THE UPSIDE OF FAILU

Turning uh-oh into a-ha!

We all fail. Some of us linger over our failures, examining the wreckage of what might have been, while others sail on toward new ventures (and new failures) without being anchored to old regrets. Why do some people emerge from failure stronger? How do they recover from setbacks to reach new heights of success? What is the secret of the phoenix that emerges from the flames?

"Too many failures to count." That's how Gary Hoover describes his experience with failure in business. From the outside looking in, that may seem hard to believe. Hoover made his name by starting one good company after another. Bookstop, one of the first book superstore chains, was an early success. Hoover opened its doors in 1982, and seven years later, Barnes and Noble bought the company on its way to becoming the country's dominant retail bookseller. His next venture, the Reference Press, a small business information publisher, opened in 1990. It evolved into Hoover's, Inc. (where I have worked for nearly a decade) and went public in 1999. Dun and Bradstreet bought the company in 2003.

Two successful startups and multimillion dollar buyouts are more than most people can claim in a lifetime. But for Hoover, the first entrepreneur-in-residence at the Herb Kelleher Center for Entrepreneurship in the McCombs School, things haven't always been this rosy. He is candid about his failures and their impact on him, both personally and professionally.

"The biggest one [came] when my third 'child,' TravelFest Superstores, went down," he says. TravelFest, which opened in 1993, had three stores that sold tickets, reservations, luggage, books, maps and travel accessories—and won industry awards. "More importantly," Hoover adds, "customers loved us and we were really cranking [out] the revenues."

Then disaster struck. "Our largest business was airline tickets," Hoover says, "and one day the airlines up and decided they no longer needed travel agents—especially leisure agencies like us—and cut out the commissions paid to agencies." Hoover took emergency measures that went well beyond the four walls of TravelFest; among other things, he stopped taking a paycheck and "borrowed to the hilt" on the house he owned on Lake Austin. Selling the TravelFest stores to a competitor saved the jobs of the company's employees—for about a year. "I had thrown everything into this. What Hoover's stock I had not given away, I sold or borrowed against to make TravelFest work."

By Tim Walker

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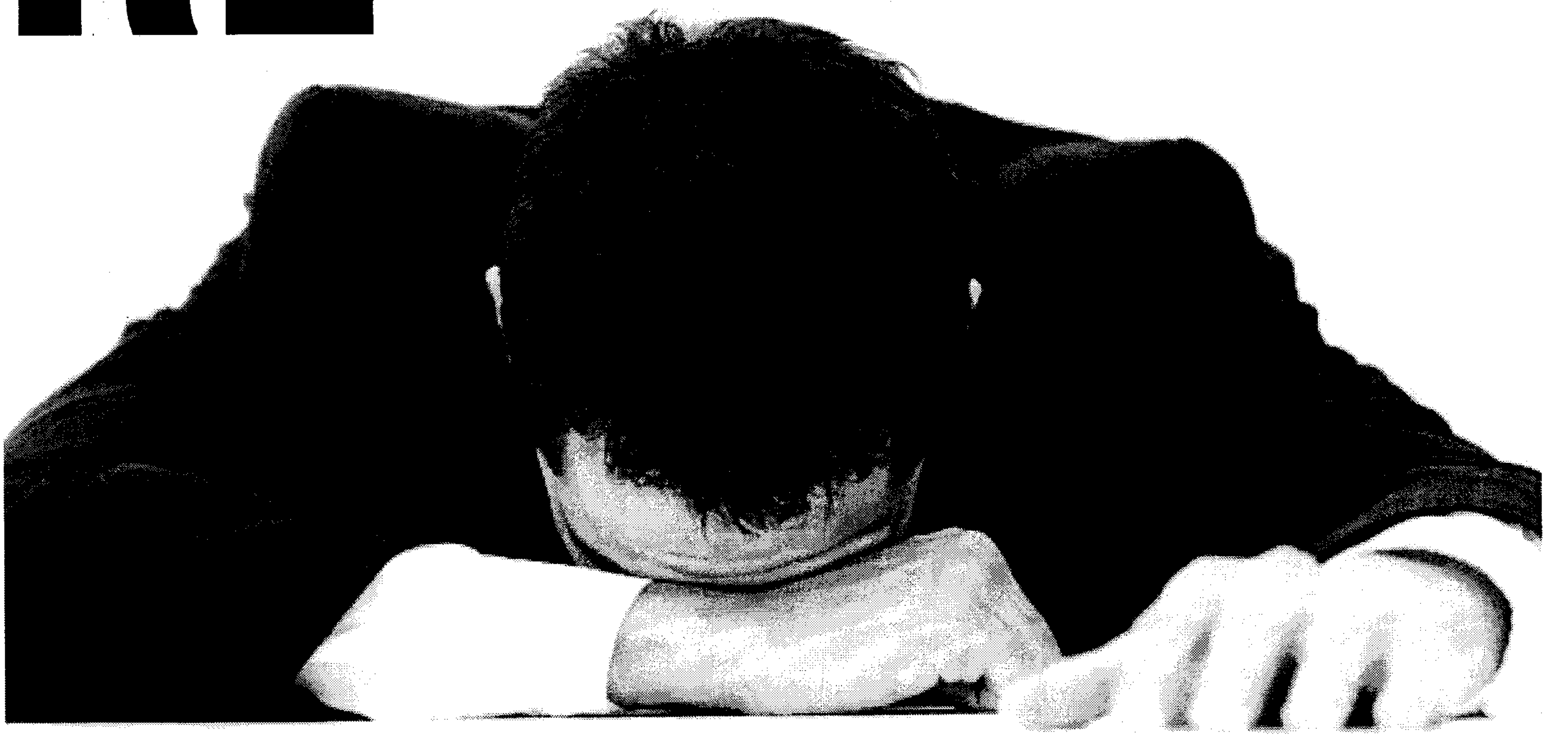


But after six years the business folded.

The impact of the company's failure on Hoover himself was hardly over. "When Hoover's was sold for over $100 million, I got about $60,000, all of which was owed to other folks," he says. Hoover had borrowed $1 million to try to save TravelFest. He narrowly escaped personal bankruptcy and sold the big house on the lake. In the end, TravelFest lost more than $12 million of investors' money. Hoover summarizes the whole experience sardonically: "That was not what I would call 'fun'."

What keeps someone going after a setback like that? Talk to Hoover or any other successful businessperson, and you'll hear failure stories to make your hair stand on end—whether the subject is New Coke or the Ford Edsel or Apple's Newton tablet. But you'll also detect a parallel theme of resilience tied to self-belief. "I think most all successful people have the ability to bounce back," Hoover says. "What makes you go on especially strongly is your inner fire and confidence."

> **“Success consists of going from failure to failure without loss of enthusiasm.”**
>
> — Winston Churchill

PASSION BUILDS RESILIENCE

With the benefit of more than 20 years' hindsight, Hoover eloquently recalls another of his most trying periods in business and how he got through it: "When Bookstop, my first company, went through what entrepreneurs call 'the valley of death'—being flat broke and not sure how you will meet payroll—what made me go on was my belief in the big bookstore idea (I knew I was right, no matter what), and my belief that we were doing a major public service by bringing more authors and more publishers to more people for less money." Anyone else might not have persisted with Bookstop as Hoover did in those days, because no one else was so emotionally invested in that belief.

That emotional investment—call it passion—gives entrepreneurs and other businesspeople the ability to persist and bounce back even through a string of failures. According to Rob Adams, McCombs management lecturer and director of the Moot Corp business plan competition, "The real secret to success is a series of fast failures." Entrepreneurs in particular must expect that many of their ventures won't pan out, yet not allow these failures to derail them. "You get thrown off the horse, the best thing to do is to get up and get right back on it," adds Adams, author of the forthcoming book "If You Build It Will They Come? Three Steps to Test and Validate Any Market Opportunity" (Wiley 2010).

Many of those who do "get back on the horse" credit a consuming passion for their work as their motivation. Trent Thurman, MBA '94, director of the Texas Evening MBA program and himself an entrepreneur, describes passion as "where it all begins," adding that "without it, the chances for success are slim." Thurman uses his younger self as a negative example of the role of passion in business. In his first venture, he and his business partner—both with demanding corporate jobs—wanted to run a coin-operated laundry as absentee owners. But they lacked passion for the business, and a nightmare ensued.

"Over the course of roughly two years," Thurman says, "we dealt with almost daily equipment failures, vandalism, theft, extremely high turnover and mounting debt." He adds, "It definitely wasn't my proudest moment when the police told me our business was a known gang hangout and a popular rendezvous for prostitution and drug deals." Finally they wised up and sold the laundry to a woman who was prepared to give it her full attention.

Contrast this to Gary Hoover's work with Bookstop and TravelFest. Even though the two companies met very different ends, passion was central to Hoover's experience with both. In the case of Bookstop, he says, "there was only one way to achieve my goal of building a great bookstore enterprise, and that meant sticking with it through thick and thin." In the same vein, the worse things got at TravelFest, the more of himself he poured into the company. He takes solace in the fact that, even as the company went under, "I could always look myself in the mirror and know that I had given it my all," he says.

Jay Drayer, BBA '86, casts his passion in terms of a "calling." He founded Houston-based CareFlash to make it easier for loved ones to coordinate medical care for chronically ill patients by using social-media technology. The issue is hardly an abstract one for him: he began to formulate the business plan for the company while sitting in an ICU ward trying to coordinate care for his ailing father-in-law. His passion for this calling was enough to make him walk away from a successful career as a CFO and consultant for companies in the energy and software sectors. Although his analytical side believed that the company would make money, he admits that "there was a bit of irrationality...that led me to jump into it." Even in the company's lean days, his connection to this calling allowed him to press on "in the absence of certainty" that the idea would work.

FACE THE TRUTH, LEARN FROM MISTAKES

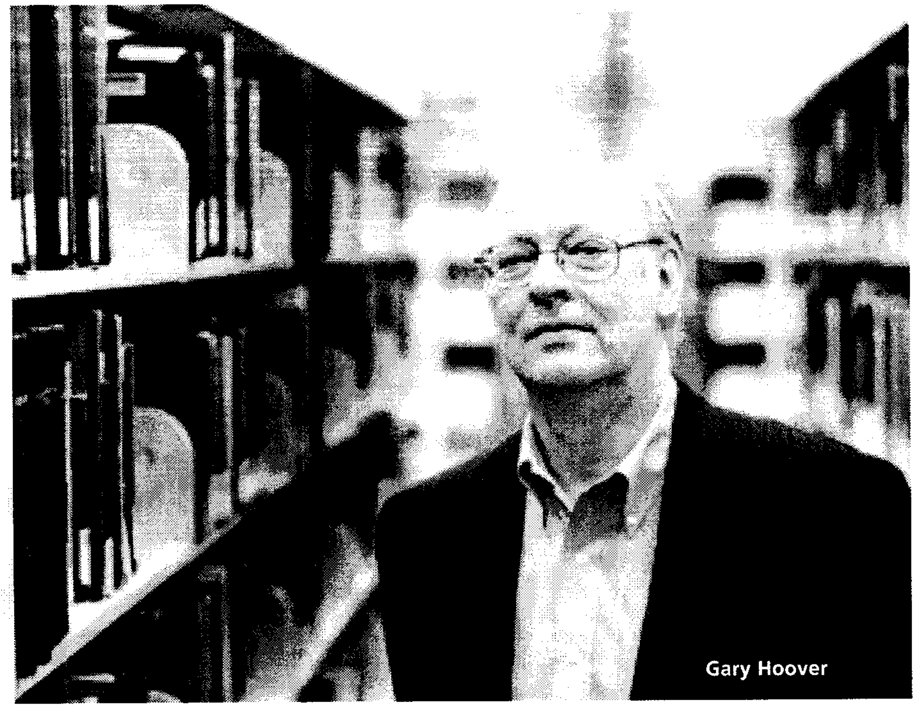
With passion, though, comes the risk of over-confidence and the hazard of being too dogged. Thurman notes that, although self-confidence is crucial in business, "over-confidence and an inability to see potential flaws in yourself or your plan can be fatal." Drayer says that he has seen some entrepreneurs fall victim to an element of delusion, such that they persist to a fault, "even when the writing is on the wall." Moot Corp director Adams thinks that entrepreneurs especially should be "realistic and objective" about their chances of success, especially since startups succeed only 10 to 20 percent of the time. "Persistence is good," he adds, "but you need to be objective." That means absorbing quantitative data, not just relying on emotion. When the data stack up against you, "you've got to know when to fold 'em," Adams says.

Professor Pamela Haunschild, chair of the Department of Management at McCombs, warns that "we tend to overlearn from success and underlearn from failure, both as individuals and organizations." Without a candid view of both failure and success, progress is hard: you won't learn the right lessons from failures, and you can be tempted to chalk up a success "as something wonderful [you] did," even when it came about by luck. By contrast, Haunschild says, genuinely successful individuals and organizations do not let episodes of success cloud their judgment. They keep them in context.

For individuals, achieving that sense of context requires a flexible cast of mind. As Thurman puts it, "Truly successful people are able to step back and realize when they are making mistakes and take responsibility for them while, at the same time, maintaining an appropriate level of self-confidence."

Carol Dweck of Stanford University addresses this flexibility of mind in her influential 2007 book, "Mindset: The New Psychology of Success" (Ballantine Books). In it, she contrasts two commonly held patterns of belief. People with a "fixed mindset" tend to believe that their own abilities and attributes are fixed—which means that any negative feedback either reinforces previously held views of inadequacy, or else challenges their high opinion of themselves in ways they cannot tolerate. Either way, the fixed mindset inhibits a person from embracing feedback and learning from it. By contrast, people who hold a "growth mindset" tend to believe that they can grow and change over time, even long past childhood. For these people, failure can be an invitation to learn and improve, rather than a condemnation to be taken personally.

One of Dweck's paragons of the growth mindset is Michael Jordan, who reinvented his playing style throughout his storied basketball career. At the peak of his success, Jordan starred in a Nike commercial that perfectly captured his approach to success and failure: "I've missed more than 9,000 shots in my career. I've lost almost 300 games. Twenty-six times I've been trusted to take the game-winning shot—and missed. I've failed over and over and over again in my life. And that is why I succeed."



Gary Hoover

COPING WITH FAILURE

Resilient businesspeople turn to an array of coping strategies when failure rears its ugly head. For starters, as Rob Adams notes, they don't worry too much about their professional reputation. "In my experience, failure is not a bad thing," Adams says, especially if you maintain your professionalism and can "speak objectively to what worked and what didn't work." In many business settings, he adds, others won't judge you harshly for failure, as long as you can explain what you learned from it and what you'll do differently next time.

It helps if you develop that objective viewpoint even before failures arise. Lisa McQueen and Wendy Pursch, both MBA '06, left secure corporate jobs to co-found Embellish Nails & Boutique in Austin in 2008. McQueen explains that the two of them allayed their fears about starting a small business in a tough economy through an objective process of calculation. "Wendy and I took a deep breath and thought seriously about what we had to lose," she says. "If our new business didn't make it, how much money would we lose? How would our long-term careers be affected? Would we be able to survive in the short term? After reviewing the worst-case scenario, we agreed that we would be okay." That process, she says, was liberating: "Once you know what you have to be afraid of, it's easier to move past it."

Having friends to lean on is also a big help for coping with failure. Recalling his TravelFest experience, Hoover says, "Above all else, I had good friends who helped me through." He adds that, even in normal times, whenever a setback throws him "into the ditch," he turns to others for inspiration: "If I hit a wall, I think 'Which of my friends could I call or e-mail? Who might have good ideas about how to get out of

Continued on page 40.

D'oh!

What are the most notorious business failures? We posed that question to our fans and followers on Facebook and Twitter. Here's what they had to say:

NEW COKE
Soda sippers revolted when Coke tinkered with its classic recipe.

WINDOWS VISTA
Many users opted to stay with XP instead of upgrading to the much-criticized Vista.

ENRON
Once an energy leader, it's now synonymous with corporate fraud and scandal.

TROPICANA PACKAGING
PepsiCo scrapped a massive Tropicana brand redesign when shoppers complained about the disappearance of the iconic logo, an orange punctured by a drinking straw.

EBAY-SKYPE ACQUISITION
A turbulent deal that included a lawsuit settlement that gave partial ownership back to Skype's founders, along with two seats on the board.

Continued from page 27.

this ditch?' Next thing you know, you're out of that ditch."

Haunschild notes that successful organizations have several methods for coping with failure. For one thing, she says, "it probably has to start from the top management." A good CEO can convey the right approach to failure, one that treats it as a normal part of business to be learned from, rather than as something unseemly to be whisked under the rug. Good companies also preserve their institutional memory about failures. Rather than firing people associated with failures, they try to absorb the lessons that those people can teach. Haunschild cites the example of Colgate-Palmolive, which maintains a corporate database of failures that managers consult routinely when planning new projects.

Good management can instill these practices in a company, but can individuals change their approaches to failure? Is the phoenix-like resourcefulness of a Gary Hoover inborn, or can it be learned? Jay Drayer calls this resilience "a general disposition" and suspects it is "in your mettle," and that "to a big degree, it's not learned." Phil Speros, MBA '01 and CEO of Halsa Pharmaceuticals, the 2001 Texas Moot Corp winner, agrees—to a point. Last May, on a panel of former Moot Corp winners, Speros noted the importance of gaining experience as a way of honing resilience. "You can't learn these things; it's intuitive," he said. "But you can develop your intuition."

Hoover believes that the learning process is ongoing. "I think a lot of your self-confidence and belief in yourself comes from your environment, your parents and teachers and friends, and may be pretty well in place by the time you get out of high school. But you can always improve, learn more, [and] gather confidence." He cites an example that has been important in his own career: "When I was 25, I was still scared to death of speaking in public, and now I have given well over 1,000 speeches to groups as big as 5,000, and there are few things I enjoy more."

The key to moving through failures to new successes seems to be movement—just going ahead despite everything. Daniel Nelson, MBA '06 and founder of Phurnace Software, the 2006 Texas Moot Corp winner, is succinct about the importance of being OK with the reality of constant change. "You're agile or you're dead," he said on the Moot Corp panel last spring. As a startup founder, he reflected on how many things change as a result of feedback or missteps along the way to finding traction. "I knew we really understood [the importance of being agile] when we stopped writing the business plan down in a Word document and just used PowerPoint because it was easier to change. Everything changes. That's just something you've got to embrace."

While Hoover was much further down the road with TravelFest than the startup stage when it failed, his willingness to embrace change kicked in nonetheless—a true test of his flexibility. He picked up and started again, and he didn't take a long time about it. "Every time I have gotten into the ditch—and I have been there more times than I would like to think about—I have never stayed there," he says. Then he adds a piece of wisdom that any businessperson would do well to heed: "I think it's human to go home and mope. But do you stop moping after 30 minutes or 30 days?"

Perhaps surprisingly, Hoover ties his approach to failure to an awareness of his own mortality. "Above all else, remember we all die alone. We must all look in the mirror and the only judge will be yourself. Did you live your best possible life? Did your presence on earth make a difference?"

In the face of our own mortality, we must forge ahead—despite our personal failings and our many episodes of failure. In the words of the great psychologist Abraham Maslow, "It seems that the necessary thing to do is not to fear mistakes, to plunge in, to do the best that one can, hoping to learn enough from blunders to correct them eventually." In business as in the rest of life, the phoenix rises from the ashes because it has not feared to plunge into the flames.

Visit www.mccombs.utexas.edu/magazine to see "Hoover's Eight Keys to Building a Successful Enterprise" vodcast.