Executive Summary - Failure is the stepping stone to success. We can learn many financial lessons from failed startups such as ascertain the loss that you can bear, cash is king, manage spending, understand the financials and fundraising takes time and effort.

Henry Ford had experienced failure in some automobile businesses leading to loss of reputation. But he tried again and founded the Ford Motor Company revolutionizing the automotive industry. Amitabh Bachchan is one of the greatest actors of India and has sustained for so many years. But he too had his share of failures. He was rejected by AIR because his voice was not right! 12 films of his flopped before he gave a hit. After tasting success, he again failed when his company, ABCL did not do well. He became almost bankrupt. But he rose above these failures with his perseverance. He starred in the show ‘Kaun Banega Crorepati’ which was a big hit and he was back in business. Failure is a stepping stone to success. If you take your failures in a positive light, you can learn a lot of lessons from them. Most entrepreneurs do not get it right the first time. They do encounter failures on their way to create a successful enterprise. Here are 5 financial lessons from failed entrepreneurship ventures -

1) Be certain on how much loss you can take - When you start a business or your own venture, you cannot accurately estimate your profits. But it is important to assess the loss that you can bear. Entrepreneurs who do not keep a track of their loss will end up shutting down the venture as it becomes very unviable and even get into massive debt. You should have an idea as to how much can you lose before shutting the business completely. This should be decided in quantitative terms like 1 year’s salary or my savings account cannot go below a certain amount. This will help to keep a check on the downside.

2) Cash is King - Your startup may be valued very highly. It might get a lot of publicity but you need cash to run the business, to pay the bills and execute next steps. Many ventures have failed as the owners fail to see that it is important to have funding and be aware of sources from where you can get liquid cash. Your investors might lose interest in your venture if they see some other lucrative
business ideas and invest their money there and this will get your venture in trouble.

3) Manage Spending - It is very easy to get excited and start spending on various things to see product success. But you should remember that you have a finite amount of cash and manage expenditure appropriately. Some start-ups burn money unnecessarily on hiring too many employees, marketing spends etc. when the money can utilized in a more prudent manner.

4) Understand the financials - Having a great idea is not enough. It is not cool to say ‘I cannot understand taxes.’ or be overconfident of the value that the customer might see in the product. You should assess the cash outflow and inflow realistically. Many entrepreneurs do not understand basic financial statements such as the Profit and Loss Statement, Cash Flow statement, Balance Sheet etc. This will not help them to get a clear picture of where the business is heading from a financial standpoint. They might end up taking decisions without proper knowledge which can be dangerous.

5) Fundraising takes time and effort - We all hear stories of some startup getting a lot of funding or a big loan. But it is not always the case for everyone. The startup that did get a lot of funding must have tried numerous times for the funds or worked really hard on getting it. This is not reported on the front pages of the newspaper. Fundraising takes time and effort. Sometimes startups go bust for lack of funds or the entrepreneurs decide to close down as no funds seem to be coming their way. It is important to understand how much funds you need, how much you can get from your sources, family and well-wishers and how much you need to raise or borrow. Accordingly you should start taking steps towards getting funds raised or borrow from a financial institution.

Hope these financial lessons help you when you decide to start your own venture.

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