there is absolutely zero chance I would have survived even if I had done everything correctly as events outside of my control quickly led to being in one of the most affected industries in one of the worst hit cities in the world during the outbreak.

As I’m writing this in English, I imagine that a lot of the audience will be in the English-speaking world, where there are very different specifics on how exactly a business may get started as well as different rules regarding the failure and dissolution of the business. But I must insist, this is a book on what not to do. If you’re looking for advice on how to start a business, you can just put this book down and grab the one immediately to the left, or to the right, or probably above and below it. Or just go ask that weird uncle you see every other year for the family holidays as there is no dearth of advice on how to get into business for yourself.

What I did wrong

So let's just dive right into exactly where I screwed up. I've been told books need some sort of happy ending to wrap things up, but this isn't a particularly happy story and I only hope that some of these words can help anyone reading to make a happy ending to all of this.

Capital

The very worst mistake, possibly enough to ensure failure all on its own, that was absolutely fatal to my plans was not having enough money to start my plans. Now this was compounded by plenty of other mistakes (and a business lesson book whose conclusion is “make money by having more money” with nothing else probably isn’t very interesting nor helpful).

So getting back to basics, when all I had was an inspiration to start a project that was to belong to me alone in order to provide something that the world wanted I was constantly reading material and going to talks, and get-togethers about what it takes.

The number one lesson from all of those was that you just have to get out there and start doing your own thing. “You’ll never achieve what you want from your cubicle.” “You’re going to be running circles around everyone who’s standing still.” The world is filled with these platitudes and they’re not strictly wrong, but it’s missing a very important point and the saying that rules them all.

“It takes money to make money.”

That is the platitude to rule all platitudes. It’s easy to just go out there and start if you’re just trying to work as a middle-man selling relationships for a finder’s fee. But even then you need to make sure you have your car/transportation lined up, money for wining and dining, website creation and maintenance, business cards, etc…. Even the cheapest start-up operations have capital requirements.

When you start, by definition, you won’t be making any money, so you have to figure out how to get over that hump. Now I know this seems glaringly obvious, and it really is a simple concept, but sometimes the simplest things are hard to see in practice. For my case in the restaurant business, it meant that I was going to get what I could with savings/loans/subsidies/etc… and move forward because doing anything else was letting myself get lapped by those who left the couch.

So I figured out my plans and said that they need to be going forward to matter what or I would be the one left behind and I wasn’t going to sit around and watch life pass me by. All in all an admirable sentiment, but with the wonderfully clarifying view of hindsight I was acting like a 32 year old teenager. My sentiments were all more or less correct, myheart was in the right place, but somehow when putting all the ideas together, the overall context just wasn’t right and no matter who told me, I knew what I had was special.

All of this is aided by the constant messaging that entrepreneurs are the ones who break society's norms in order to make something that then becomes something people can’t live without. This is, quite frankly, bullshit!

Entrepreneurs play within all the rules (well, as much as anyone else), and, in fact, usually have a separate and far more complex set of rules to abide by within society. While it's true that a good entrepreneur isn't afraid of risk, they also aren't thrill seekers. Understanding calculated risk and how to calculate that risk is probably the single most important aspect of starting a business.

This is such a fundamental step that I, of course, failed miserably at taking it into account. I'll get more into specifics in later sections about budgeting and cost control, but basically I ran some excels and got a rough idea of what I wanted to do with a little too much of "I can do that" and "how hard could it be?" in my head and decided that the project was primary and the money was secondary.

Any of you with any experience probably winced at that last sentence, but that's what happens with the result of all the propaganda of "just go make your project", some of us really start to believe it! Again, I'll get more into it later, but I started making so many decisions of "well, we'll just start doing it halfway" or "we can function without a sign" or things like that without even second guessing how they would affect my projections because I was moving forward with the money I had, and I thought if I wasn't going forward I was going backward.

If I had actually gone through and done my budgeting, contingencies, etc… I would have known that I was NOWHERE NEAR ready to launch the project with the idea I had in my head. But this book isn't called "Why I made great decisions!" now, is it?

Basically the concrete advice I can give for a first-timer is to take the amount of money you think you need from your spreadsheet, then double or even triple it. Then be sure you have another amount equal to what you think you need available in a reasonable line of credit (but be sure to add the debt payments to your cost projections. We'll get to that part). This advice is my lesson to myself from not having a deep understanding and experience in the industry, though this could certainly change if your history leads you to be an expert in costs for whatever business you are in (though contingency money is still almost certainly required).

Say your dream is a restaurant (using my own personal case here) and you think you can easily get the whole thing done for 50 grand. The first thing to understand is you almost certainly can't. So that means you should have 125 grand ready to invest, it can be from whatever source (partners, savings, that box of rare Hummel figurines you found in Great Aunt Mildred's attic and sold without telling anyone) just so long as that source doesn't have any sort of immediate, structured repayment. Taking a loan at this stage just makes it even harder since it hurts your costs.

So if you don't have the money, it's not the end of the world, you just might not own 100% of your idea. Still consider going out and finding business partners or other investors. In fact, it's probably a good idea to get a partner regardless. More on that later.

I feel like a lot of this might be heard as a soft criticism of the motivation industry as it exists and I really hope it isn't taken that way but rather as a very harsh rebuke. It feels like the whole of the "industry" is about telling the story of the founder who really knew better than all the people unwilling to invest and somehow came through. And if you truly have some revolutionary product, that may even be the case but for the vast majority of businesses, that story is nothing more than a siren's call leading you to tempt fate because really you know better (remember that part about acting like a 32 year old teenager?). If you can't convince professionals that you have a solid plan, there's often a very good reason why.

So of course, one of the primary ways I funded myself? That's right! A personal loan that ended up screwing me and then a business loan that I personally guaranteed that only added to my cost basis and ensured digging out of the hole would be even harder.

Which brings us nicely to our next chapter…

“Accurate” Budgeting and Cost Control

So, you have this idea in your head and you just can’t get rid of it. You spend all your time at your desk distracted and filling out spreadsheets of exactly how you’d carry out your dreams and just how much cash you need. Yes, I’ve been there and playing those fantasies was one of the few ways I got through the days at a job I found deeply unsatisfying.

I thought I was being extremely realistic by even going out and talking with real estate agents and contractors about rents and renovations and shopping around for what my equipment costs are. I knew it couldn’t be *that* hard, just look at how many people have successfully done it, and even if not, I’ll learn along the way and being a business owner is all about rolling with the punches anyway.

I took my spreadsheets that I had worked on and made a crude idea of a business plan (that I didn’t really know how to make) and decided I was going to quit my job and really go for it to turn those lifeless documents into something real.. I had an itch that there was no other way to scratch, a way to make a product that would easily be better than the others on the market and I was ready to go.

The problems started from the beginning and will link heavily to the next chapter but the first step was to find a storefront for my restaurant. Now this could be a piece of equipment or any other big expensive thing you need to finally make your dream a reality.

Well in my case it turned out that the real estate market was very difficult for renters. I knew the neighborhood I needed to be in but the best properties were getting taken up by people buying them and restaurants with minimal renovation requirements were almost all functioning establishments looking to buy the whole operation. I found a couple of places that I could have made with a renovation into what I needed. Of course the worse place was in a much less desirable location as well as having very little space. It also cost way less. I found a place that was in the ideal location and would have worked perfectly in my mind.

I consulted with an architect and contractor for the renovation and realized with the deposit and the renovation I wouldn’t have enough money so I went and got a personal loan on top of my initial investment. After that I realized I only had the money to get half done (see the capitalization chapter). I figured any business has obstacles and I’ll get it operational to start generating the money and just use that to pay off the rest. A bit of effort but easily doable.

Well… where to even start analyzing what went wrong here?

The first mistake was that when establishing my budgets I didn’t actually stick to it because I found the world to be different from what I saw. The correct thing to do at that point is to back off and reevaluate the plan, but I was committed and this project was going to take off come hell or high water.

As it happens, the more expensive location was probably the correct choice in order for a successful operation, but I didn't go back and reevaluate the money I needed. I figured I'd just get more and more money as I needed it.

So to be even more succinct, the first main lesson of this particular mistake was that the budget exists for a reason. Remember that you were the one to put that budget together in the first place. Just like building a whole shopping mall may make financial sense, but you can't do it with the amount of money you have, there are options all along that continuum that are more expensive than you can afford even if they'd make sense to someone with more money.

But there's even more to unpack from this one! The idea of getting the additional money from the loan also increases my monthly costs that weren't in the budget. Be it personal or business, at the end of the day, that has to get paid back every month in order to keep on operating. So my fundamental idea of "just get more money" was so screwed up because every time I needed it, I just made the sustainability of the business worse by increasing the fixed costs and requiring more money, ad infinitum.

Even some of the things I did right were wrong. I was obsessed with the marginal costs and making sure I was doing everything right to keep the cost of each unit I was serving down. Honestly, it's a good way to approach an organization that's already up and running sustainably and may be one of my biggest lessons that you just fundamentally have to approach a new business in a very different way compared to an existing business. Cost control is fundamental to both but *which* costs exactly matters a lot.

My obsession with marginal costs came at the expense of the bigger picture and capital costs. I cared more about getting each unit out cheaper than lowering my overall cash expenditure. When starting, the important thing is to keep your cash as much as possible rather than trying to make sure every little thing is optimized.

The other thing I did terribly when budgeting was not taking into account some very basic tax situations. As my project was in Spain, there was a VAT included with all purchases. For people who haven't had to deal with it in a business setting, basically, it's different from a sales tax since it gets added to every purchase and counts as a refundable tax credit against the VAT you charge when you sell. The result being that all my cost projections were "correct" but didn't account for all the extra cash I had to pay out for the taxes involved even though it theoretically belonged to me, but the government felt they were a much better caretaker of that money leaving me unable to access the money. Not having a firm grip of the taxes I had to pay in my budget absolutely killed my liquidity and drove me into insolvency before it was even possible to recover.

So not only did I play fast and loose with my budgeting, I was budgeting in theory not based on actual cash and changing my budgets constantly because everyone has to “adjust”, but like I said, I’d just make the money up once I opened which brings us to...

Revenue Expectations

The most important aspect of a business is how you get money into your accounts. Both profitability and cash flow. For some businesses this can be complicated for others it's simple. In my case of a restaurant, it's very simple in that people come in, they pay and voilà, you have an income stream.

In my case I figured I was in a popular area and so I should just take the amount of tables, add some amount of unused space (in my case I thought it was 20%). Calculate the amount of time I thought it would take to eat a meal and assume we'd turn the table immediately during an entire meal time.

Again, I just made anyone who has been in the restaurant business cringe as that's oh so wrong but the lesson is much more generalizable. Yet again, there's so much to unpack with what I did wrong here.

So let's go with lesson number one. I wasn't so naïve to think that I'd open my doors and everyone would instantly receive me with open arms. I did think that the word of mouth would function amazingly fast and with just a bit of pounding pavement to let the neighborhood know I was there, there'd be no issue in getting people in the door since I had such a superior valued product. Besides, I could just cover up the difference with a bit more money until it stabilized (see how these chapters are cumulative?).

Well I was actually not THAT wrong in this case, though in the next chapter I will dive deeper into part of what went wrong there. I did have a wonderful customer base that was more or less stable within a couple weeks of opening. I realize now that that was a fluke but even more importantly that some of my assumptions about *how* people would eat at my restaurant would work.

First I was very intentionally near a university with an economic meal option. Great idea, right?! Well there are a few main issues with it. The first is that trying to go for that market segment meant that many students would try to figure out the cheapest way they could eat and not order anything extra and still be occupying a table, and the second was that they would often use the time to socialize and stay at the table rather than eat and leave. Finally, the classes had a very defined break period so while I would have a very busy lunch rush, it was bounded by the class schedule. On top of that, the busy lunch rush from the students mostly trying to spend as little as possible crowded out other people who may have been willing to spend more.

When all was said and done I was overestimating the amount most people would spend, underestimating the time they'd spend occupying a table and overestimating just how many people would come in through the entire lunch period. With all my previous errors, this meant I was seeing plenty of people interested in coming in and then seeing the lack of space and walking away. All the accumulation of being undercapitalized and not budgeting correctly leaving me paying for space I was completely unable to use which limited my growth.

All of these previous errors impacted my assessment of how much I could make which made all my previous problems so much worse. It meant I was stuck in a spiral with more expenses than I was making in a particularly cash heavy business.

What I should have done before deciding to jump into anything was just spend days sitting in the neighborhood with a counter and literally count the people walking past the place I was interested in renting. Go and spend a few hours in all the nearby restaurants every day to see exactly what sort of pattern people follow when eating. I'd have seen the very clear spikes and understood the punctual nature of the demand. If I'd have eavesdropped on many orders I would have noticed people trying to calculate exactly how to get the lowest price.

To be more general, this is the true meaning of the oft abused cliché "the customer is always right". It's become a cudgel for retail managers to force teenagers to take abuse from unruly customers but it can actually become a lot more prescient when zooming out a bit. It really means that you need to meet the demand that's out there in the way it currently exists. There's a 99.9999% chance you're not a Steve Jobs and introducing a new product won't revolutionize the world and change the nature of consumer demand.

My thought of figuring out a revenue expectation was just mostly guesswork and you had to try it to find out for real was technically true and therefore gave me the worst kind of confidence. The thing is guesswork is valuable and the more you put into that guess, the more the estimation is actually worth something.

Regardless, I had my solid customer base that was coming in but I still needed more, which leads into how I honestly had no marketing or growth plan. I mentioned before that I had a great product and that I thought all I had to do was get a few people to come in and the word would spread like wildfire. Plus that and being on social media would help to get the word out and I'd have every table filled in no time.

Of course this was completely wrong and I needed some way to increase sales over time. Once I got to my solid base, things just kind of stabilized and went from there.

As far as advice for what to do right, on this point all I can say is that there is a wealth of knowledge from people who do know what they are doing and each business has such differing needs for marketing that it's impossible to give a catch-all piece of advice.

Just be sure you have a plan for growth, but as I'm about to go into in the next chapter, don't get out over your skis.

Future growth is in the future

Here we are again with an inflated sense of what the operation could be. Since I was sure I was going to have my tables full and we'd be going full steam ahead, I figured we needed to be sure we'd never be behind on capacity. My brain was constantly thinking of how great my restaurant would be. All the problems I'd have to solve as we would open more locations, have to deal with supplying more quantity, how exactly I was going to manage a successful franchise business.

So in the beginning I hired twice the number of people I should have, but this wasn't a problem because I was just preparing for what was coming. As you read in the previous section this was wrong, wrong, wrong!

So now I further exacerbated my costs without the revenues coming in but it got worse and worse. As an example, I bought a machine to make my operation more efficient without doing any sort of capital cost analysis. I figured it's going to all catch up anyway and it's something I'd clearly need. Yet again thinking I could just get more money if I needed it (yes, this magic money tree just always seemed to exist in my mind)

All along I was so positive that having the best product out there would mean I was just surfing a wave of growth and I was just getting out ahead of it. It didn't help that part of my everyday listening was podcasts and stories of other successful founders and there are cases where what I'm saying can be the case, but it's definitely not the norm. Especially their stories of surviving a cash crisis or some other hardship. Sometimes it's not a gauntlet to lead to greater victory, it's just a challenge. It's worth considering survivorship bias in all of those interviews.

While I'm not saying entrepreneurship is all luck (this whole exercise in writing is about how it can be screwed up, after all) sometimes there certainly is an element of luck involved and especially often so in the most incredible success stories. Everyone would understand how ridiculous it is to interview lottery winners about how lottery tickets are the best investment one could make, but because of the nature of start ups, nobody thinks about it that way.

I really don't want to denigrate the hard work involved in any successful company, as it's truly all-consuming, just remember that creating an unsuccessful company is also hard work and all-consuming. Think of the work involved as the oil in a sautée, it's just a necessary ingredient and isn't indicative of success or failure. Working smarter and not screwing things up, not harder is the key.

Anyway, back to my story…. At the end of the day, I was accumulating more and more costs than I was bringing in. So now we're adding another layer on top of all the other mistakes. I didn't have enough money to begin with, my costs were higher than I anticipated and with lower revenues. And I thought it was all okay because surely being the best meant that I just needed to hold out a little longer.

I will add that the burgers we sold were truly very, very good. Nearly universally positively received. I am still proud of the quality of what we did, but another reminder that you can always build a better mousetrap, but you can't make a business selling it if it costs too much to make.

The lesson to take away from all of this is that while all the messaging out there is that entrepreneurs are the ones who can see what needs to exist in the future, once you have an operation, your job is to react to what is happening on the ground. And be stubborn to move for anything that costs money. If you need 4 people, you should be doing that job with 2 until you absolutely cannot avoid it any longer. If you need to mechanize a process, keep doing it manually until you just cannot keep sustaining, etc..

Now, this means you will be up to your eyeballs in the day-to-day running of the business so keep in mind the next lesson...

Don’t get distracted by the daily operations

For someone predisposed to entrepreneurship, finally grabbing the reins and running a business that’s actually generating money is absolutely exhilarating and electrifying. You feel you are finally out there proving to everyone what you knew to be the case all along.

This is especially true in a retail environment where sales can be coming in faster or slower but that it’s a game of scale and getting more and more people in the door. Nothing can feel better than a rush of people coming in knowing that you’re going to get a spike in your daily numbers.

In my case I got a good idea of what a good day and a bad day was for us based on what we were actually selling and then just constantly chased those good days. If we then had a bad day, I’d get out there and decide I just needed to work harder to get more people aware and in the door and it would often work.

So here’s the major problem with that. I was so engrossed with making sure it was running well every day, I never took the time to step back to see how that was compared with what we needed. All I cared about is that today was better than yesterday and when it wasn’t how to make sure it was. As it turns out, we might have been viable if every day was as good as our best days, but even then it would have been questionable.

Yet again, it seems so obvious in retrospect but one of the constant themes of all of this is how easy it is to get lost in the daily highs and lows of running a small business. All of my previous errors helped to make the situation worse. By being undercapitalized, I didn’t have the money to be able to hire someone to manage daily operations and take the losses while things got going. By not understanding my expenses and my revenue and not taking time to revise what was going on I quickly built a house of cards.

I knew I was having a hard time hitting payroll and I was missing a rent payment when I finally sat down to see exactly what was going on. It was a week from actually laying out exactly what all my problems were until I didn’t have the liquidity to keep operating. Everything fell so fast and it was a whirlwind of fear, anxiety, and everything else going over every bad decision I had made (and when I started to write all of this).

The lack of a strategic vision in lieu of chasing the daily high prevented me from seeing the problem so much sooner and perhaps there would have been a course correction, I suspect not, but it’s a pointless counterfactual now.

I can say that this error was more of an effect than a cause, but it did cause me to be a bad leader of what I had created. This is a short chapter because it’s a simple lesson, and my concrete advice is that global goals are important and monitoring progress with respect to them is even more so. You should set aside time either by yourself if it’s just you or with whomever is an important stakeholder (if you have a general manager, for example) to go over exactly what you are getting right and wrong and how to fix it.

That pretty much ends the chronological segment of how selling a great product managed to come crashing down but it by no means ends the lessons learned. Several more critical errors contributed to the downfall and to making the damage of that collapse even worse, so let’s start with those...

Didn’t have a deep understanding of the industry

One of my biggest mistakes was thinking that I understood things that I didn’t. When I decided to open a restaurant I dove in head first into understanding all I could about the food service industry, the business side of things in particular. I realized how much of the cost of a restaurant is spoilage and made a model that minimized any form of waste. I tried to emulate successful businesses that I admired and shared their vision.

But at the end of the day, it was all just words on paper, getting it to reality required a level of experience I just didn’t have since I had only previously ever just worked in a kitchen (and a non-commercial kitchen at that). There is no substitute for real experience managing a real commercial food operation. Restaurants/Bars seem to be a particularly enticing siren’s call for people to try their hand at running their own business.

Well, as you are well aware, it didn’t work out for me. This isn’t an academic work and I’m not trying to cite sources but I’ve seen research saying that restaurants have a much higher failure rate to saying they fail at a rate more or less equivalent to other service businesses. I honestly don’t know and at this point, don’t particularly care as my failure rate is currently at 100%.

And just as my personal situation affects me, it’s worth remembering that overall trends can influence things but at the end of the day if you start a business it will either fail, flounder or succeed regardless of what the overall trends are.

To ensure success, you don’t need to be the best, but you need to be pretty damned good at what you are dedicating yourself to or else you can easily find yourself making mistakes that put you behind the curve all along your trajectory. And most importantly, those small mistakes can be cumulative. Once you’re a little behind and then err a bit more, then you’re a bit more behind and before long there’s no hope.

It’s important to know the details of what you are doing backwards and forwards. I had a vague idea of what my cost structure should be in terms of overall percentages, but I needed to have been around restaurants much more. You should be able to know what a good revenue day and a bad revenue day is.

As mentioned previously, I was overly optimistic and a huge part of that was pretending my spreadsheet was reality. I had no experience or basis to be able to say if the results passed any sort of smell test (hint: they didn’t) in knowing how much I should expect to be bringing in in revenue.

We all love the stories of the founders who were learning some basic aspects of running their business while everything was growing like mad around them, but those tend to be from the “unicorns” and they’re called unicorns for a reason.

Understand that for nearly all businesses, it’s all about keeping the fundamentals together and those fundamentals depend on having a deep understanding of what you’re doing. The twenty something in over their head is a trope that’s not really true and is notable because of how exceptionally rare it is, but understand that it isn’t the norm.

Going it alone (Understanding the needs of the business)

I had a grand idea and knew exactly what it could be. I knew it would be a ton of hours, but I'm relatively young and full of vitality so I could handle it. Well, I couldn't. Knowing what sort of help you need from the very beginning is absolutely necessary. I should have looked around and realized almost no restaurants are 100% by a single person. It's an industry with absolutely grueling hours and as I mentioned in the previous chapter, basically impossible to keep up with strategy and daily management when operating 7 days a week.

In my case I needed a partner from day one. I doubt I'd be writing this book if I had done that. The biggest case for a business partner is to keep you from your own worst impulses. In my case, it should have been someone who understood all the errors I've talked about up until now and made sure we had more capital, had a solid grip on our costs, understood where revenue was coming from, kept spending for the future in check, etc…

This partner also would be able to share the hours and responsibilities. The idea that you always need to just push harder and it's more than commendable to never take any time off is another trope pushed by the motivation industry. At the end of the day though, it leaves you with no mental acuity to actually be able to handle the bigger questions involved. There's also the financial factor that, especially when starting a single extra salary can make or break a company so having someone willing to share the risks and rewards willing to work all the time required as well can be the difference of having a successful or unsuccessful cost base.

So many of the most iconic entrepreneurs were often partnerships. So many times for every Steve Jobs, there's a Steve Wozniak right there by their side performing a crucial role. And so many of those personalities have complementing traits. Very analytical people may need someone more prone to action to prevent analysis paralysis. People who excel in product development may need help on marketing and sales, et cetera, et cetera.

Of course all of this depends one exactly what you're doing, a partner may not be necessary for trying to provide some sort of remote service from home where you can take weekends off and grow a side project slowly. I will say that if you are on a project that requires a capital investment and/or going full time, then it's very likely you'll need a partner.

The most important part of having a business partner, though, is being required to actually talk through and have to convince someone else about important decisions. Conflicts are inevitable, but the life skill of being able to talk through disagreements goes far beyond entrepreneurship. Having that important check is one of the best ways to save you from the parts of yourself that can be hard to see in the mirror that may be negative or positive traits, but can cloud judgement regardless. So try to find someone with complementing skills and personality rather than someone who will just always agree with you. It also makes you much more immediately accountable for both your good and your bad decisions.

Don’t throw outside money in (keep chasing the dragon)

As I have continually said, I was so sure that all I needed was to just keep going to make my investment back and was so enthralled with the daily operations that it just didn’t even occur to me the massive avalanche of misery that was just accumulating on such a weak foundation. In hindsight, it’s painfully obvious, but in the moment of daily operations it’s so easy to lose that perspective and it becomes addictive to just keep it going.

And I don’t use the term addiction lightly, the heat of the moment is such a high and you can do everything you can to keep from losing it. And those good days really make it such a rush that you just keep going to maintain it. Doing all you can to avoid the inevitable crash of the bad days and pain of any sort of realization of just how far gone the situation is. It can easily become just any other activity looking for a dopamine rush like from alcohol or drugs but also from exercising, cleaning, or other positive things that can be a problem if you become dependent on them.

Now this is basically a corollary to the maintaining a budget section, but my experiences and the psychology behind it really make it worth providing its own section.

In my case I ran out of liquidity and I thought that “no problem, I can just put it on a credit card and when everything starts making money I’ll pay myself back”. Well, if it’s not clear how well that ended at this point, I suggest you reread the title.

The thing is that, yet again, this is so obviously wrong when seen with the cold light of day but I was completely blind to just how wrong I was in the moment. It’s like any addiction, it starts with just a little bit 50€ here or there and that’s no big deal. Then the quantities slowly grow and it’s just a logic of ‘in for a penny, in for a pound’ and you just keep going. It’s so easy to see no other option because that would be admitting you failed.

All of this isn’t to say any new business won’t ever need additional funds, but that should go hand in hand with your budget. The advantage of being an entrepreneur/small business is you can be agile. So if you suddenly figure out that your business is short on cash, you need to stop and reevaluate everything. But it needs to be evaluated! Just thinking “oh just a bit more” and keep on feeding the beast without seeing how it affects your global position is a recipe for disaster.

In my case, I should have never even gotten to opening, but I just kept going after it because I knew what I had needed to exist in the world and nobody could tell me different. Isn’t that the whole point of opening a business, after all? Well the answer is of course a “yes, but…” and that means it has to be done well and planned for. Altering the plan little by little is just adding more and more layers to the house of cards that will eventually come crashing down.

As I mentioned elsewhere, every little bit extra I put in not only had the immediate cost but the opportunity cost of not being able to survive the loss-making starting period (though in my spectacular failure I doubt I would have ever gotten to break-even as I outlined in my revenue section). Also I was adding to my debt load and causing my monthly expenses to go up every time and just further making the situation worse, so sure of my success just from being in the game that it would come back.

So the takeaway is that continually feeding a loss-making venture with no definite plan on how to go forward is a sure way to just lose even more money. You have to have a clear plan and know when to say stop and if your plan isn't working and be able to make any decision based on that rather than just a constant need to "move forward".

Deviate from your Plan

I had a grand plan for how I was going to become a major player in the restaurant world. It all seemed so possible with just working incredibly hard and incremental growth that I'd soon be able to get exactly what I was after. I knew exactly the market I was after and how I was going to get it.

I intentionally set up near a university as younger people were the prime demographic that I was after. But the revenues I needed just weren't coming in, but I thought I just needed to work a little harder and market more. The fact is due to all my other errors, it was just going to be impossible and I may have even been able to reassess my approach had I realized it early on but I just kept going with a roadmap I had created in my head.

Unfortunately, real life doesn't develop like in all the fantasy scenarios you lay out in your head while laying in bed trying to fall asleep.

I was so laser focused on achieving what I knew in my bones to be possible that I was unable to see that I was just plain wrong in how I was going about things. I was clearly spending more than I could have hoped to make and needed a way to either cut costs or increase revenue urgently through any reasonable understanding of my cash situation. But I constantly thought the problem was that I wasn't working hard enough, I needed more marketing and it was just a matter of time until I was proven right.

I mentioned before about the true meaning of "the customer is always right" and it's worth revisiting how it has nothing to do with a retail manager indulging an entitled idiot, but 'the customer' should be understood as a collective noun, the real people that will buy what you are selling and what you need to give them. The concept is the real world implementation of the grand abstraction of "demand".

In my case, I was a burger restaurant, which meant I opened for lunch and dinner. The thing that I hoped would be my saving grace was being a block away from a university campus. Indeed, I did get tons of students but I missed an important issue that many students didn't actually live near the campus I was near so that demand was really only during a couple hours at lunch. However, during mid morning breaks, everyone nearby was filled with people getting coffee. I knew this but stubbornly thought that just wasn't my business and didn't get a coffee machine to open early, something that would have been ridiculously easy to change to drastically increase revenue.

By the time I realized what I should have done, it was far too late and my cash situation was beyond critical. It almost certainly wouldn't have been enough given everything else I did wrong, but it was a dumb mistake. Most importantly I *knew* that running a successful business required flexibility. I *knew* that you have to offer what the people are looking to buy and can't force people into something else. But all of that went out the window when it came to the tunnel vision of my focus.

Understanding that things change or may have never been what you thought in the first place and you have to adapt is something every successful business owner will tell you and my inability to recognize that is part of the reason I’m an unsuccessful business owner.

But a bigger lesson (that will get fleshed out later) that should be delivered with the subtlety of a sledgehammer through a window is that knowing these things intellectually is so very different than being able to actually see it when you are in the weeds every day.

Only play with what you're willing to lose

'To the victor go the spoils.' 'No risk. No reward.' We all know the phrases that you have to actually be willing to lose something in order to win something. But it's important to know what exactly you can lose and accept the real risk and understand exactly what risks you are taking.

Risking your skin is something necessary for all entrepreneurs. You absolutely have to be willing to fail to create success, but it's all too easy to take that feeling and just feel like it's any other risky activity like water skiing with great white sharks. The thing is in business there is risk and there is rashness. The difference between risk and rashness is that risk can be measured. At the end of the day if it's 'risk', 'exposure', 'liability' or any other term to describe the same idea, the important thing is to understand to quantify it into the resources you have available that the business will eat up, mainly money and time.

As is clear at this point, when I went all in on the business, I didn't maintain a backup plan for what to do if it didn't actually work perfectly. I completely gambled my future thinking it would be even better motivation to ensure my success and, of course, managed to lose everything.

So I won't go into the idea of actually calculating risk. There's plenty of other books for that and it can vary wildly depending on the type of business you are in and so it stops being a general lesson. Though, in the end the important thing is to take the number you get and just imagine you no longer have it. That is what risk should be and feel like (yes it's all about quantifying it but the emotion behind it is just as important).

That amount should be your initial investment, and, as I've mentioned, I was bad about maintaining that investment. But even if I hadn't been, I wouldn't have been able to maintain my personal expenses and goals without the money I had initially planned on investing. I was so sure that what I had would provide for me that it didn't matter, I just had to make it so it would start to pay back no matter the cost, but my hubris has been pretty well established at this point.

The takeaway here is after you have done all your spreadsheets and figured out how much money you need to invest (and remember from the capitalization chapter that it should be way more than your estimates), if you imagine that as the cost for your adventure, is it *really* worth it? If it isn't, then you're not ready no matter how badly you might want to be.

Even if everything is done correctly, there's still going to be a risk of failure. I opened in the second half of 2019 and the idea of planning for a global pandemic that would hit the service sector particularly hard just seemed like something out of a disaster movie. But the fact is if we look to history for our guide, there's plenty of times an external shock is unexpected and would destroy business. Over the last few hundred years there's going to be a real chance of some massive event happening that is out of your control so no matter how well you plan, you have to be ready to lose everything you put in.

So what do you do if you have a burning desire to own your own business but don't have enough money? It's simple with three options, either you figure out some other way to lower the capital costs by doing something different, you find more money through an investor willing to take a share of the business, or you don't go forward. Figure out a way to freelance in the industry you're interested in. Find a different model that doesn't require as much cash expenditure. Quite simply, start smaller. Less investment will almost certainly mean less money coming in, but you want to be a burning coal that lasts a long time rather than the match that burns bright but quickly burns itself out.

Understand the possible outcomes

It's been well established that I was, well...cocky. I knew I was right and wouldn't hear otherwise from anyone. But in the end, I figured I'd make a company and that would limit any possible damages because of the idea of limited liability. I couldn't possibly end up with even more damage than what I put in, right?

I'm guessing at this point the answer to that question is exceedingly obvious and I just didn't understand the mechanics of how a company fails. After all, limited liability is one of the most important principles of capitalism, so it seemed impossible to end up even worse than my worst possible imagined outcome, even once I was operating, it was only a fleeting possibility of an idea and not the massive success I was sure the project was going to become.

I will say that there is a huge caveat that my specific example is based on my experience in Spain where laws can be quite different, particularly to common law systems where most of the people reading this in English will be from. Regardless there is still quite a generalizable lesson here about the scope of possible options that can happen.

So what happened to me? Once it was all clear that my vision of conquering the restaurant world was going to end and it was time to pull the plug, I figured I'd just get a lawyer to file the statement and then have to sell off assets that I could then use to pay the lawyer, I did have quite a lot of money owed to the company in tax rebates and equipment I could sell.

Well, the first thing to happen was something that is smack-me-in-the-face obvious now, but just didn't even occur to me before. Of course any lawyer willing to handle a case of a company going under is going to want payment in cash up front. The whole point is there's no money and it's not something you can handle without legal training, so the only solution is to somehow find the liquid cash and pay them.

So that was obviously a problem but I went and consulted with the lawyer and was told an unrealistic set of deadlines for how it would work and exactly where the money would go.On top of that, there was going to be a lengthy process for administration that would have to be overseen by a judge and the administrator.

I was given two options, basically to be able to come up with a large amount of money (way more than I had), or that the company would just continue existing as a sort of zombie entity perpetually and I could end up personally liable and I'd not be able to have assets in my own name (at least in Spain).

Considering at this point I had already lost everything, the second option seemed the only way possible. But I do have quite strong personal ties in Spain and it just seemed like an unviable way to live for years and years to come. This is where there is a bit of deus ex machina in the story to save me from the worst consequences of my own actions. My family was able to lend me enough money to hire the lawyer and get the process started. I fully recognize that I was in a very lucky position as not everyone can get thousands of dollars from their family in an emergency, but I am very thankful for the assistance at a critical time.

So now that the business of declaring the company insolvent was underway it would just be a short time before I was off to figure out what’s next. Yet again I was completely wrong. I ended up waiting for around 8 months unable to do much of anything and get a start on my next chapter in life. In the meantime the Covid-19 pandemic quickly became the global protagonist and further limited my options. Most types of people who start their own business would share a characteristic, that sitting at home for months only able to look for work is truly demoralizing.

So what should you take away from my cautionary tale? Basically you need to understand the possible ways your business can fail and what that will cost in both time and money. Get an idea of what the cost of administering a failed business is and be sure to have that amount of money set aside as well.

Understanding these options also helps with understanding the full risk I mentioned in the previous chapter. It can be crucial to understanding how you want to structure starting your endeavor. For example, if you are just starting with a small amount of capital and not much liability risk, it can be far better to just start as a freelance sole proprietor rather than incorporate as if it fails, you can just walk away.

Finally, you should know what you will do with yourself if you fail. It can be extremely difficult for a person to be busy all the time and with the responsibility to keep going and suddenly find yourself doing nothing. Everyone dreams of a break from responsibilities, but just ask most people who have been unemployed, being forced to do nothing feels more like a prison than a vacation taken on your own terms.

Work constantly

I was up early and to bed late every single day. I managed to take a day off for my wife's birthday but aside from that I rarely saw her. I knew that getting my project off the ground would take lots of work, and restaurants are infamous for being more than usual.

One slow night I had a customer come in and give a good parable about the need for a bit of rest. I wish I could remember his name to give proper credit, but just suffice to say that I still think about it well over a year later. So here is the parable of the lumberjack:

A lumberjack is looking for a new crew and stumbles upon a camp that's operating pretty well. He sticks around for a few days and sees that the average lumberjack is felling 10 trees a day and thinks he can surely be better. He goes to the foreman to join the crew and the foreman says, "You can be paid either $9 per tree or $100 per day as a flat rate". The lumberjack knows that the flat rate is better at the rate he's seen, but he's so sure he can do better he takes the rate per tree.

On day 1 he's determined to show off what he can do and does, in fact, meet his expectation of getting 20 trees felled in a single day. The rest of the crew congratulate him around the campfire and just say "Well, let's see tomorrow."

The second day comes and while the rest of the crew continues at their usual rate of 10 per day, the new lumberjack is still able to fell 20 trees. The scene around the campfire continues with the crew congratulating the new arrival and yet again they say "Well, let's see tomorrow." Our lumberjack is confused as he's clearly shown that his vigor and strategy and whatever else has allowed him to perform so well has gotten him nearly twice the money as the rest of the crew, yet they don't seem motivated.

The third day comes and this time our enthusiastic newcomer is only able to fell 16 trees. While not as good, he's still feeling happy since he's coming out ahead and the scene repeats again around the campfire.

On day four, despite all his best efforts he's only able to get 10 trees just like the rest of the crew. Sitting around the fire he knows he's come out with less money for the day for the same result, but it's okay since he can just double down again tomorrow and get right back on top.

The fifth day comes, and our ax man in plaid is determined to show every bit of fervor of the first day or more. He puts all his effort into taming the forest yet at the end of the day, has only 7 trees to his name.

At this point he knows that there is something seriously amiss as surely his ability or effort can't have changed very much in just a few days. That night he tells the crew chief "I just don't understand. I know I've been putting in all the work I need and I was getting everything I wanted at the beginning." The chief calmly responds back "You've taken no time to sharpen your ax."

The allegory is a good illustration of the idea that we need to stay sharp with whatever it is we use as our tool. It's all too often that it's a mental game and you need to keep your thinking sharp, and it really is easy to burnout. You can maintain a week, a month, even two months of a sprint of constant work but eventually your ability to keep going will have an issue either physically or mentally. Taking the time to rest is truly important.

All of that said, there is no substitute for putting the hours in making sure a business gets off the ground. You are the ultimate last word on everything that gets done and no employee will ever care about the business like you care about it and you absolutely need to be on top of everything.

Owning a restaurant is a stereotype for putting in a lot of hours for a reason and I was putting in even more than average. At some point I was so emotionally stressed that I just started bawling when I was in private. In the end, I think my mistake wasn't so much the amount of hours I put in, but a mistaken model without a business partner (as I discussed) that forced me into a situation where I would have absolutely no time off for anything that wasn't directly related to the business.

The lesson to take out of this is that you should know what you need to take care of yourself and plan accordingly and also be willing to put in the extra it takes to run things. In my case I'd lean more toward failing in this column than having done it right, but I'm not entirely sure and this is an area where there is certainly a spectrum rather than just outright failure.

Dealing with the emotion/personal relationships/psychology

I figure I should bookend the things I did wrong with the two most important mistakes that were the bedrock for every other mistake. I opened with undercapitalization and now I am talking about the emotions and psychology behind the whole process. At the end of the day this may be even more important than the original sin of not enough money in the beginning as I was completely unprepared for what it would do to my mental wellbeing.

As I've said, I'm fully aware that many of the mistakes I'm guilty of seem exceedingly obvious from afar and obviously they're quite clear to me as well at this point. I made the drug metaphor elsewhere but it really can be an addiction to just keep going and think you know what the way forward must be. Stopping means failure so you have to keep going forward no matter what, damn the consequences.

Part of initially making the decision to become an entrepreneur requires a bit of ego and confidence that you know better than what currently exists. A problem that can easily lead to overconfidence and overzealousness. Maybe you think that part of your personality doesn't exist, but if you want to take the leap of faith, you will almost always find there is a bit of that dark underbelly that comes from the necessary idea that "you know best". It can be very hard to thread the needle between confidence and arrogance.

All the previous chapters are completely influenced by being mentally unready for the challenge. I figured I'd put myself in a sink or swim situation and force myself to rise to the occasion, unfortunately the end result of that when completely unprepared is, all too often, sinking.

The running theme throughout this narrative has been my personal hubris in thinking that I truly had a handle on things while they were spiralling out of control beneath my nose. But the bigger question is how did I actually let that happen?

I certainly don't consider myself a dumb person, but I fell into some of the most basic psychological traps that can lead to poor decisions. The main issue was denial of the problem in the first place. That sort of self-delusion can be a very powerful force and worst of all, you never know it's something you are doing. All I can say is it's incredibly easy to fall prey to only hearing what you want to and only seeing things that can confirm your understanding and just ignoring the things that don't.

Day in and day out I was bombarded with so much information that I was able to fit any narrative I wanted to the story and since I *knew* that success was just around the corner despite the obvious signs, I chose to see other signs as obvious. On top of that was the psychological side of the chapter about getting caught up in daily operations. The ups and downs of a good versus a bad day were so visceral that it was easy to just be exhausted emotionally from that and not have time to even worry about bigger picture items, which I really needed to be.

My emotional failures certainly didn't end with poor decisions in operating the business; they pursued me well after the project had reached its end. As I had staked my own personal self-worth on the success of my project, I became overly emotionally invested. It's absolutely true that an entrepreneur must care deeply about whatever project it is they are working on. That's what provides the motivation to get through hard times. But you absolutely cannot think of the success of the project as a litmus test to determine your own worth.

When I failed, I went through a deep depression that was partially caused (yes mental health issues are incredibly complex and have many causes) by the thinking that if my project was worthless, I was worthless, too. Just as I said you need to be willing to lose what you put in financially, you have to be ready to lose mentally, too. I'm not saying it shouldn't hurt, but there's a world of difference between being upset and hurt and thinking that your life has no worth.

In fact it got so bad that I found myself suicidal. I had decided to take my life on March 11, 2020. In a cruel twist of fate from the universe, the world falling apart due to a pandemic that caused so much pain to others prevented me from going through with my plan that would cause pain to those close to me.

For many months I went through basically being unable to function and looking for a job to put the pieces together in a world that was falling apart around me. I was completely unable to go to the storefront to see the graffitied shutters that were the physical reminder of my failure as a person. As a result of that, I missed plenty of official mail that meant that all of the assets within the restaurant also ended up with the owner and managed to lose several thousand more I could have used to pay off debts.

The lesson: Start small and understand your own limits. You should feel uncomfortable when starting your project, as that does mean you are growing personally. But you should make sure that you aren't totally in over your head. The difficult part is knowing what is taking on too much and what is something reasonable.

A good metaphor is taking off the training wheels of a child's bicycle. The first time the child is frightened of the possibilities, but that is necessary to learn the skills necessary to ride the bike independently. At the same time, the training wheels are necessary to start to learn the necessary skills to ride the bike in the first place. By the time you take them off, the little one has gotten used to how the pedals make the bike move, how the handlebars are used to steer, how the whole thing feels more generally, etc… So the final step is much more incremental than just going all in on a sink-or-swim gamble to be able to do it all at once.

Additionally, you need someone you trust as either a partner or someone who can tell you where your blind spots are. Especially for your first time trying, there is such a massive amount of skills needed, that you won't even know your own weaknesses. Though one of the hardest things with working with a partner is being able to listen and give weight to what they are saying against your own opinions. This will almost certainly create conflict, but conflict is not necessarily a bad thing so long as it’s handled well and with respect.

What it all means

To tie it all together the lessons I learned are often inherent contradictions. Most notably how to maintain humility and understand you may almost certainly be wrong while at the same performing an action of starting the business that means you think you can do things better. I was so sure of myself that I missed the problems both staring me in the face and those that I was actively creating.

In order to have a successful business it needs to have a good plan and that plan has to be in accordance with how much you’re risking. It’s one thing to try your hand at selling some services in your spare time without much additional cost. In that case you have little on the line so just going for it and seeing if there’s any interest may not be the worst idea. If you are betting a significant amount of money, then yeah...you’d better have a damned good plan, and be ready to deviate significantly from it.

You also need to know yourself and know your own weaknesses. This can be the hardest thing to see for any number of reasons that make us fallible as humans, from the familiarity of not realizing how much of a problem a personal trait is to straight-up denial and being psychologically incapable of recognizing a problem. It’s absolutely necessary to get support from others, ideally a business partner for the business parts, but also a spouse, friends, family, etc... The experience has helped me realize how businesses really are part of a community and that community is extremely necessary for success *and* for failure.

Personally, I’m on track to getting things right in my life from all of my errors and writing out an autopsy of my failure is a big part of it