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## How to Avoid Becoming a Business Failure Statistic

Here are the cold hard facts: The odds of your business surviving five years are 50-50 according to David Birch, former head of a research firm specializing in studying small business data. That's tough news for even the most ambitious entrepreneur. However, as Malcolm Forbes once said, "Failure is success if we learn from it."

It takes chutzpah to teach others from our own failures. James Gwertzman, founder of three gaming studios and currently an executive at PopCap Games has that and more. At a recent Northwest Entrepreneur Network meeting, Gwertzman revealed the hard the lessons learned from closing his gaming company, Escape Factory.

Gwertzman says, "It's a shame we don't all talk more about our failures." At Escape Factory, after securing a game publisher, their project was ultimately cancelled, leading to the company's demise. The surface reasons for canceling the project were straightforward. The publisher ran into financial difficulties and Gwertzman's company was showing weak P & L and hedging delays. However, Gwertzman says those weren't the real reasons that led to failure.

### Lessons Learned the Hard Way

Gwertzman's analysis revealed eight critical miscalculations that caused his company to fail. Each is a common risk factor that can put any entrepreneurial venture at risk.

- **Stopped Feeding the Dragon**  
The "dragon" is the sales machine that runs any business. According to Gwertzman, "We mistakenly thought our job was to build a great

game. In reality it was to continually convince the publisher we were building a great game." Dedicating

### Executive Insights



Cheryl Isen

- more resources to keeping their client excited instead of investing everything in the game might have bought them the time they needed to weather the financial storm and delays.
- **Dropped unique selling points (USPs)**  
When push came to shove, Gwertzman says, "We made trade offs that sacrificed the true value our client was investing in." It's crucial to know who your champion is and why they selected your company. Even if you have to beg for more time or more money, don't trade off the currency, or USP that enabled the sale.
- **Put all eggs in one basket**  
Losing a key platform is the equivalent of having to put all your eggs in one basket. It's a highly risky situation that sometimes works, but oftentimes doesn't. In Gwertzman's case, once they lost their dual platform option, P & L was impacted. This made their product far less appealing to the client.
- **Missed deadlines**  
A critical window of pre-production time was wasted because the team wasn't fully staffed. The time

needed to finish the product was also underestimated. With hindsight, Gwertzman says they should have built their game based on the demo platform to fast-track development.

- **Unsettled people issues**  
"People issues have to be dealt with quickly in a start up," says Gwertzman. The company suffered rifts between teams, turn over, and productivity issues because poor cultural fits were left in positions too long. Likewise, good people in the wrong job were not moved quickly.
- **President tried to fill two jobs**  
What entrepreneur hasn't fallen into this trap? Gwertzman needed a full-time producer, but opted instead to temporarily do that job while running the company. This led to a key position being hired too late, resulting in inefficiencies, communication gaps and overly optimistic scheduling.
- **Wrong organization structure**  
The company was being strangled by too many meetings because the organization structure was wrong. Based on traditional job functions, it didn't match the company's core values of collaboration and independence. Inefficiency reigned because the structure didn't encourage cross-team collaboration. It relied on people working across teams independently, or collaborating in lots of meetings.
- **Invested resources in wrong places**  
Taking his Microsoft experience into the start up, Gwertzman's company had performance reviews, process discussions, ladder levels, profit sharing, a 401K and automation

tools in place. Although nice to have, Gwertman says the business and people would have benefited more from putting that investment into the product first. Likewise, leasing more space than was needed and a subsequent move had a profoundly negative affect on energy levels and passion. Gwertzman is now a fan of “over crowding”.

Knowledge and insight gained from these lessons enabled Gwertzman to build his next venture, Sprout Games, into a success story. In 2005 Sprout was acquired by PopCap Games. Gwertzman says six strategies to help ensure success:

1. Pay yourself first—This protects the company in the long run. Without a safety net to weather a crisis, a founder that has gone without pay for too long will have limited options.

2. Minimize long term debt— Start up’s require enormous optimism, but Gwertman advises being totally pessimistic with finances. Debt reduces options. Avoid long term debt unless you are certain you can pay it off.
3. Always have a deal on the table— Chief executives need to be networking and constantly seeking out new deals vs. heads down in the game.
4. Be realistic—The tendency is to believe another deal is right around the corner; but be realistic, markets and circumstances change.
5. Be open with employees—Silence during bad times is the worst thing you can do. Anxiety is tough enough without rumors. Staff will be supportive if you’re open and honest.

Have a disaster plan ready—Make sure you have a precise financial picture of how much you have, how much you owe, and where to spend what’s remaining. If you’re looking at a possible shut down or re-start, carefully assess if you have the right team to restart, which projects are realistic, and if you have the energy to go at it all again.

These “Executive Insights” are based on monthly presentations provided by leading entrepreneurs at the Northwest Entrepreneur Network (NWEN.org), a non-profit organization dedicated to helping entrepreneurs succeed. The column is written by Cheryl Isen, founder of Isen & Company, a strategic marketing and public relations firm that helps emerging companies increase corporate visibility and brand awareness. Contact Cheryl at (425) 222-0779, Cheryl@IsenandCo.com or on the web at [www.IsenandCo.com](http://www.IsenandCo.com).