

# Producer Bootcamp Business 101

**Ian Baverstock**  
Partner, Tenshi Consulting

# INTRODUCTION



- ENGINEER WHO FOUNDED A DEVELOPER IN THE UK IN 1989
- GREW IT TO A PUBLIC COMPANY WITH OVER 300 STAFF, 7 OFFICES, 4 COUNTRIES
- SOLD IT (TWICE)
- NOW A CONSULTANT AND OCCASIONAL INVESTOR IN THE GAMES INDUSTRY

# UNUSUAL FEATURES OF THE BUSINESS

- SOME PEOPLE MAKE GAMES JUST FOR FUN!
- ONLY GOING TO CONSIDER THE BUSINESS AS IF WE ARE IN IT FOR THE MONEY!

# GAMES ARE ART

- SUBJECTIVE NOT OBJECTIVE
- SUCCESS NOT PREDICTABLE OR ANALYSABLE
- PLAGIARISM RIFE
- ENTERTAINMENT NOT ENGINEERING

# ‘WANNABE’ BUSINESS

- LOTS OF COMPETITION
- BARRIERS TO ENTRY ARE LESS EFFECTIVE
- OVER SUPPLY OF PEOPLE
- TALENT NEEDS SPOTTING

# TEAMS MAKE GAMES

- MIX OF CREATIVE AND TECHNICAL SKILLS
- RARE TO PERSONALISE THE CREATOR UNLIKE MOST CREATIVE CONTENT
- PUBLIC ASSOCIATION WITH INDIVIDUALS LESS COMMON

# TECHNICALLY CUTTING EDGE

- NOT A WELL UNDERSTOOD PROCESS
- NOT CONSISTENT ACROSS DEVELOPERS
- VIRGIN TEAMS UNLIKELY TO SUCCEED
- UNFINISHED IS OFTEN WORTHLESS
- VERY RAPID CHANGE

# MARGINAL COST OF GOODS IS ZERO

- (DIGITAL ONLY)
- INFINITE SUPPLY
- PRICE TENDS TO MARGINAL COST = ZERO



# HIT DRIVEN

- COMMON FOR CREATIVE PRODUCTS
- VERY UNEVEN REVENUE DISTRIBUTION
- FINANCIAL PREDICTABILITY IS VERY DIFFICULT
- REPEATABILITY IS EVEN HARDER
- AVERAGE REVENUE OF AN IOS GAME IS ESSENTIALLY \$0.00

# INDUSTRY ECOSYSTEM

- DEVELOPERS
  - WORK FOR HIRE
  - OWN IP EXPLOITATION
- PUBLISHERS
- DISTRIBUTION
- (RETAIL)

# COMPLICATED NETWORK

- OUTSOURCERS
- TECH SUPPLIERS
- LICENSORS
- CO-PRODUCTIONS
- SERVICES (QA, LOC)
- PR & MARKETING
- FINANCE

# WORK FOR HIRE V OWN IP EXPLOITATION

- EXACTLY THE SAME FUNCTION
- ALSO RADICALLY DIFFERENT BUSINESS

# SMALL INDUSTRY

- (IN THE WEST ANYWAY)
- THERE ARE NOT MANY PEOPLE ENGAGED IN THE BUSINESS OF GAMES
- BUSINESS IS RELATIONSHIP BASED IN SMALL INDUSTRIES
- BUSINESS IS RELATIONSHIP BASED IN CREATIVE INDUSTRIES
- BUSINESS IS RELATIONSHIP BASED IN RISKY INDUSTRIES

# DEVELOPMENT BUSINESS MODELS

- WORK FOR HIRE
  - OUTSOURCING
  - PARTIAL OR WHOLE GAMES
  - PORTS, VERSIONS, SEQUELS
- IP EXPLOITATION
  - WHOLE GAMES
  - MODS, DLC
- LICENSING
  - PATENTS, CODE, GAMES, MUSIC
- MERCHANDISING

# FUNDING DEVELOPMENT

- GAME DEVELOPMENT NEEDS SOME CAPITAL
- NOT ALWAYS VERY MUCH COMPARED TO THE POTENTIAL RETURN
- OFTEN MORE THAN THE ACTUAL RETURN

# BASIC KNOWLEDGE

- UNDERSTAND BASIC ACCOUNTING
- BALANCE SHEET & SHAREHOLDER VALUE
  - NOT JUST PROFIT
- RETURN ON INVESTMENT IS A TIME BASED FUNCTION



# BUSINESS PLANNING

- BUSINESS MODELS ARE SIMULATIONS NOT STATIC DATA POINTS
- CHANGE VARIABLES AND MODEL FINANCIAL OUTCOMES
- PROJECT BUDGETS ARE THE SAME

# SHOW ME THE MONEY

- EQUITY
- PROJECT FINANCE
- CROWD FUNDING
- GRANTS / GOVERNMENT
- COMMERCIAL FUNDING
- DEBT

# SOURCES OF EQUITY INVESTMENT

- FRIENDS & FAMILY - \$?
  - FFF MONEY
- ANGELS - \$50K - \$500K
  - RELATIONSHIP BASED
  - SLIGHTLY RANDOM
- V.C.S - OVER \$1M
  - WANT TO ADD MONEY TO A SCALEABLE BUSINESS
  - SERIES A, B, C ETC

# EQUITY INVESTMENT IN DEVELOPERS

- VERY HARD TO ACHIEVE
- HOW DO INVESTORS REALISE THEIR INVESTMENT?
  - TRADE SALE
  - PUBLIC OFFERING
- WHAT TANGIBLE VALUE IS BEING CREATED?
  - IS IT RELIABLY REPEATABLE?
  - INDEPENDENT OF MANAGEMENT?

# INVESTMENT RISK FACTORS

- RETURN = RISK IS ALWAYS TRUE
- RISK MANAGEMENT IS AN INVESTOR'S CONCERN
- RISK STRATEGY IS A KEY STRATEGIC DECISION FOR YOU
- SURVIVOR BIAS

# OWN IP EXPLOITATION IS HIGH RETURN

- HIT DRIVEN = MASSIVE RISK
- SIMPLE BUSINESS MODEL
  - RUN RATE X TIME VS PROJECTED SALES
- REPEATABLE?
  - BRAND/AUDIENCE
- SCALEABLE?
- SALEABLE?

# WORK FOR HIRE IS LOW RISK

- ALL ABOUT CASHFLOW
  - INVESTORS WANT TO FINANCE GROWTH NOT OPERATIONS
- CONTROLLING COSTS, BRINGING IN DEALS
  - CAPITAL DOES NOT HELP
- WHAT INCREASES SHAREHOLDER VALUE?
  - SCALE
  - BUILD COMPANY BRAND AND AUDIENCE
- HARD TO SCALE A SERVICE COMPANY
- LOW MARGIN = LOW RETURN

# PROJECT FINANCE

- FINANCE ELEMENT OF PUBLISHING FUNCTION
- RETURNS ARE BASED ON THE REVENUE FROM THE PRODUCT
  - OFTEN IN AN SPV
- USUALLY SPECIALIST FINANCIERS
- LITTLE OR NO INTEREST IN THE DEVELOPMENT COMPANY



# CROWD FUNDING

- NOT UNIVERSALLY APPLICABLE
- COMPETITIVE & EXPENSIVE TO DO
- GOOD MARKETABILITY TEST FOR SOME GAMES
- FOR THEM, CONSIDER IT AS MARKETING AT LEAST

# COMMERCIAL FUNDING ('PUBLISHERS')

- SPECIALIST DEVELOPMENT FUNDING FROM EXPERTS
  - EXPERTISE IS GOOD AND BAD
- MOSTLY TIED TO DELIVERY NOT SUCCESS
  - LOW RISK
- STILL WIDELY AVAILABLE
- PUBLISHERS COME WITH MARKETING, DISTRIBUTION, ETC.

# DEBT FINANCING

- NOT GOING TO HAPPEN
- CAN AUGMENT CASHFLOW
- FUTURE DEBT FINANCING MODELS

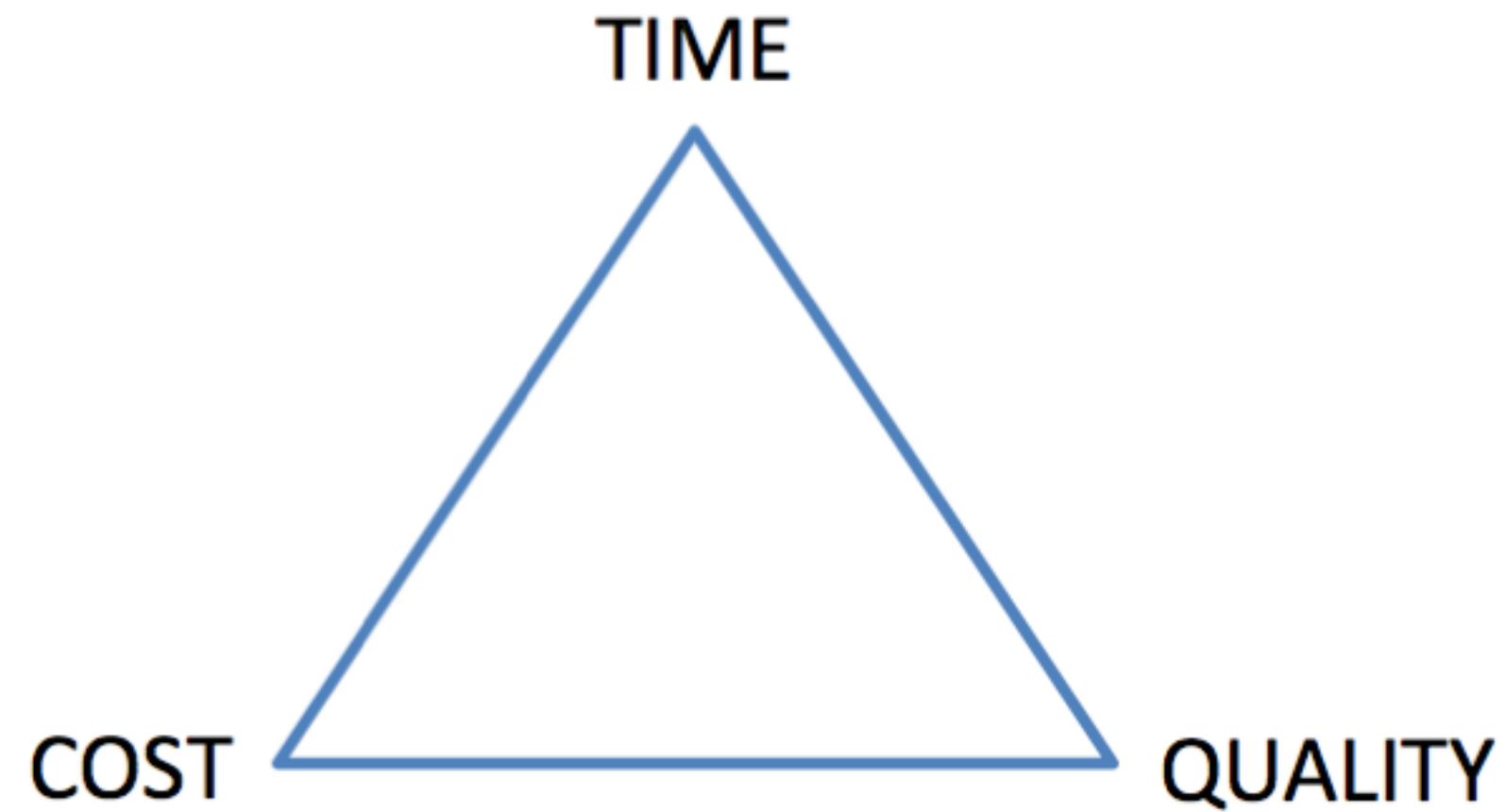
# ROYALTY ACCOUNTING

- VERY TIME CONSUMING
  - TAX ACCOUNTING (WITHHOLDING TAX, VAT)
  - CURRENCIES
  - CHARGEBACKS / RESERVES
- ROYALTY AUDITS
- DON'T PAY WITH ROYALTIES
  - UNLESS CASHFLOW DEMANDS IT

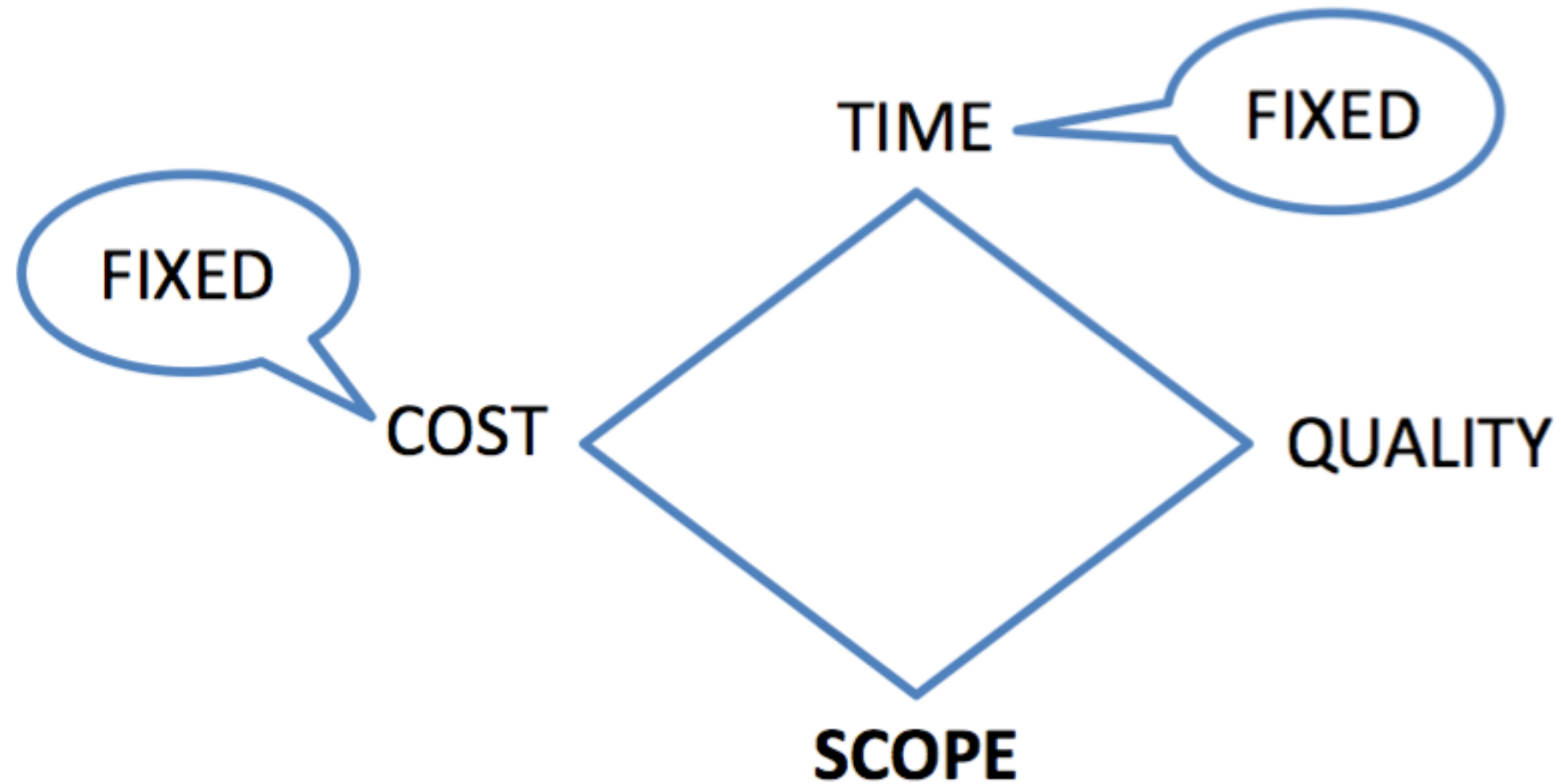
# SCOPE MANAGEMENT

- SCOPE IS DIFFERENT TO QUALITY
- WITH LIVE SERVICE GAMES AND DLC THE CONNECTION IS EVEN WEAKER

# CLASSIC TRIANGLE



# GAME CREATION DIAMOND



# QUALITY VS SCOPE

- SCALING UP A HIGH QUALITY GAME MUCH EASIER THAN MAKING A BLOATED GAME FUN
- SMALLER & FINISHED IS BETTER THAN UNFINISHED
  - AN UNFINISHED GAME IS WORTHLESS
- MVP / PAID FOR BETA



# MARKETING

- “AUTHENTIC MARKETING IS NOT THE ART OF SELLING WHAT YOU MAKE BUT KNOWING WHAT TO MAKE.” -- PHILIP KOTLER
- CREATIVE - UNDERSTAND THE AUDIENCE BETTER THAN THEY DO

# ANALYTICS LED ITERATION

- CUTTING EDGE OF MARKETING
- A | B SPLIT DEVELOPMENT AND IAP VERY POWERFUL
- INCLUDES TOTAL CONTROL OF PRICE FROM \$0.00 UP

# GAME DESIGN IS MARKETING

- MARKETING IS THE FUNCTION OF OPTIMISING  
PRODUCT SATISFACTION
- GAME DESIGN IS THE SAME THING

# BEING IN THE LOOP

- MARKETING IS A CRITICAL BUSINESS FUNCTION
- GOES BEYOND PRODUCT DEFINITION AND PROMOTION; NOW A DIALOGUE
  - INCLUDES QA
  - INCLUDES CUSTOMER SUPPORT
  - INCLUDES COMMUNITY MANAGEMENT

# BRAND

- RISKY BUSINESSES ARE REPUTATION BUSINESSES
- YOU STAND AND FALL WITH YOUR BRAND
- REPEAT BUSINESS IS THE EASIEST & BEST BUSINESS

# CORPORATE & PRODUCT BRANDING

- DIFFERENT BRAND VALUES REQUIRED
- SEEKING MONEY?
  - NEED RELIABILITY, MATURITY, PREDICTABILITY
- WANT CREATIVE KUDOS?
  - NEED INNOVATIVE, EDGY, DIFFERENT

# THE AUDIENCE - YOURS?

- DEVELOPERS HAVE A HISTORY OF DETACHMENT FROM THE AUDIENCE
  - EXPLOITED RUTHLESSLY BY OTHERS TO MAKE MONEY
- YOUR AUDIENCE IS ONE OF THE FEW THINGS A DEVELOPER CAN HOLD BEYOND THE GAME
- AUDIENCE HAS VALUE, MAXIMISE YOUR INVOLVEMENT

# PEOPLE, TEAMS, STRUCTURE

- DEVELOPMENT TEAMS ARE
  - SMART, CREATIVE, MOBILE
  - DOING SOMETHING DIFFICULT
  - IN A FIERCELY COMPETITIVE MARKET
  - WITH BIG REWARDS FOR THE WINNERS
- ABOUT AS DIFFICULT A MANAGEMENT CHALLENGE IMAGINABLE
- HUMILITY IS ESSENTIAL
  - LEADERSHIP CHALLENGING



# SCALE DISCONTINUITIES

- BREAK POINTS:

- 15 PEOPLE
- 35 PEOPLE
- 75 PEOPLE
- 125 PEOPLE

# CORPORATE GOVERNANCE

- MOST COMMERCIAL LAW SYSTEMS ENSHRINE A MINIMUM GOVERNANCE STRUCTURE
- COMMONLY A BOARD OF DIRECTORS OF SOME KIND
- HUGE VALUE IN USING THIS EFFECTIVELY TO SANITY CHECK AND GET ADVICE ON GENERIC BUSINESS QUESTIONS

# LEGAL ISSUES

- CONTRACT REPRESENTS THE DEFINITION OF THE RELATIONSHIP AND HOW TO CONDUCT IT
- MASSIVELY IMPORTANT FOR WFH
  - OFTEN NOT NEGOTIABLE FOR OWN IP
- INTIMATELY UNDERSTAND:
  - COMMERCIAL TERMS
  - YOUR OBLIGATIONS
  - COMMUNICATIONS PROTOCOLS

# NEGOTIATION & FRAMEWORK

- SUMMATION OF NEGOTIATION
- ON-GOING FRAMEWORK
- GAMING THE CONTRACT
  - PROFIT
  - MANAGING THE RELATIONSHIP
- THE CLIENT WILL DO THIS

# IP OWNERSHIP, COPYRIGHT, PATENTS & TRADEMARKS

- PROTECTING YOURSELF RELATIVELY EASY & CHEAP
  - EXCEPT FOR TRADEMARKS
- STOPPING INFRINGEMENTS IS COSTLY AND TIME CONSUMING
  - ONLY TENDS TO BE RELEVANT IF THERE IS ENOUGH MONEY TO JUSTIFY IT

# NUCLEAR OPTION - LEGAL DISPUTE

- REMEDY THRU PROCESS EFFECTIVE
- REMEDY THRU COURTS IS:
  - INCREDIBLY EXPENSIVE
  - ASTONISHINGLY TIME CONSUMING
  - OUTCOMES ARE UNCERTAIN
  - MOST CASES SETTLE

# LEGALS FOR PRODUCERS

- WRITE STUFF DOWN UNAMBIGUOUSLY
  - OR NOT!
- AGREEMENTS DON'T REQUIRE EXCHANGE OF SIGNATURES
- DISAGREE PROMPTLY & IN WRITING
- VAGUE OBLIGATIONS ARE BAD
  - UNLESS THEY ARE ON YOUR SUPPLIERS
- POWER LIES WITH THE SIDE HOLDING THE MONEY

# WFH v IP EXPLOIT

- THE GREAT DIVIDE BETWEEN DEVELOPERS  
SUPERFICIALLY DOING THE SAME THING



# WORK FOR HIRE

- BUY OUT OR ADVANCE ROYALTY MODEL
- PUBLISHER CREATIVE INTERFERENCE
- DANGLED/MISMATCHED CASHFLOW
- EXPERT BUYERS
- MASSIVE COMPETITION
- PITCHES ARE 'CALLING CARDS'
- ALL ABOUT REPUTATION, RELATIONSHIPS
- LOW BRAND/AUDIENCE VALUE
- CASH

# WORK FOR HIRE TERMS

- 10 - 20% ROYALTY, ADVANCE RECOUPMENT
- GROWTH = MORE OR BIGGER PROJECTS
- PUBLISHER RECOUPS FIRST
  - THEY ALSO CONTROL YOUR COSTS
- DEVELOPERS MAKE MONEY ON THE ADVANCE
- TERMS DEPENDENT ON YOUR BRAND
- FLAT MM RATES
- PUBLISHERS GET CO-OP MONEY
- SELF DEFEATING, TROUBLED MODEL

# IP EXPLOITATION

- 'BROADER' TASK
- MARKETING, PR, ROYALTIES, LICENSING
- FREEDOM OF SPEND
  - ALSO THE RESPONSIBILITY
  - NO PRODUCT FILTER/EXTERNAL CHECK
- LESS LEGAL
- HIGHER RISK & RETURN
- DEVELOPERS NEED TO LOVE THEIR GAME JUST ENOUGH AND NO MORE

# ACTUALLY A SPECTRUM

- PRE - SALES
- TERRITORY LICENSING
- FORMAT EXCLUSIVES
- COMPLETION FINANCE
- COMPLETED GAMES TO PUBLISHER
- ( FUTURE PERFORMANCE MARKETING FUNDS )

# HYBRID BUSINESS

- SUCCESSFUL IP OWNING BUSINESSES HAVE NO REASON TO BECOME WORK FOR HIRE SERVICE BUSINESSES
- STARTING AS A WFH DEVELOPER AND TRYING TO TRANSITION TO OWN IP IS A VALID MODEL
- BUT SUCCESSFUL WFH DEVELOPERS REQUIRE FOCUS
  - SAME TECHNICAL PROCESSES
  - TOTALLY DIFFERENT BUSINESS MODELS
- VERY HARD TO COMBINE BOTH BUSINESS MODELS

# BUSINESS STRATEGY

- LIFESTYLE? WFH? OWN IP?
- MANAGEMENT VS ENGINEERING VS CREATIVITY
- EXIT ROUTE & TIME PERIOD?
- RISK PROFILE?

# QUESTIONS?

- @IAN\_BAVERSTOCK
- @TENSHICONULT