If You Want to Succeed, Plan to Fail



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Have you ever heard the maxim, “Hope for the best, but prepare for the worst”? As an entrepreneur, that’s exactly how you should operate.

Nobody ever expects to fail, but if you’re not prepared for it, you could be in for a rude awakening. And if you do succeed, you’ll be that much more able to manage business risks down the road.

What does planning to fail look like? These five steps can save your bacon — and boost your success.

1. Have a savings safety net

Putting up safety nets protects you personally, regardless of what happens to your business. The best place to start is your emergency savings account.

Experts often suggest setting aside six months of living expenses. The better advice, however, is to think about how much cash you might need in your worst-case scenario. What if your home burns down? What if you're sued?

The good news is, you don't have to come up with the cash all at once. Programs like Blackrock's Emergency Savings Initiative use tools like behavioral nudges, transaction round-ups and automatic savings transfers to build savings over time. Consistency is more important for reaching your savings goals than a single, large cash transfer.

Remember, your emergency savings account is for emergencies. Tempting as it is, don't invest it or dip into it for in-the-moment business needs. If your business fails, you'll be glad you resisted.

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2. Insure everything

A good insurance policy can save your neck when disaster strikes. Assess your business assets, and get them insured when possible. General liability insurance can keep everything from lawsuits to natural disasters from bankrupting your business.

Put the cost of insurance in perspective: A $50 monthly premium would only cost you $600 a year. But if a $600,000 incident — which isn't unreasonable for medical expenses, legal fees or commercial building costs — occurs that year,

your premium will have paid for itself a thousand-fold.

Don’t make the mistake of thinking it can’t happen to you. All businesses hit bumps in the road. It’s the successful ones that cover their bases before disaster strikes.

3. Use benchmarks to cut your losses

Entrepreneurs are some of the most driven people in the world, but running a profitable business takes more than a grind-it-out work ethic. Savvy leaders use signposts to tell them when it’s time to throw in the towel.

You can’t win every battle. Set parameters for projects and initiatives to determine when it’s time to pull the plug on them. If you’ve already invested $100,000 in new product development, ask yourself: Should I keep going? Will the payoff still be worth it?

Decide on a profit target for your product before you start building it out. That way, you know exactly how much you can spend before the project becomes unprofitable.

Treat existing products the same way. For instance, if your product doesn’t clear a certain sales benchmark by the end of the quarter, should it be discontinued?

4. Build trust with financial projections

Running a successful business takes more than one pair of hands. Investors, employees, partners and colleagues are key to your success.

The truth, though, is that you have to win these people over. If they’re going to invest in or work for you, they need to

know their livelihood is secure. Realistic, regular financial projections prove that you've thought through the what-ifs, building trust.

Trust is tough to build but easy to lose. Update your projections quarterly. Transparently sharing the numbers encourages stakeholders to maintain their confidence in you.

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5. Keep tabs on trends

A business can only be as successful as the society around it. Even the most innovative product won't sell in a recession.

Think past top-line economic numbers. For example, life expectancies are rising around the world. Stanford University and learning platform Canvas's joint Longevity Project is investigating how everything from workforce demographics to retirement to healthcare may have to shift.

Don't wait for social changes to land on your doorstep. Keep an eye on data to learn how, for instance, you can future-proof your hiring strategy. If their schedule and compensation expectations are right, maybe hiring seniors is a smart approach.

Planning for failure is planning for longevity. Rome wasn't built in a day; your business won't be, either. Don't be deterred, but do realize that entrepreneurship is a long, risk-filled road.

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