



SECRET EXIT

DIGITAL ENTERTAINMENT

Indie Startup for Dummies

Or: unavoidable mistakes, self-induced misery
and a surprising amount of luck

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Overview

Secret Exit began its game development activities in early 2007 to become an income-funded independent game studio.

This seminar covers the first 18 months of the company, from bold plans to unfortunate setbacks to a mountain of paperwork up till today: five guys, a bit of funding and a registered console developer status.

What is Secret Exit?

- Founded in December 2006
- Four full-time employees, one part-timer
- Fully owned by the employees, no VC funding
- Developing and self-publishing original IP casual arcade titles on PC, Mac, Wii, PS3 & iPhone
- Approved PS3, Wii & iPhone developer
- Funded by Tekes, Nordic Game Program, AVEK, Finnvera and the founders' own savings

The topics we discuss

- Who we are (done)
- Why we self-publish
- The mountain of paperwork
- Where we got the money
- The mistakes we have made
- Commentary on channels
- The lucky strikes
- Tips for the war



Why self-publish? 1

- Business case for subcontracted work is long-term pointless
 - Working for publishers leaves the developer with generally no upside, only a profit margin from the development advances, barely enough to make the next demo to pitch for the next publishing deal - the only way out is to make a hit
- We maintain control of the IP
- Digital distribution makes it possible for **small teams** to be profitable

Why self-publish? 2

- Past experience showed that dealing with publishers is time-consuming (every step from pitching to contract negotiations to development)
- Publishers' marketers scream after innovation, but in reality the decision making is conservative
 - Producers consider to be doing their jobs when they cram extra features into the game

Mountain of paperwork 1

- Setting up the company:
 - Perustamissopimus
 - Osakassopimus
 - Yhtiöjärjestys
 - Tilin avaaminen
 - PRH-ilmoitus
 - Ennakkoverovelvollisuus & ALV-rekisteri
 - Frankly, we just let a pro (tilintarkastustoimisto) do most of this for us for a small sum of money



Mountain of paperwork 2

- Making the business plan:
 - Do sanity checks regarding expected sales! Don't fall into the "if I tweak this % just a little in Excel, it looks good" -trap
 - For example, tweaking online sales conversion rate from 1% to 2% makes a huge difference. But in other words that's just saying "let's assume we sell double the amount others sell".
- Leverage your existing connections
- Prepare the company story! Elevator pitch of who you are, what you do

Mountain of paperwork 3

- After the company was set up, we were two guys living off our savings, planning a lot
- Savings are good: be prepared to live 6-12 months without any income, and with only very modest income after that, for an indefinite time.

Where we got the money 1

- You need to be a company to be valid for any kind of support, so once that step was out of the way, it was good to look at different options for support funding (we wish to keep control of the company fully with the employees, so no VC money)
 - Nordic Game Program
 - Tekes
 - Finnvera
 - SITRA (so the rumors say)
 - AVEK



Where we got the money 2

- It's possible to get "starttiraha", a small sum to help with some expenses. You need to apply before setting up company, we didn't, so we were left without.
- Raising money - build things to support each other, increases chances of getting funding. As long as one part of the equation becomes true, it's likely the others will follow. This holds true for both public funding as well as VC funding (so we have heard).

Where we got the money 3

1. Nordic Game Program provided a seed sum of 300 000DKK (about 40k €)
2. With this sum, we spoke to Tekes for demo funding
3. ... and to Finnvera, who required Tekes funding and private funding in order to give a loan
4. ... which we finally got, when ping-pongin between Tekes and Finnvera a few times
5. AVEK supported us with "demorahoitus" for another project

Where we got the money 4

So all in all our externally received funding goes to ~150k €. With noodle-budget salaries, five guys can survive about a year on that.

NOTE: We don't *have* this much money, or even a confirmed sum like that, since Tekes pays a percentage of your reported expenses. If your expenses are less than you expected, you get less money back in!

The (unavoidable) mistakes we have made 1

- Pitching to a publisher instead of focusing on self-publishing from the very beginning
 - While we always aimed to go the self-publishing route, there was an opportunity to get the company started with a subcontracting project worth ~250k €. This took roughly six months from pitching to greenlight - and was canceled a week later.
 - Our funding negotiations back then were expecting the deal to happen, so we couldn't just drop it.

The (unavoidable) mistakes we have made 2

- **Divided focus**

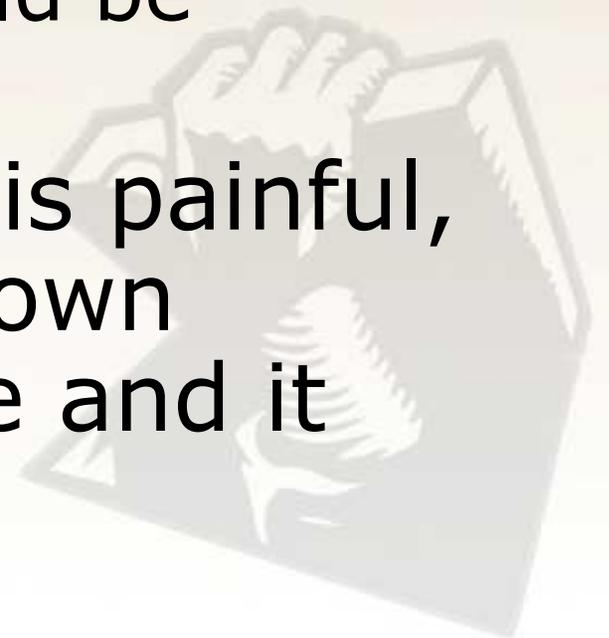
- Resources vs. the number of active projects. It's necessary not to put all eggs in one basket, but it's difficult to estimate the full effect of delays.

- Underestimating the time it takes to do stuff

- You think we'd know better with plenty of projects already in the CVs. But no.

The (unavoidable) mistakes we have made 3

- Pride vs. professionalism
 - "We know how to do this" is *not* an excuse to do it less diligently!
 - This means our project management and task management could be improved.
- Finding the right process is painful, all companies have their own waterfall vs. agile balance and it takes time to get it right.



Channel commentary 1

- PC & Mac
 - Lowest barrier of entry
 - Some good channels (Steam etc.)
 - Overall horrible fragmentation with sales channels, do you want to deal with dozens of distribution partners?
 - Developer keeps highest revenue share (>85%)

Channel commentary 2

- XBLA & XBLCG
 - Indie-hostile royalty cuts in XBLA
 - Platform lock-in with XNA
 - Expensive technical & QA requirements for XBLA
 - Sliding extra royalty for MS for promoting your game on XBLCG
 - Most expensive development hardware (XBLA)

Channel commentary 3

- WiiWare
 - Low-cost devkits
 - Fair royalty
 - High QA requirements, but less obligatory next-gen bells and whistles
 - Still waiting for reliable sales numbers
 - Risk of choking in content in the future

Channel commentary 4

- PSN
 - Can develop on debug kits -> really indie-budget friendly!
 - Developer-friendly royalties!
 - High QA, obligatory next-gen stuff, requirements may go up (Home etc.)
 - Currently good number of content vs. quality

Channel commentary 5

- iPhone AppStore
 - Low-cost dev hardware
 - Lowest technical requirements (for a "console")
 - High risk of choking in content
 - Totally unknown sales numbers for now



Channel commentary 6

- **Remember** you need sales to cover your monthly burn rate and hopefully get some profit! Which of your games would you expect to sell in which channels to get your ~15K€ per month?
- Most channels make payments only once per quarter. Plan your cashflow with that (and long banking delays) in mind!

The lucky strikes

- Having a prototype of Cinnamon Beats done while we were still pitching for the publisher project. When the deal backfired, we were able to leverage the prototype and get back on track.
 - Nordic Game Program decided to fund the game
 - Tekes decided to fund the game
- Cinnamon Beats was selected as an IGF finalist for "Excellence in Audio" -> the exposure was beneficial in getting concept approvals from console manufacturers

Tips for the war 1

- Lying is wrong, but forward-looking statements are okay (and sometimes necessary).
- Be damn confident, don't be afraid to say you know your stuff. Humility doesn't get you anywhere as long as your stuff is good.
- Make more noise! The Finns are pitiful when it comes to self-promotion.

Tips for the war 2

- If you want to apply for console development kits etc., you need to have some kind of an office.
- They usually ask if you are a "home-based business". We believe this is more or less automatic grounds for dismissal of the application.
- To overcome this problem, you could e.g. get into an "yrityshautomo", or perhaps have some kind of co-op arrangement with some other (game) company.