

Fyre Failure: What Billy McFarland Taught Us All About Startup Finance

Before the FEMA tents and the now infamous bread and cheese sandwich, Fyre Festival was a brand experience conceived to catapult a startup, Fyre Media, into unicorn-level success.

Instead of ending up on Forbes list of the next billion-dollar startups though, millions of dollars of investor, vendor, customer, and employee money were lost, doors were shuttered, and CEO/CFO founder Billy McFarland was sentenced to six years in prison for fraud.



(Source: [Medium](#))

At its core, Fyre is a cautionary tale of how startups fail when finances are mismanaged.

Fyre's 3 failures

The infamous Fyre Festival failed spectacularly, but the company didn't just go under because Billy McFarland is a con man. Despite red flags leading up to the event, he went largely unchecked by co-organizers and investors.

That event was originally conceived to market Fyre Media's product, an on-demand booking app for musical talent. With Fyre Media, Billy McFarland identified an addressable audience for a luxury

lifestyle product and imagined an experience that offered something that those people wanted: an event that would rival Coachella, complete with Instagram-worthy picture opportunities and bragging rights. McFarland knew that the way to high-flying millennial wallets was through the [experience economy](#) and sold investors on his pipe dream.

Fyre Festival was hyped across social media with a video featuring top models frolicking on the beach. It was billed as a lavish music festival that would provide upscale accommodations, including beach villas costing as much as \$400K, and big talent such as Blink-182 and Major Lazer, all on Pablo Escobar's sun-drenched island in the Bahamas. The reality, as the initial class action [lawsuit](#) against the festival put it, was "closer to 'The Hunger Games' or 'Lord of the Flies.'"

On the list of reasons [why startups fail](#), Fyre Media experienced a few:

- They ran out of cash because the leadership team made little effort to understand and plan for costs, leading to unreasonable spending, deceit, and millions of dollars going up in flames.
- Company financial health was entrusted to a single individual, preventing the necessary checks and balances to neutralize McFarland and rein in projections and costs.
- The team lost focus, shifting resources away from the app to focus almost solely on a doomed marketing idea.

Mistake #1: The real cost of hosting the festival was unknown until it was too late

Overestimating total revenue and underestimating the cost of sales is a common startup problem, but Fyre took it further.

Billy McFarland grew Magnises, the black card company he ran before Fyre Media, in part by hosting exclusive events. He intended to use the same tactic on a different scale to grow Fyre.

McFarland and co's lack of experience with an event of this size was clear through the planning and financial decisions they made. The documentaries released by Netflix and Hulu show a team of people who had never run a festival before and had no idea what practical costs would come up along the way.

One of its biggest failures was a matter of sequencing.

[Get Tickets](#)

An event of this size takes no less than a year to plan. From conception to failed delivery, Fyre Festival “existed” for six months.

McFarland had an idea and started talking it up to investors. Promotional videos for the event were shot and released in December 2016. In 2016 and 2017, McFarland raised \$7.9 million for Fyre Media and another \$16.5 million for Fyre Festival. Ticket sales started in early 2017, and a second round of investments was soon to follow.

It wasn’t until March that the real cost of the event was known, including:

- \$2 million in alcohol
- \$400,000 of local labor required to construct the festival grounds
- \$400,000 to transport enough toilets to accommodate guests
- \$6 million necessary to cover the original catering package
- Hundreds of thousands of dollars in customs fees that amassed from equipment and supplies shipped in from the U.S.

A planning notebook found at the festival showed plans to purchase such novelties as 6,000 Skittles and 9,000 glow lollipops—novelties at a site that lacked bathrooms, air conditioning, or suitable shelter.

Decisions were made before costs were assessed. It wasn’t until March of 2017 that creative director Mark Musters was brought in to break down the numbers for the Fyre team. The estimated price tag of the festival was [\\$38 million](#). The event was less than two months away. Perhaps if the cost of the festival had been known sooner, McFarland might not have chosen to drop \$250,000 on an influencer post from Kendall Jenner.

Fyre tickets started at \$1,200 and went up to \$250,000 for luxury group packages, but many attendees claim to have paid less as they were able to take advantage of discounted pricing that reduced tickets to as little as \$500.

The Packages

JOIN US

Current Fyre ticket packages are at an exclusive discount. Limited availability at current price tiers. Tickets include Fyre Festival passes, private round-trip flights between Miami and Bahamas, round-trip boat to Fyre Cay, accommodations and meals. **Prices will be increasing soon.**

Even at \$1,200 a pop, organizers would have had to sell over 31,000 tickets to cover the anticipated festival costs. And they were on track to do it, at least according to their December 2016 pitch deck. 40,000 attendees over two weekends looked good on paper, but it didn't address market size or willingness to pay the exorbitant ticket prices.

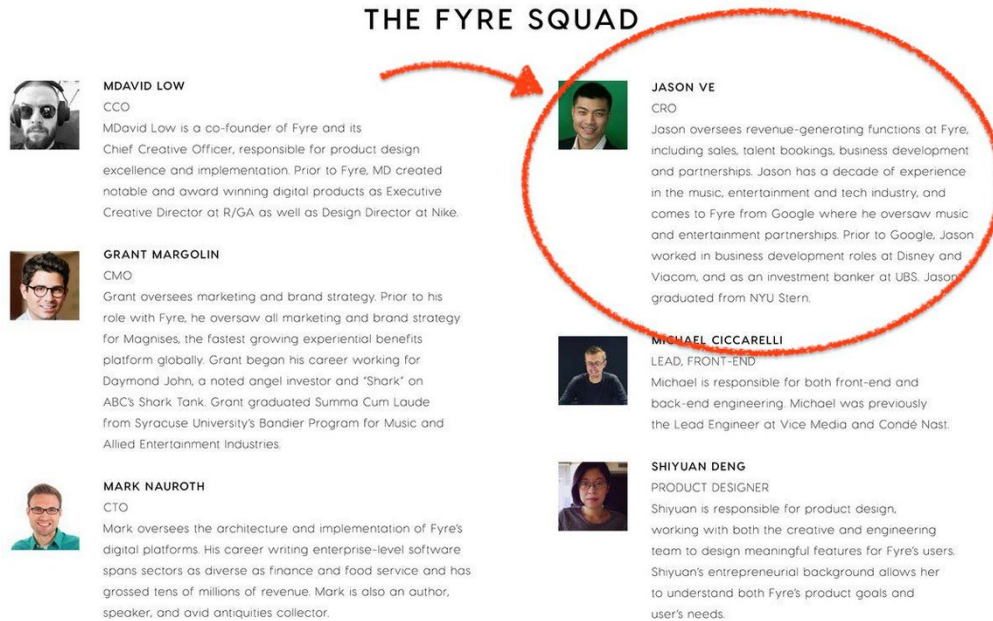
Tablelist, the ticketing startup that handled sales for Fyre, reported just [\\$3.5 million in sales](#) in the lawsuit filed against Fyre Media in the wake of customer complaints and massive layoffs.

McFarland rushed the idea to market without bringing in experts early enough or conducting research that would have shown a laundry list of fixed costs and challenges with unknown costs. The festival launched as a half-built product that overspent on marketing and was literally left without the capital to turn the lights on.

Mistake #2: McFarland was the sole person responsible for the financial health of the company

Billy McFarland named himself CEO and CFO of Fyre Media. There is a reason these two roles should be kept separate.

Technically, there was another financial officer on the team. Jason Ve, a former Google employee, served as Fyre Media's Chief Revenue Officer (CRO). While Ve's role was to oversee revenue-generating activities, he didn't truly have a seat at the table with McFarland. While a CFO is often the one reining in a CRO's more idealistic spending, in the case of Fyre, the opposite was true. As the CEO, McFarland was constantly focused on the upside, the potential, leading with optimism instead of realism, making him unable to perform with integrity as a CFO. He never performed his role as CFO to ground this growth mentality in the truth.



(Source: [Reddit](#)) The now-defunct Fyre Media's team page shows the elusive Jason Ve and his role as Chief Revenue Officer.

Ve was in a role that required communicating with vendors about payments for the festival. In the one [interview](#) he gave, Ve admitted he told vendors that wire transfers would be coming through, even though he knew there were insufficient funds in the company coffers.

"There were times where the balance in one of Fyre's bank accounts would be lower than what Billy was asking me to send to the vendor," said Ve. "I would raise these concerns to Billy, and he would assure me that the money promised to vendors would eventually be there." Furthermore, Ve recounted that, "Sometimes the money went through, which gave me confidence that he would be able to pay vendors."

McFarland also misled Ve by creating phony screenshots to make it look like he had funds to cover payments to vendors and that wire transfers had been prepared. McFarland was the only one with "the complete picture of the full finances and operations of the company," Ve said.

With minimal oversight, McFarland falsified balance sheets, bank statements, and investor pitch decks to get the funding needed to keep the festival alive—or he just left the information out altogether. In one effort to raise \$25 million, McFarland presented investors a [43-slide pitch deck](#), featuring a single Financials slide that simply states, "Please see appendix." There is no appendix.

In the complaint filed with the SEC, it is clear that these investor presentations were frequently used to hide or misrepresent Fyre's financial health. A 2016 investor update deck stated that Fyre Media was "on track to achieve [\\$160M](#) [in] completed bookings by Q4 2017." This was orders of magnitude off from where the company stood. Ve stepped in and sent an urgent email to the CMO, Grant Margolin, asking where this projection came from. He thought the figure was so aggressive, he asked Margolin if it was a typo. Margolin agreed that it was a typo and said the projection was "inappropriately aggressive."

We subsequently drafted an email that revised the projections, presenting a more reasonable goal of \$50 million. That email never saw the light of day. McFarland rewrote the email and, according to court documents, “Tripled the stated goal for completed bookings—from \$50 million to \$150 million—and increased the number of ‘talent represented’ from 200 to 1,200.”

The inflated numbers convinced investors to move forward, something they would come to regret.

Mistake #3: Fyre Festival eclipsed Fyre Media

Fyre Festival not only failed to do the thing it was designed to do, it did the exact opposite. The festival was originally a promotional stunt created to help the Fyre Media app attract high caliber talent and a high-flying user base, but it quickly overtook the app. The failed festival could have been just an embarrassing line item on Fyre Media’s balance sheet. Instead, it sank the company.

With the preservation of Fyre Media’s app as the central focus, the festival probably would have been constrained by a marketing budget created as a percentage of the company’s projected revenue. How much could Fyre afford to spend? Even with the aggressive and falsified forecast of \$160m in app bookings, a \$38m budget was above and beyond affordability.

The company’s balance sheet indicates that the festival would in part pay for itself. Accounts receivable of \$14.8M for a festival selling tickets at \$500 would mean ~30,000 people had bought tickets but not actually paid for them. The problem is that this was based on projected sales, not actual revenue.

Balance Sheet Fyre Media Inc As at 1 January 2017	
	1-Jan-17
Assets	
Cash and Cash Equivalents	
Cash Accounts	\$4,561,882.14
Total Cash and Cash Equiv	\$4,561,882.14
Accounts Receivable	
Accounts Receivable	\$18,084,866.36
Total Accounts Receivable	\$18,084,866.36
Property, Plant and Equipment	
Computer Equipment	\$40,636.97
TV & AV Equipment	\$75,298.25
BlackPoint Exuma Land	\$8,400,000.00
Transportation Equipment	\$198,273.28
Total Property, Plant and Ex	\$8,714,208.50
Total Assets	\$31,360,957.00
Liabilities and Equity	
Liabilities	
Current Liabilities	
Accounts Payable	\$1,014,651.69
Total Current Liabilities	\$1,014,651.69
Non-Current Liabilities	
Investor Returns	\$10,649,000.00
Accounts Payable	\$3,836,428.84
Total Non-Current Liabilti	\$14,485,428.84
Total Liabilities	\$15,500,080.53
Net Assets	\$15,860,876.47

Balance Sheet Fyre Bookings As at 1 January 2017	
	1-Jan-17
Assets	
Cash and Cash Equivalents	
Signature Bank 1	\$418,999.00
Signature Bank 2	\$2,723,884.14
Total Cash and Cash Equiv	\$3,142,883.14
Accounts Receivable	
Accounts Receivable	\$3,257,483.39
Total Accounts Receivable	\$3,257,483.39
Property, Plant and Equipment	
Computer Equipment	\$40,636.97
TV & AV Equipment	\$75,298.25
Total Property, Plant and Ex	\$115,935.22
Total Assets	\$6,516,301.75
Liabilities and Equity	
Liabilities	
Current Liabilities	
Accounts Payable	\$140,724.23
Total Current Liabilities	\$140,724.23
Non-Current Liabilities	
Investor Debt Returns (Aug	\$3,149,000.00
Total Non-Current Liabilti	\$3,149,000.00
Total Liabilities	\$3,289,724.23
Net Assets	\$3,225,577.52

Balance Sheet Fyre Festival As at 1 January 2017	
	1-Jan-17
Assets	
Cash and Cash Equivalents	
Chase Bank 1	\$1,418,999.00
Total Cash and Cash Equiv	\$1,418,999.00
Accounts Receivable	
Accounts Receivable	\$14,827,382.97
Total Accounts Receivable	\$14,827,382.97
Property, Plant and Equipment	
BlackPoint Exuma Land	\$8,400,000.00
Transportation Equipment	\$198,273.28
Total Property, Plant and Ex	\$8,598,273.28
Total Assets	\$24,844,655.25
Liabilities and Equity	
Liabilities	
Current Liabilities	
Accounts Payable	\$873,927.46
Total Current Liabilities	\$873,927.46
Non-Current Liabilities	
Investor Returns (May 2017	\$7,800,000.00
Accounts Payable	\$3,836,428.84
Total Non-Current Liabilti	\$11,636,428.84
Total Liabilities	\$12,510,356.30
Net Assets	\$12,634,298.95

(Source: [Reddit](#)) Leaked Fyre balance sheets show blatant issues.

McFarland structured Frye Media so that Fyre Festival was run as a separate business unit from the app, and a last minute budget was created based on how much the stuff McFarland wanted and needed to do for the festival would cost versus how much the company could afford.

The pitch deck he shared with investors further demonstrates a lack of focus on the core business, dedicating 20 slides to an underdeveloped marketing idea. In the slides, it's unclear how money from investors would be allocated between business units.

Still, McFarland was selling a dream, and investors were buying. At least 43 invested in Fyre Media and 59 invested in Fyre Festival. FOMO isn't just for people; companies can feel it too. "They made Fyre appear to be a good investment," said Michael Quinn, investor Oleg Itkin's lawyer.

In tech, [marketing budgets typically represent about 15% of overall budgets](#). With Fyre Media, McFarland threw everything they had at the festival without concern for the other part of the business, leaving the app with no runway. Employees shouldered the impact of this. Fyre Media HQ lacked basic office supplies, company computers, and consistent payroll practices. A week after Fyre Festival, McFarland let employees no that "there will be no payroll in the short term."

A group of Oregon-based engineers and product designers were hard at work on the app throughout the planning of the festival, though there was no clear leadership and a lack of accountability for basics like benefits and pay. An April 2017 [email](#) from the employees detailed working conditions:

We've stuck it out through no payroll, no equipment, no leadership support, the loss of our CTO, and no ability to continue growing the team – all because we believe in Fyre and the platform.

This company needs to be made honest. Clear budgets. Legitimate paychecks. Paystubs. Health Insurance. Taxes on time. The bonuses promised to all of us in our contracts. Stopping grossly unnecessary spending (private planes, \$30k on speakers) when new members can't even get laptops.

The company was declared bankrupt in August 2017.

Conclusion: Your finance team can make or break you

(Having a finance team in the first place is a good start.)

Fyre Festival and Billy McFarland flamed out with the whole world watching. Footage captured through the course of planning the event was great source material for the competing documentaries released by Hulu and Netflix. Without the videos and over-the-top promotional stunts though, Fyre is just another story that belongs on a list of [startup financial failures](#).

Fraud aside, the uncontrolled costs, a single person making decisions that impacted thousands of people and millions of dollars, and rushed or incomplete due diligence by all involved led to the demise of Fyre Media.

Samuel Krost, a Fyre Festival team member originally charged with handling talent booking, has since opened his own business, fashion brand Krost.

“What business school is going to teach me what I’ve just learned over the past year?” he asks.

“Impossible. Those are the best learning experiences any human being can ever get, watching exactly how not to run a company.”

