Business 101: The Nuts & Bolts of Starting a Games Studio

Rachel Presser

What is Code Liberation?

A little about us.

We are a community of

FEMALE GAME DEVELOPERS

We teach
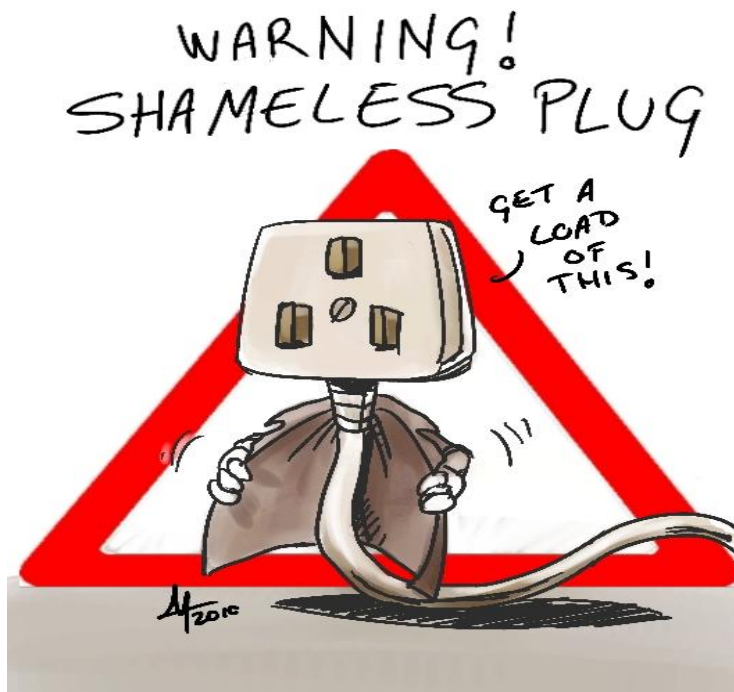
AFFORDABLE GAME DEVELOPMENT CLASSES & WORKSHOPS

Let's talk!
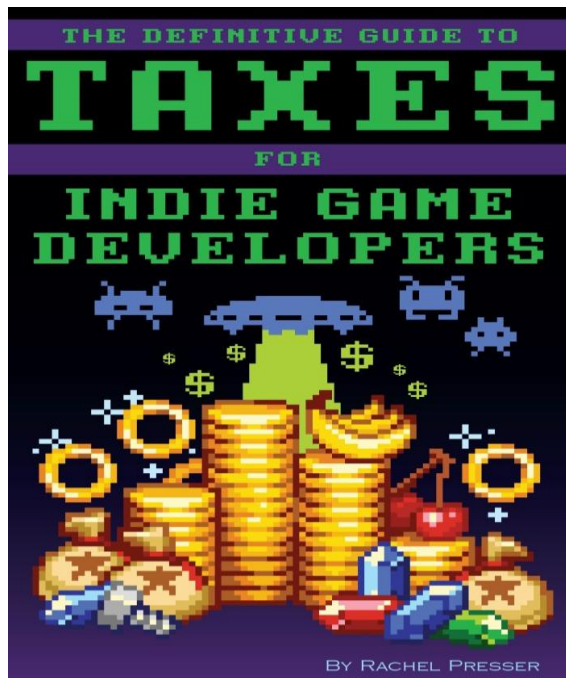
Why do you want to make games?
Why do you like games?

SHAMELESS PLUG!

SHAMELESS PLUG!

The first and ONLY tax guide just for indie developers!

Available on the Kindle store at a very indie-friendly price!

SHAMELESS PLUG!

Himalaya Studios

himalayastudios.com

agdinteractive.com

@himalayastudios

Sonic Toad Consulting & Media

sonictoad.com

@nyhcmaven84

Gaming Industry Statistics

$102B in 2015, projected to grow to $116B in 2016 **(Statista)**

- Mobile & online gaming to make up 60% of sales by 2017 (Global Games Industry Review)

Mobile game revenue $15B in 2015, expected to double by 2018 **(Statista)**

67% of American households play games **(ESRB)**

~1,700-2,000 commercial games released per year **(MobyGames)**

Small Business Statistics

- Most indie developers are "non-employers"
- **Small business = less than 500 employees**
- **Non-employer = no employees and has at least $1,000 in gross receipts**
- Over 500,000 new non-employers commence operations every month
- 75% of ALL small businesses in the USA are non-employers
- 52% of ALL small businesses in the USA are **home-based**

SBA.gov, Dept of Labor

Women-Owned Businesses: The Good News

- More women are becoming business owners, owning 29% of all businesses in the US
- Number of women-owned businesses is increased 68% since 2007
- Minority women represent 1 in 3 women business owners and likely to be younger
- *(Women have historically tended to start businesses later in life than men, so this is great!)*

Institute of Women's Policy Research
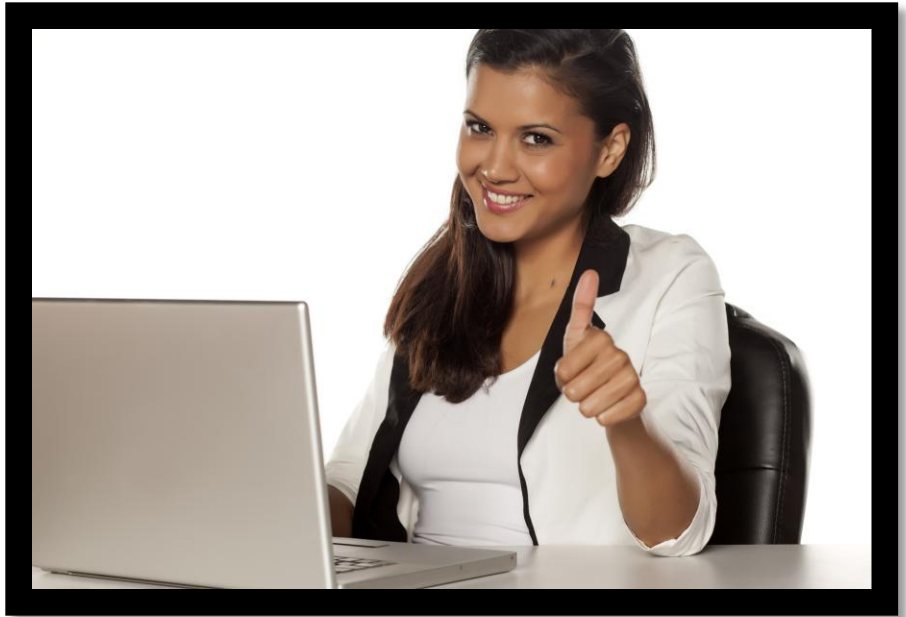
Women-Owned Businesses: The Bad News

- Women own only 8% of venture-backed firms
- Women-owned businesses earn $0.25-0.84 for every dollar a man's business earns
- Women are LESS likely to have sufficient startup capital
- **If they do get it, it's often far less than what men's businesses will receive**
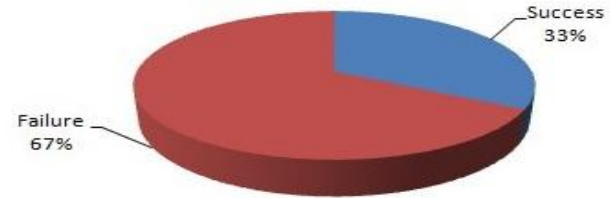- **The pay gap & financial market conservatism contribute to this**

Economic Policy Institute

Small Business Survival Rates

Small Business Survival Rate: 2 years

Failure 30%

Success 70%

Small Business Survival Rate: 10 years

Success 33%

Failure 67%

Small Business Survival Rate: 5 years

Failure 50%

Success 50%
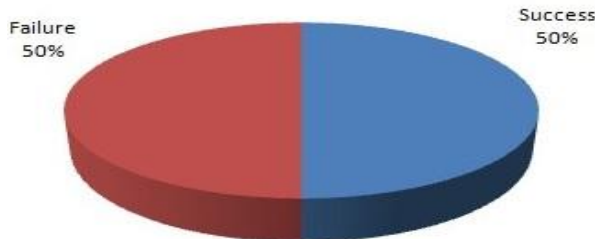
Small Business Survival Rate: 15+ years
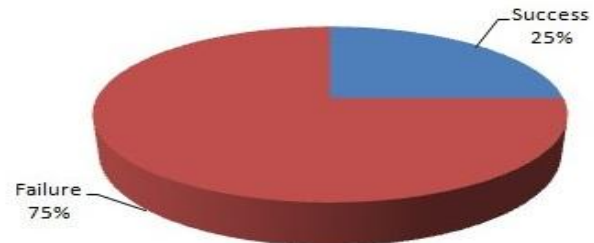
Success 25%

Failure 75%

SBA.gov
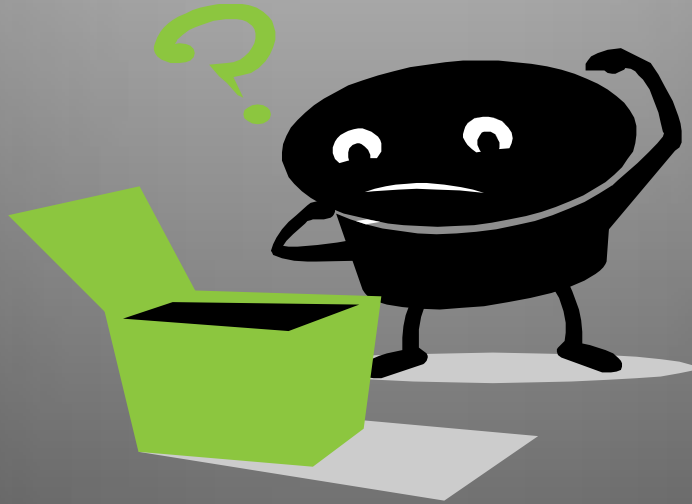
Reasons Businesses Fail

Insufficient capital

Lack of managerial experience

Overinvestment in fixed assets

Underinvestment in necessities

Poor credit management

Low sales

Inability to keep up with unexpected growth (Law of diminishing marginal returns)

SBA.gov

Pros and Cons of Game Studios vs. Other Small Businesses

PROS

Relatively low overhead

Globally adaptable; doesn't need to be geographically bound to get labor and sales

More reliant on contingent labor than employees

Once back catalog is established, easier to capitalize on it

CONS

Extremely difficult to obtain capital

Lopsided, constricted cash flow

Strained cost recovery

Little assistance from professional sector

Basic Business Formalities

- "Birth certificate"- articles of incorporation, partnership agreement, LLC agreement

- **Amerilawyer, Company Corporation**

- Employer Identification Number (EIN), obtain at IRS.gov

- Business bank,PayPal, etc. accounts

Entity Types

S corp

LLC

Your own ship!

Sole Prop.

P/ship
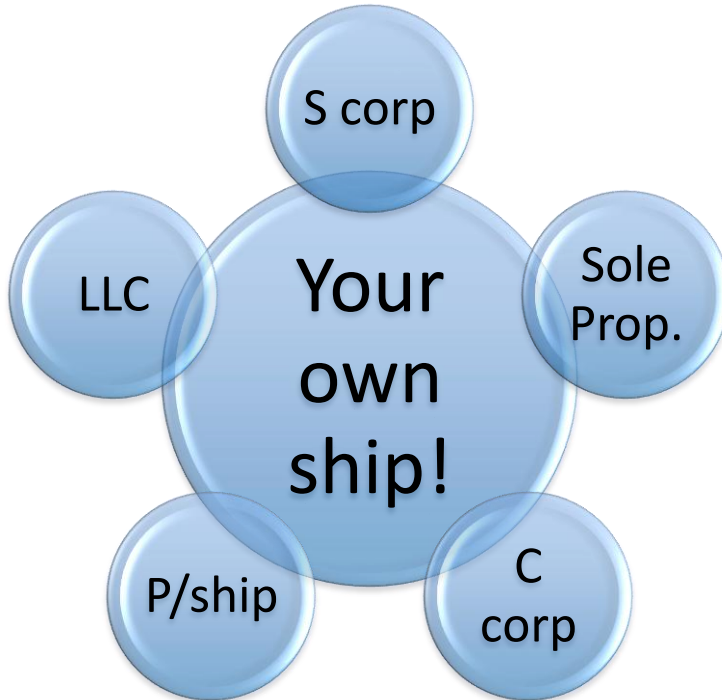
C corp

- Sole proprietorship
- Partnership
- Corporation
- S corporation
- C corporation
- Limited Liability Company(LLC)

- **Non-Profit Entities:**
- B-corp
- 501c3 recognized charity

Sole Proprietorships

- Ownership with just one person – not considered separate entity from the owner

- Reported directly on personal tax return

- Net earnings taxed as reported, not drawn

- Unlimited liability

Partnerships

- Ownership between two or more people
- General partners and limited partners
- Earnings reported on partnership return
- Partner's share of items reported on personal taxes
- Unlimited liability unless formed as LLP

Corporations

Ownership can be between one or several shareholders

Can be large or closely held

More formalities

More complex tax structures

Limited liability

Differences Between S & C Corps

S Corporations

- Limited to 100 shareholders
- Shareholders must be US residents
- "Reasonable compensation" rules
- No self-employment tax on profits
- No corporate income tax

C Corporations

- Unlimited amount of shareholders allowed
- Corporate profits have own tax return – corporate income tax
- Double taxation aspect
- Corporate veil harder to pierce

Limited Liability Companies (LLCs)

- A company can function as one but is taxed as a sole proprietorship, partnership, or corp

- Intended to provide the simplicity of a less complex entity with the legal protections of a corp

- More formalities required than sole proprietorship or partnership

General Recordkeeping

- **Keep personal assets and expenses separate!**

- Establish different bank and PayPal accounts

- Financial transactions

- Legal records (contracts, royalty agreements)

- Tax documents (returns, notices)

- Have an emergency back-up plan for retrieval

Financial Recordkeeping

Accountants vs. Bookkeepers

Proper use of accounting software

Tax preparation (R&D)

Budgets

PERSONAL BUDGET

- Money and timeline for personal expenses
- Rent
- Food
- Utilities
- Obligations
- How long until your game is released?
- How much is in your savings?

GAME DEV BUDGET

- How much you reasonably EXPECT to spend on:
- Assets
- Labor
- Licensing Fees
- Hosting
- Engine
- How much capital is available? How will you get it?

Sample Personal Budget

Operation Goodbye Corporate America: SAMPLE BUDGET

Estimated timeframe til release: 6 months

Rent:		$ 1,000			
Bills:					
	Electric	$ 75			
	Internet	$ 60			
	Phone	$ 100			
Food		$ 250			
Health Insurance		$ 400			
Misc.		$ 150			
TOTAL		**$ 2,035**	x 6 mos.	$ 12,210	bare-bones necessities for 6 months
				$ 16,500	estimated budget to carry self to release

Sample Game Budget

Your First Game: Development Budget

Estimated timeframe til release: 6 months

Engine Licensing	$ 1,200				
Sound Royalties	$ 500				
Art Assets	$ 5,000				
Asset Hosting	$ 90	(6 months)			
Misc. Dev Expenses	$ 800				
Advertising/PR	$ 750				
TOTAL	**$ 8,340**		$ 8,340	actual estimates	
			$ 11,000	budgeted estimate	

Employees vs. Independent Contractors

- Hot-button labor relations and taxation issue

- Employees cost 20-25% more to hire, retain, and terminate than independent contractors but wrongful classification suits = even more!

- Legal right to control worker and ownership of work

- **20-factor test on IRS.gov, most common factors examined in game dev:**

- Do you furnish tools or do they?

- Do you provide a workplace? Set the hours?

- Does this person provide similar services to other companies?

Employees vs. Independent Contractors

Employees

- At-will, right-to-work; can terminate without cause

- Can perform duties outside job description

- Must be paid in accordance with federal and local labor laws

- Workers' comp required if you have at least one employee

- Payroll taxes and UI

Independent Contractors

- Cannot terminate until term runs out or is breached

- Only has to do the work outlined in the contract and under the terms described

- Payment terms negotiable

- Workers' comp not required if true non-employer

- Payee can use their own contracts

Form **W-2**

Form **1099-MISC**

# Common Pay Structures on Game Projects

- Payment in full upfront

- 50% upfront, 50% upon completion

- Milestone method

- Back-end royalties (revenue share)

- **Best method depends on scope of the job and predicted length as well as how much income is expected to generate.**

What's the Best Way to Fund a Studio?

- What are your goals and priorities?
- Money?
- Artistic expression?
- To make a statement?
- Just to have fun?

- What kinds of games do you want to make?

- How big would you want your studio to be?

- What sort of technology do you want to use- or create?
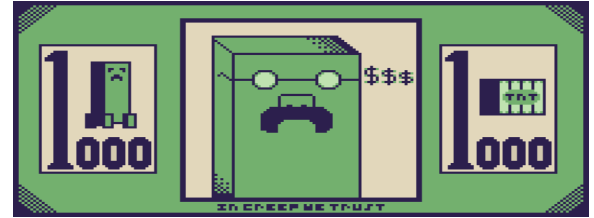
Sources of Capital

| Personal savings | FFF (Friends, Family, Fools) | Crowdfunding | Lenders | External investors (Angels, VCs) |

Sources of Capital

Grants

Lines of Credit

Incubator Programs

Corporate Sponsorship

Personal Savings

- Savings accounts

- Investments to cash out

- Personal property (eBay, pawning)

- **HIGHER-RISK PERSONAL SAVINGS:**

- Retirement savings (401k, IRA)

- Home equity

Friends, Family, & Fools

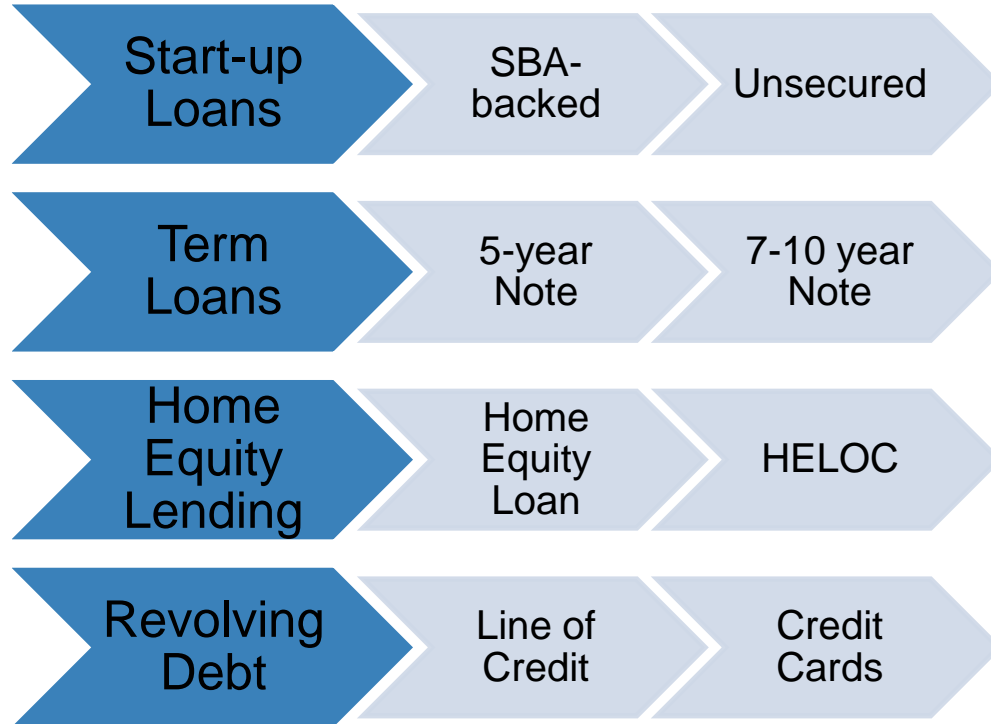| Can be a handshake or formal written agreement… | …with no expectation to be paid back | More amorphous form of obtaining capital… | …with the risk of ruining that friendship in the event you cannot repay the funds. |

Traditional Lending

Start-up Loans	SBA-backed	Unsecured
Term Loans	5-year Note	7-10 year Note
Home Equity Lending	Home Equity Loan	HELOC
Revolving Debt	Line of Credit	Credit Cards

Start-Up Loans

- Typically for amounts less than $50,000
- SBA may guarantee the loan but they don't actually do the lending
- Loan officer assesses business and personal financial conditions
- Game developers **NOT** bank-friendly business; capital-intensive businesses favored

Term Loans

- Anywhere from $5,000-$75,000+

- Range from 5-10 years with higher interest rates attached to the shorter terms

- Intended to assist with leveraging cash flow or purchasing a new fixed asset (equipment, car, etc.)

- Carries lower interest than start-up loans

Credit Cards

• Debt revolves unless balance is paid in full every month

• Not fixed like a loan

• Can damage personal credit if managed poorly

• **HIGH RISK** source of capital but often the most readily-available

• SBA estimates 7% of all American businesses rely on credit cards for funding, **30% of women-owned businesses rely on them**

Crowdfunding

- Kickstarter holds lion's share for games projects, expected to raise $133M in 2016
  - Tabletop games $84.6M, video games $41.5M in 2015 with a **14% success rate** (Polygon)
- FIG hybrid equity & rewards platform (highly-curated)
- Plum Alley-women-owned business specific platform
- **Fans and potential backers enticed with rewards instead of financial interest**

Benefits & Risks of Crowdfunding

Benefits	Risks

Benefits

•Success is public and noticed by others…

•Discoverability

•Excellent platform to increase buzz about your game and engage with fans

•No ownership is given up

Risks

•…and so is failure.

•"Kickstarter fatigue"

•More difficult to capitalize on if your fanbase isn't really established yet

•Specifically project-based unlike traditional capital

•The "after" money may have been with the "before" money

Grant Funding

Student Grants

Private Grants

Business

Foundations

Non-profit Programs

Government Grants

Federal, state, and local

NSF

NEA

SBIR/TT

Government Grants

- Extremely long time to apply (~1-2 months)
- Time windows to apply
- Must use a valid agent like a school or non-profit, and they take at least 40% of the total awarded funds
- **Some women and minority owned businesses may get additional funds for fed. grants**
- Subject to dev phases and oversight

Corporate Sponsorship

• Corporate sponsors can act similarly to publishers

• Parallel to non-profits, a big company may wish to use your game to advertise a product

• May significantly fund all or part of a game

• The more they fund, the less control you will have over how the game turns out

Incubator Programs

- Student programs
- Y-combinator
- Official and offshoots
- Local governments
- Local industry initiatives

Incubator Programs

- Some incubators have fundraising and ownership aspects

- Other programs may require services in return for funding and/or mentorship

- **Mentorship = largest component of incubators regardless of any shifts in funding or equity**

Equity Investors

Angel Investors
- Early-mid stage
- Uses own money

Venture Capitalists
- Late-stage, pre-IPO
- Uses money from various sources

Angel Investors

- Expects to make 10-50x their investment within 5 years

- Individual may invest anywhere from $10,000 to $100,000, angel groups may offer up to $500,000 or higher

- May have criteria for investees

- Golden Seeds and similar private equity firms focus on women-owned businesses

- Will own part of the company and have a say in what games you make

Venture Capitalists

- For late-stage companies seeking upper six to lower seven figure range

- Groups that invest using various sources of funds

- Less risk-averse than angels but more aggressive

Angels & VCs: Growth-Minded Only

Angel and VC funding will only be probable if—
        A) YOU want the company to grow
                and
        B) The investor(s) see growth potential.

Non-Financial Aspects of Having a Studio

First rule of the fight club is…

Having a support network of other game developers, game enthusiasts, and entrepreneurs is going to be integral to your survival.

But a hard truth remains that…

You're starting a business. It takes far more out of you than a 9-5 job, even if you love what you do and it offers better work-life balance.

Some of your personal relationships may suffer. Your family may not support you.

Working from home…

Is as The Oatmeal put it, "both awesome and horrible." You might to avoid the entrepreneur's equivalent of cliff retirement both for your sanity AND finances.

Theoatmeal.com

And you could be your own worst enemy

Don't overdo it on self-enforced crunch.

There is pressure to get your game out especially if you have no income or want to quit your job ASAP.

Practice self-care and give YOURSELF work-life balance. Work hard but play hard too.

IT'S A GOOD DAY TO TAKE CARE OF YOURSELF (SO IS EVERY OTHER DAY).

Be prepared…

To get an insane amount of disrespect because you don't "have a real job". Even though you just worked harder than you EVER did in an office! Multiply this by 235092830598235 because you're in GAMES.
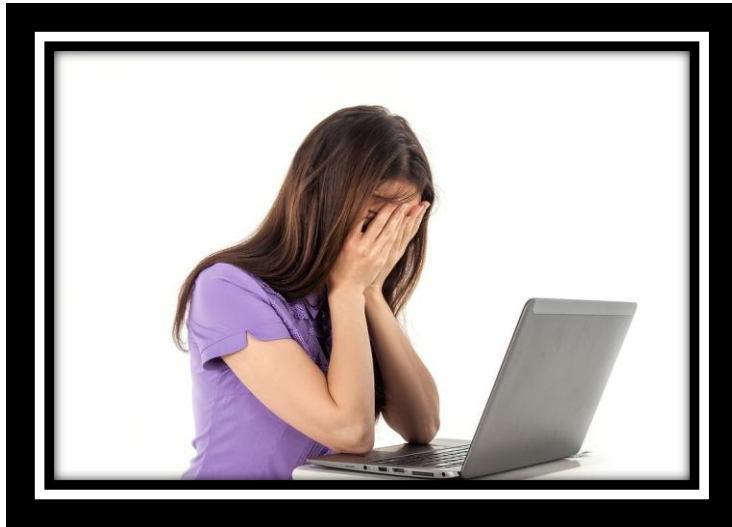
Hardships Women Business Owners Face

Let's Talk: Why do you think women start businesses later in life?

…and why is this necessarily a bad thing?

How does it fit in with the difficulties women business owners face?

1. Influence Doesn't Start Early Enough

•Most young girls don't have enough exposure to good role models- namely women in positions of leadership and **OWNERSHIP**

•Girls still experiencing systemic discouragement against STEM fields

•Systemic trivialization and marginalization of girls' education and interests, especially computing and video games

•**Lack of female entrepreneurs to look up to easily makes girls less likely to consider having their own business.**

2. The Confidence Gap (Is As Bad As the Pay Gap)

• Confidence issues may start early

• Women less likely to apply for funding and other means to advance their businesses **simply by scaremongering that they won't make it**

• **This has made 30% of women business owners jump into their business ideas with no startup capital at all (SBA.gov)**

• Not as confident in themselves and their business ideas until they're older, men tend to just swoop in for the capital even if their idea sucks

3. Risk-Taking: Women Are Not Socialized To It

• Women behave more conservatively in the financial markets than men

• High rates of divorce and single motherhood have made more women gravitate towards consistent paychecks

• Lower marriage and motherhood rates in the 2010s may be changing this

• Women NOT encouraged to take risks they way men are: **encouraged to make decisions out of fear and wanting security**

Let's Talk: Have you experienced sexism in the games industry?

If yes, why do you think it was perpetrated?

If no, do you think women are purposely being scared off from entering its ranks?

Q&A