

Note from the author

- *This presentation was originally presented at Algoma University in Sault Ste. Marie, ON, Canada, courtesy of the Sault Ste. Marie Innovation Centre*
- *Please note that most of the information was delivered verbally with these slides only as a reference; some things may not make sense or seem incomplete without the context of the presentation*
- *The only changes I have made to the original are the addition of this page and the removal of the videos*

Your Video Game Studio

***Lessons learned from 12
years of owning and
operating an independent
developer***

Richard Hilmer

Agenda

- *Introduction and a brief history of Pseudo*
- *Your Video Game Studio*
 - **Big Picture**
 - **Money**
 - **Building a team**
 - **Selecting Projects**
 - **Signing a Development Deal**
- *Wrap-up and Q&A*

Disclaimers

- ***Extreme Summary***
 - **12 years in 2.5 hours (~1 mo/min)**
 - **But don't worry I'm not going to talk about every month**
- ***Single Company***
 - **Although there is a lot of breadth and variety to these experiences they are still based on one company and not necessarily "right"**
 - **It should still be pretty good though**
- ***Broad Scope***
 - **A mix of basic and advanced**
 - **I'll try not to bore you**

Who is this guy?

- *Co-founder of Pseudo Interactive*
- *President / Executive Producer*
- *Previously VP / Director of Development*
- *Background is Computer Engineering*

Pseudo's Timeline – pre-history

- ***MEC 100***
- ***David and Daniel***
- ***Mechanisms***
- ***Origin***

Pseudo's Timeline – 1996

- *"Want to start a company?"*
- *The office: a.k.a. the laundry room*
- *Tech building and many hats*

Pseudo's Timeline – 1997

- *Hopper goes to GDC*
- *CEOs and mega-corps at the dining room table*
- *First contract*
- *Interviews in the kitchen*

Pseudo's Timeline – 1998

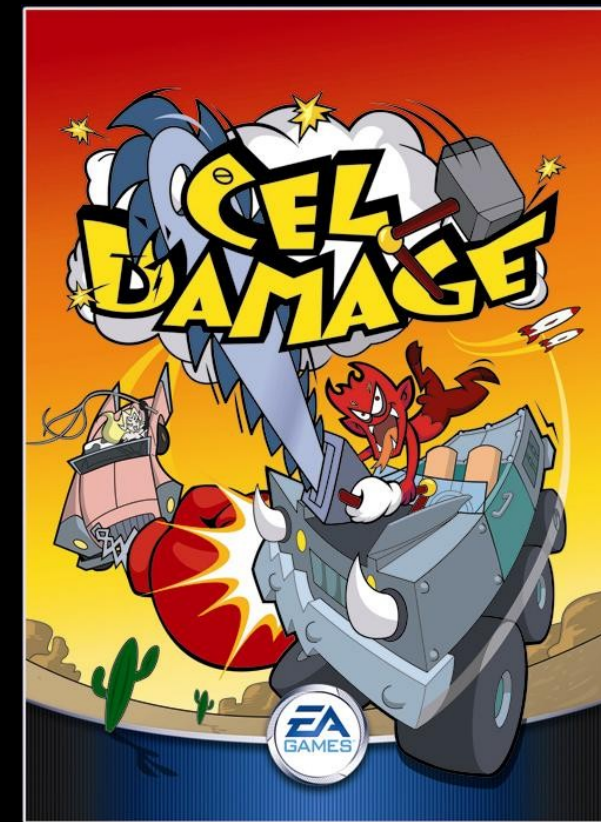
- *An Office!*
- *Getting paid*

Pseudo's Timeline – 1999 - 2000

- ***Cancelled project - picking up and dusting off***
- ***Microsoft's console***
- ***Starting Cel Damage***
- ***More hires, including senior people***
- ***Bigger office space including renovations***

Pseudo's Timeline – 2001 - 2002

- *Released Cel Damage at Xbox launch*
- *Released GameCube version a few months later*
- *Began working on sequel*
- *Dealing with reviews*
- *Released Cel Damage: OverDrive PS2*



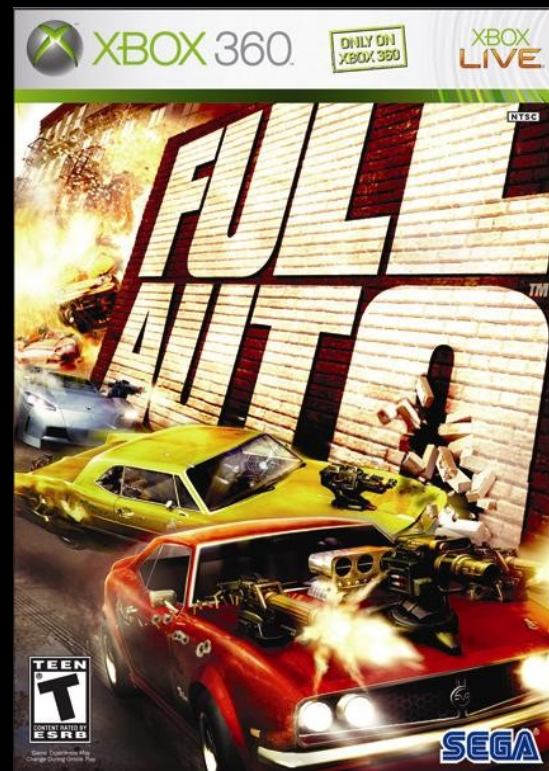
Pseudo's Timeline – 2003 - 2004

- *Vectorman*
- *Crash demo*



Pseudo's Timeline – 2005 - 2006

- *Full Auto on Xbox 360*
- *Full Auto 2: Battlelines on PS3*
- *Our custom office*



Pseudo's Timeline – 2007

- *Pitching our IP, looking for alternate jobs*
- *Alternate financing*
- *Landed a large project, ramped up team*



Pseudo's Timeline – 2008

- *Cancelled project*
- *Layoffs*
- *Close down*



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Starting a studio – Flowchart

- ***No step-by-step instructions***
 - **Can't really go linearly through these, since each may affect another**
 - **e.g. investor may require a certain structure, the structure may affect the culture, the culture may affect recruitment, recruiting certain people may affect the investor**

Starting a video game studio

- ***Why do you want to?***
 - **Passion for Games**
 - **Money**
 - **Creative Outlet**
 - **Desire to run a business / be your own boss**
 - **Better than McDonald's**
- ***What kind of person are you?***
 - **Personality Tests, Myers-Briggs**

The Big Picture – Your Goals

- ***Should mesh with your reasons for starting***
- ***Good time to consider goals outside of work***
 - ***e.g. family, marriage, where you live***
- ***Exit Strategy***
 - ***Maybe unimportant given your goals, but should be considered***

The Big Picture – Mission/Vision

- ***Executive summary of your company's purpose and approach***
- ***A guide to your priorities***
- ***Inspires and clarifies***
- ***For both internal and external***
- ***Speciality, unique offering***
 - ***What do you do better than anyone in the world***

The Big Picture – Culture

- ***What is the vibe, what does it feel like?***
- ***Many considerations, e.g.:***
 - **Attire**
 - **Age**
 - Big difference between a team of single, twenty-something renters and a team of married, thirty-something parents with mortgages
 - **Attitude and Ego**
 - **Quality of Life**

The Big Picture – Name

- ***Don't underestimate the importance or challenge***
- ***Searches, alternate meanings***
- ***Domain name***
- ***Registering it***

Company Structure

- ***Partnership, Incorporation, etc***
- ***Equity, employee shares, liquidity***
- ***Issues with partners***
- ***Shareholder's agreement***

Money and Business Model

- ***Distribution***
- ***Revenue***
 - **Traditional**
 - **Downloadable**
 - **Online**
- ***Financing***

Distribution

- ***Publisher***
- ***Co-publisher/Distributor***
 - **More of a partnership with a publisher/distributor for a product that you have at or near completion**
- ***Electronic/Downloadable***
- ***Online***

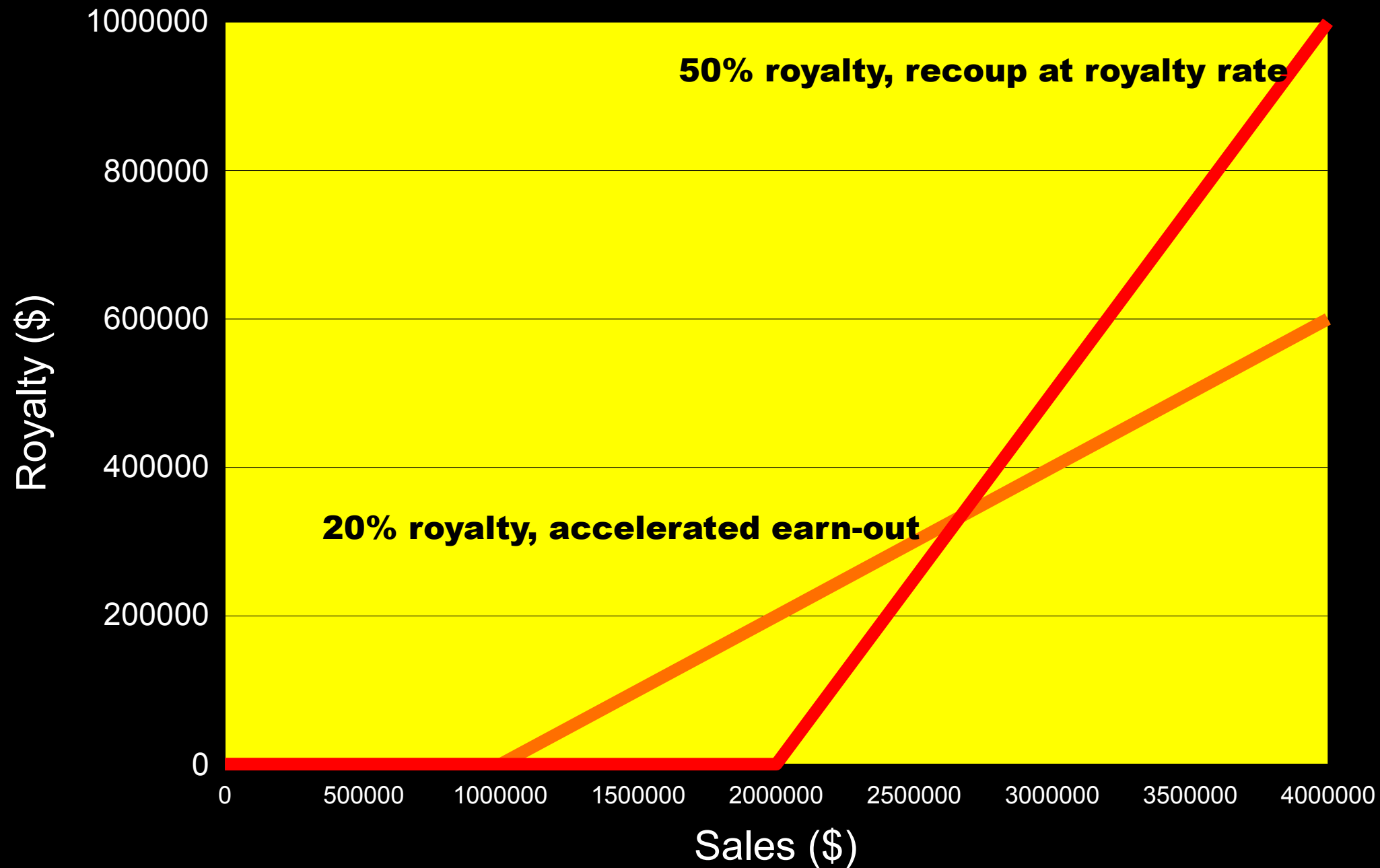
Revenue – Traditional

- ***Development Fees***
 - **Work for hire**
 - **Primary source of income for most independent developers**
- ***Royalties***
 - **A portion of the money from each sale**
 - **Calculated different ways**
 - **Most games won't get there**

Revenue – Royalties

- *Typically the publisher recoups development budget before you get extra*
- *Lots of ways to calculate and adjust*
- *Run scenarios on a spreadsheet*
- *Take note of the recoup rate, e.g.*
 - *20% royalty, accelerated earn out, vs.*
 - *50% royalty, recoup at royalty rate*

Revenue – Earn-out Example



Revenue – Downloadable

- ***Removes need for physical manufacturing and distribution***
- ***Sales revenue***
 - ***Bigger, more direct piece of sales than royalties***
- ***This can eliminate publisher, but that would also eliminate development fees***

Revenue – Episodic

- ***Effectively several smaller game releases***
- ***Helps manage risk of long projects and give better cash flow***
- ***Not necessarily E-distributed, but typically are due to lower price point***

Revenue – Online

- *Subscriptions*

- **Vastly different requirements for the game and for post-release support**
- **Continual revenue stream**

- *Micro-transactions*

- **Inexpensive virtual items that can be purchased for the game**

- *Advertising*

Revenue – IP Licensing

- *Creative IP*
 - **Toys, movies, TV, etc.**
- *Technology*
 - **Tools, engine, process, distribution, etc.**
- *Typically only once you have had some success*
- *Simultaneous*

Financing – Types

- ***Equity***
- ***Loan***
- ***Grants and Forgivable Loans***

Financing – Sources

- ***Angels***
- ***Venture Capitalists***
- ***Government and similar agencies***

Financing Sources – Angels

- ***Friends and family that have money***
- ***Unless you've got seriously wealthy connections, typically individuals can only invest amounts for start-up or maybe bridge financing***
- ***Caution: mixing business with pleasure***

Financing Sources – VCs

- ***Pros***

- **Can bring lots of money to the table**
- **Their knowledge and connections are valuable and probably very different from yours**

Financing Sources – VCs

- ***Cons***

- **Typically equity, often a lot**

- **Some loans, with strings in case things go well (e.g. warrants)**

- **Their goals may differ, e.g. go public for liquidity**

- **Lots of terms, typically onerous**

- **Oversight, Board representation, veto power**
- **Exit clauses, Dilution clauses**

- ***N.B.: this is their job, they know more about it than you. Educate yourself and be careful.***

Financing Sources – Gov.

- ***OMDC***
 - **Ontario Media Development Corporation**
 - **Grant programs (e.g. SCI, IDM)**
- ***BDC***
 - **Business Development Bank of Canada**
 - **Loans, VC, consulting, etc.**
- ***Telefilm***

Financial Statements

- ***Make yourself familiar with Balance Sheets, P&L Statements, cashflow planning***
- ***Some examples of expenses***
 - ***Accounting/Finance, Legal, Bank Charges, Rent, Security Deposit, Moving, Utilities, Telephone (Office), Telephone (Mobile), Internet (Access and hosting), Electricity, HVAC, Insurance, Travel, Business development, Office Supplies, Postage & Delivery, Printing & Reproduction, Health Insurance, Meals, Food Supplies (Groceries), Entertainment, Employee Non Cash Gifts, Dues & Subscriptions, Software Licenses, Hiring & Relocation Costs, and oh ya, Salaries***

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Personnel – Building a Team

- ***The clichés are true***
 - **Your most important asset**
 - **Get people smarter than you**
 - **Get the right people on the bus**

Personnel – Building a Team

- ***Specialities***
- ***Key Positions***
- ***Growth rate***
- ***Many hats***

Personnel – Growth

- *Rate of growth*
 - *Rate you can hire*
 - *Rate you can handle*
- *Optimal size*
- *Changes in workforce dynamic / culture*
- *Burn rate*

Personnel – Hiring Process

- *Formalize a process for hiring*
- *Identify who needs input into the decision*
- *Get qualifications and requirements from them*
 - *Test may be needed, must be created*
 - *Timing and Priority*
- *Build a job description and posting, reviewed*
- *Initial filter on applications*
- *Select candidates for interviews*
 - *Probably multiple interviews and testing*

Personnel – Contractors

- ***Can get very specialized and talented people on short notice and only for as long as you need them***
- ***Helps manage growth and costs***
- ***You'll probably get some lemons***
- ***May need contingencies if they fail to deliver***

Personnel – Recruiting

- *Company Website*
 - Professional
 - Updated
- *Advertising*
- *Recruiters*
 - External
 - In-house

Personnel – Hiring

- ***Offers***

- **Email or letter**

- **Salary, title and duties**

- **Relocation and signing bonuses**

- **How long offer is valid**

- ***Negotiations***

Personnel – Contracts

- ***Important to protect yourself***
- ***Have a really good template created for you by a lawyer***
- ***Make sure it is up to date***
 - ***Changes to employment law***
- ***Some important areas***
 - ***IP ownership (must be company)***
 - ***Termination***
 - ***Non-compete***

Personnel – Compensation

- ***Salaries***
 - **My love/hate relationship with salary surveys**
- ***Bonuses***
 - **Project based (On Ship, On Signature)**
 - **Annual**
- ***Profit Sharing***
 - **Formalize a plan**
- ***Stock, Stock Options***
- ***Benefits***
 - **Supplemental Health Insurance, Gym memberships**
 - **Meals, Coffee, Pop**

Personnel – Raises

- *When*
- *How often*
- *Expectations*
 - *The employee's*
 - *Yours*

Personnel – Layoffs & Dismissals

- ***Worst part of running a business***
- ***Have a process and prepare yourself***
- ***Have more than one person present***
- ***Keep your emotions in check***
- ***Signing things – do not ask them to***
- ***Obligations***
 - ***Severance***
 - ***Documentation (e.g. ROE)***
- ***Provide assistance afterwards***
 - ***Letter of recommendation, referrals***
 - ***Outplacement services***

Personnel – Resignations

- ***Find out why***
- ***Damage control***
 - **Message for the rest of the team**
 - **Avoid “abandon ship” mentality**
 - **Timely replacement – show must go on**
- ***Exit interviews***
 - **Use the info**

Personnel – HR

- ***When do you need someone dedicated?***
- ***Variety of tasks depending on other staff***
 - **Payroll, deductions, expense reports**
 - **Benefits management**
 - **Performance reviews**
- ***Employee Handbook***

Personnel – Training – Why

- ***Quick ramp-up***
- ***Predictability***
 - **You know that everyone knows how**
- ***Spread knowledge***
 - **Avoid scheduling bottlenecks**
 - **Protect against illness or departure**
- ***Veteran Insight***
 - **You have real pros that have intimate experience**
- ***Personal Growth***

Personnel – Training

- ***Documentation***
 - **Wiki – tutorials, how-to**
 - **Commented code, code standards**
 - **Generated docs from code**
 - **Make documentation a task in the schedule**
- ***Resources***
 - **Time**
 - **The biggest thing missing**
 - **Instructors**
 - **Equipment**

Personnel – Training

- ***Expectations and Rewards***
 - **Not just spending an afternoon without a result**
 - **Badges**
- ***When to do training***
 - **During downtime**
 - **New technology**
 - **New position/promotion**
 - **Especially for new Leads/Managers**

Personnel – Performance Reviews

- ***Employees must know how they're doing***
 - **For their own peace of mind and motivation**
 - **For your protection if they need to be dismissed**
- ***Regular reviews are key***
 - **These often get pushed off – must allocate time**
 - **Timed per individual, or for whole company**
 - **We did annual per individual**
 - **Other companies do annual for whole company**
- ***Bad reviews, probation, etc.***

Personnel – Performance Reviews

- ***Sample Review Categories***
 - **Teamwork, Communications, Cooperation, Adaptability, Job Knowledge, Attendance & Punctuality, Problem Solving, Innovation, Quantity, Quality, Initiative, Dependability**
- ***Improvements we were working towards***
 - **Smaller and more frequent**
 - **Easier to complete**
 - **Allocate sufficient time to the managers**
 - **Training the reviewers better**

Building a Team – Office

- ***What kind of space***
- ***Finding space***
- ***What to look for and what to avoid***
- ***Terms and Costs***

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Selecting Projects

- ***Know thyself***
 - **Start by knowing the competition**
 - **Play to your strengths**
 - **Hit driven business, a 9/10 is 100x more valuable than a 7/10**
 - I just made that up, but it is representative
- ***Passion or Practical***
 - **Some passion is necessary**
 - **To drive innovation**
 - **To weather the storm**
 - **To stand out from the competition**
 - **Don't let passion cloud your judgement too much though – you have to pay the bills**

Selecting Projects

- ***Some considerations***
 - **Goals, Vision, Mission**
 - **Profitability, competition, market size**
 - **Genre**
 - **Platforms**
 - **Licensing an IP**
 - **Trends**

Selecting Projects – Size & Overlap

- **Pseudo**

Startup Big Project <crickets> Big Project <crickets> etc.

- **This worked for over a decade, but it requires:**

- **Horseshoes**
- **Extreme stress tolerance**

- **A better pattern might be**

Startup	Small Project	Small project	Big Project
	Small Project	Small project	Small Project
	Small Project	Small project	etc.

- **Get to multiple sooner**
- **Get your revenue from multiple sources – mitigate risk**

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Game Deals – The Players

- ***Developers (that's you!)***
- ***Publishers***
- ***Agents***
- ***Console Manufacturers***

Game Deals – Publishers

- ***Titles are all over the place, e.g.***
 - **Business Development, External Producer, Acquisitions, Portfolio Manager, Director of Artists and Repertoire**
- ***Typically the more people at the meeting the better***
 - **Reps from the various departments and possibly sub-disciplines**
 - **E.g. Production, Engineering, Sales and Marketing**
 - **Projects require more than one person's go-ahead to get signed**
 - **Unfortunately it is usually AND-logic**
- ***Don't waste their time and don't burn bridges***

Game Deals – Agents

- ***What they are***

- **Individuals with good contacts in the industry and experience with sales, negotiations and game contract terms**

- ***What they are not***

- **Not necessarily a lawyer – you'll still need one of those to review the details of the contracts**
 - **Not to mention the contract with the agent**

Game Deals – Agents

- ***Pros***

- **Instant contacts**
- **Typically only cost you if they deliver**
- **Can act as a buffer between you and publisher (bad cop)**
- **Can be in a location where you are not (i.e. closer to publishers)**

- ***Cons***

- **Cost is a lot when you have success; they can make more money than you on your game**
- **Do they have the proper incentives? (e.g. competing clients)**
- **Their history can be a drawback at times (e.g. they have been bad cop a lot)**

Agents – Terms

- ***Fees are typically a % of the revenue from contracts they bring, e.g. 2-15%***
 - **Note that is revenue, so right off the top**
 - **Sometimes changes up/down based on thresholds**
- ***Expenses***
 - **Typically absorbed by agent**
 - **Newer, unproven developers may be asked to foot the bill**
- ***Exclusivity***
 - **In many circumstances exclusivity is bad; however if you only have one project then it is better to have one person representing it**
- ***Carve outs, e.g. projects or companies that are off limits***
- ***Term - when does it end, who can end it and under what conditions?***
 - **What happens with projects and revenue that were signed or started during their tenure?**
- ***Contract***
 - **Get a lawyer to review it**
 - **It does not have to be long (a page or two is probably enough)**

Game Deals – Process

- ***There is not a truly universal process***
 - **Each publisher approaches each project and developer differently**
 - **Sometimes it takes a piece of paper, other times it takes a vertical slice playable**
- ***There are some very common stages***
 - **Submitting pitch materials**
 - **Presenting the concept or prototype**
 - **Due diligence**
 - **Contract**

Game Deals – Pitch Materials

- ***Printed material, electronic, other***
 - **Printed is more expensive but has benefit of feeling tangible and professional**
 - **Electronic is good so they can distribute internally**
 - **Other could be toys, swag, etc.**
- ***Often includes: "Sell Sheet", Game Overview, Concept Art, Market analysis, Development budget and time***
- ***Sometimes you skip this for better impact at the presentation (but don't waste their time)***

Game Deals – Presentation

- ***You visit them and try to convince them that your project is worth making***
 - **Can happen anywhere, but typically it is at their office or a tradeshow**
- ***Their office is generally better***
 - **Their mindset is better**
 - **If they like it, they can pull in other people**
- ***Look the part, prepare thoroughly***
 - **Remember you're asking them for big money**

Game Deals – Demos

- ***Often necessary (even required)***
- ***Show technical proficiency***
- ***Demonstrate the core gameplay***
- ***Not everyone can imagine what you have written***
- ***There is really no substitute for the real thing***
 - ***Can be chicken and egg though***

Game Deals – Due diligence

- ***They already like your idea, just making sure everything is as it should be and you claim***
- ***Usually a studio visit***
- ***Typically a good sign***
 - **They're paying to send people to you**
 - **Pseudo had a perfect record after due diligence visits**
- ***Representatives from various departments***
 - **Most commonly the assigned Producer and a technical rep**
 - **Sometimes others like Art, Audio**
- ***Will review project schedule***

Due Diligence Visit Preparation

- ***Tidy up the office***
- ***Tell team what is happening and what is expected of them***
 - ***Some will be in the meetings***
 - ***Some may be pulled in***
 - ***Some may be questioned as the publisher tours the office***
 - ***Be on time, AIS***
- ***Plan an evening out if they're staying in town overnight***
- ***Plan for a working lunch***
 - ***They'll likely have a short trip and a lot to cover***

Game Deals – Contract

- ***Typically publisher sends first draft based on their standard contract with updates based on discussions up to that point***
- ***Need legal review***
- ***This can take months***
 - ***A couple weeks to turn around a draft by each side's lawyers really adds up***

Development Contracts

- *What kind of terms can you expect?*
 - **Crappy ones**
- *Some key sections*
 - **Ownership**
 - **Milestone acceptance procedure**
 - **Payment terms and remedy**
 - **Cancellation/breach conditions**

Development Contracts – IP

- ***Who owns the creative IP? The engine? The tools?***
- ***What about sequels and licensing and merchandising?***
- ***What happens if the game is cancelled?***

Dev. Contracts – Cancellation

- ***Happens more often than you'd expect***
 - ***They will always keep the right to cancel without cause***
- ***Who owns what?***
 - ***Rights may be bought back, perhaps on signature of deal elsewhere***
- ***What do they owe you?***
 - ***e.g. penalty, or next two milestones***

Lawyers and Accountants

- ***Accounting and Bookkeeping***
 - **Taxes and annual statements**
 - **Pay cheques**
 - Service
 - **AR/AP**
- ***Incorporation***
- ***Shareholder's agreement***

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More Information

- ***This just scratched the surface***
 - **See: Extreme Summary**
- ***Lots of available info***
 - **Books**
 - **Online**
 - **Conferences**

Info – Books and Articles

- ***Books you received today***
- ***Peopleware: Productive Projects and Team, Tom DeMarco and Timothy Lister***
- ***Good to Great, Jim Collins***
- ***Post-mortems in GD Mag***

Info – Online

- ***www.Gamasutra.com***
- ***www.IGDA.org***
- ***When in doubt, Google.***

Info – Conferences, Orgs

- ***GDC***
- ***IGDA***
- ***GameConnect***

Questions
