

# RUNNING A GAME PUBLISHING COMPANY

## Chapter 1: Why?

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[New items since the 1 June 06 post are in blue.](#)  
[New items since the 13 Dec 06 post are in green.](#)

There is an old saying about people who want to start a game company: “*Lay down until the feeling goes away.*”

It's true in a sense that only if that feeling never goes away should you proceed, because you are embarking on a journey with risks, dangers, challenges, and difficulties you cannot imagine. The faint of heart, or those lacking in passion, will drop out too easily, usually after making a mess of their companies and their finances.

There are a lot of reasons for wanting to start a game company. The most common is that you cannot get anybody to print your really cool new game. It is a fact that virtually every game publisher in the “adventure games industry” started his company to publish his own designs because nobody else would publish them for him.

[Decide if you want to be published or be a publisher. There is a major difference. Getting published can be done with a small amount of money and effort and maybe somebody will notice \(and you don't really even need this book\). Being a publisher means starting and running a business.](#)

The second most common reason to start a game publishing company is that you think you can make a ton of money with not much work. That is just wrong. With a lot of hard work and a lot more than 40 hours a week, you can make a decent middle-class income.

### 1A: OPENING NOTES

This section will explain a few things about this book, how it came to happen, what viewpoint it comes from, and how to read and use it.

#### A few beginning words

There is more than one way to do anything, and many of them are legal and more than one of them actually works. Where there are workable alternatives, I have tried to mention them (but may not even be aware of every possible way of doing things). Even so, your situation (or your comfort zone) may be different and other ways to accomplish same goal may actually work. Do not assume that the ideas of this book are the ONLY way something can be done, but you can pretty much assume that they are a SAFE way of doing things that is reasonably acceptable to your customers.

#### Sorry for the Mess

I wrote this book over several years. Every time I remembered some previous lesson, learned a new lesson, heard a good story, read an interesting magazine article, answered a question for a younger game publisher, or saw something interesting on the GPA or other industry lists, I added it to the book. This means that sometimes you'll find a story told in two different chapters and sometimes you'll find two sections (in or not in the same chapter) that overlap or duplicate. I'd rather tell you something important twice than not at all, and when I think of something to include I don't always take the time to check and see if it's already there. I am not planning to sell this book but to give it away, so excuse me for not going to extra trouble. Similarly, the formatting is not always going to be consistent but (again) for something I'm going to give away for free you can forgive me if in one chapter

the sub-heads are in all caps and in another chapter they are in upper and lower. At least they're all in bold (except for the ones I forgot to put in bold).

#### I don't mean to be funny, but...

I wrote this book with good humor, and at least partly to poke fun at some of my own ridiculous mistakes. Hopefully, all of you will eventually be able to laugh at and share your own mistakes as much as you may enjoy laughing at mine. I don't want anybody to say “Steve Cole thinks the industry is a big joke” because I don't, but I also don't want anyone to say “Steve Cole is boring”.

#### Who Wrote This (and Why)

The first edition of this book was written almost entirely by Stephen V. Cole (me, I, the perpendicular pronoun) and reflects his (my) own viewpoints, preferences, comfort zone, experiences, and blind spots.

I apologize but I tried very hard to write this book in the third person, but sometimes I lapse into “I did this” and “the next stupid thing I did was” and while it may be mentally jarring to switch back and forth, remember that I did not write this book at one sitting, but over many years.

As these words are written, the book is close to being ready for press, but I assume that once it is released I will get hundreds of emails with suggestions, corrections, arguments, contrary advice, questions, and recommendations. I will be happy to steal the best of those ideas for the second edition, and the third, and the fourth. If you want to volunteer your idea to be included, just Email me.

Steve Cole is a game designer and publisher. He began in 1974 with a magazine called *JagdPanther* which printed variants of *PanzerBlitz* (and after a couple of issues, printed dozens of variants of dozens of games). Later the company produced entire games. This was back in the old days when games were done on a typewriter, the map came in separate 8.5x11 pages that the customer had to tape together himself, and the counters were printed on plain paper, requiring the gamer to glue them to cardboard and cut them out. *JagdPanther* closed early in 1977.

During this period, Steve Cole and some of his partners also owned a separate company called Eagle Games Ltd (not related in any way to the Eagle Games that was producing excellent products in 2005). Eagle Games Ltd produced a half-dozen “one page games” such as *Russian Bridge* (a spoof card game with 13 suits of 4 cards), *Gar-Garouk* (a dinosaur combat game), and the first version of the classic starship game *Starfire*.

Steve Cole and his former *JagdPanther* partners started Task Force Games in 1979, producing four “pocket games” including *Starfire* (a major improvement over the Eagle Games Ltd product but the same game system), *Cerberus*, *Asteroid Zero Four*, and a trek-based game called *Star Fleet Battles* (under a license from Franz Joseph Designs, which created much of the original Star Trek background). These games had 32-page booklets with color covers, 108 die-cut counters, and 17x22 maps. *Star Fleet Battles* was such a hit that it was reprinted as a boxed game and (after many editions and three collapses of Task Force Games) is still in print today. *SFB* was replaced in the original set of four games by *Valkenburg Castle*. (The “V” in SVC's name is “Van Valkenburg” as his mother's family was from the Dutch casino town of Valkenburg.)

There were key lessons learned from the original TFG. That company started at a time when the largest game company (SPI) upset the entire industry by offering to sell games in batches of six (one each of different titles) to individual mail order customers at the same discount they sold to stores. The retailers and wholesalers were outraged by this

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violation of “channel manners” (a concept few in the industry understood at the time). Since TFG had gone into business with a policy of “no mail order sales” (purely because we were lazy and didn’t want to bother) our new company was warmly received by the industry (perhaps more so than it deserved to be) and became an overnight success. Another element of our success was that before we printed any games, we drove around the area (sometimes several hours away) to ask retailers what THEY wanted. We were told that they would need some kind of display for our games. We had a box company produce a custom-cut fold-up display rack that was about 12x20x6 which held 48 games. This was a big hit at the time, and showed the retailers that we really cared about them. (At the time, most retailers were toy stores that considered gaming a sideline that might or might not make them some extra money. The concept of game stores as we find them in 2005 did not yet exist. Such special display racks are no longer wanted or needed.)

By 1981, Steve Cole sold his part of TFG and founded ADB as an independent design studio. TFG (part 2) did well for a few years, but eventually collapsed (spending more than you make will do that to you) and sold out to TFG (part 3) which did little with the company before losing interest and selling out to TFG (part 4) about 1990. ADB released the “Doomsday Edition” of *Star Fleet Battles* and TFG (part 4) rode high for several years, but committed a cardinal sin (spending all of the money that came in, so there were no cash reserves) just before *Magic the Gathering* turned the whole market upside down, inside out, and every which way but loose. TFG (part 4) collapsed and died when it could not reprint out of stock games. ADB then incorporated and took over the *Star Fleet Universe* product line in 1999.

Since 1999, ADB Inc. has been a successful game publisher and Steve Cole has tried to be an “elder statesman” of the industry. Steve Cole invented and conducted the first two years of GTS manufacturer seminars.

### Fictitious Companies

From time to time, the need for a readable document requires that a company name or a product name be included in a sentence, usually as an example. Rather than risk insulting or extolling any one company or product, I have adopted the literary device of fictitious companies and products. There is no *Game Business Magazine* and it is not a secret code-word for any specific magazine; it’s just a generic “term of art”. Similar, any company or product name including “arctic” (*Arctic Wilderness RPG*, *Arctic Games*) is fictitious and just used to make the sentence flow. The companies *Granola Games* (which produces games famous for their good taste) and *Moribund Games* (which is virtually out of business and trying to sell its games to other companies) are also fictitious. The *Big Printing Company* stands in for any number of printers (companies that do printing, not computer equipment). And of course, *Majestic Twelve Pictures* is fictitious a motion picture company about as real as the average UFO, but it is anxious to get you to pay licensing fees for games about their movies.

From time to time I include a few stories of companies I knew which point out lessons you should learn. In all cases I have changed details to disguise the participants and one or two of these were made up entirely just to drive crazy those who try to guess what company I’m talking about.

### BEFORE YOU GOT THIS BOOK

Since you think you are ready to start a game company, here is what you obviously did before you got this book.

1. Save a pile of money.
2. Have several products ready for print.
3. Work for a game company.
4. Run a business.

If you didn’t do these things already, you need to do them or at least learn the same skills sets.

### THE PRIME DIRECTIVE

When you really need to know about something you know nothing about, and this book doesn’t cover it, or even if it does, always follow the prime directive:

**ASSUME NOTHING AND ASK SOMEBODY WHO REALLY KNOWS ABOUT IT.**

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## 1B: BUSINESS IS BUSINESS

### This is a BUSINESS. Get it?

Far too many unpublished game designers who want to become game publishers think that if they can play and even write a game that they can run a business.

*Wrong!*

This is the real world, with real money, real laws, real taxes, and real governments (local, state, and federal) involved. If you do not know how to run a business, then before you start one, learn how. Take a college course, attend some workshops at the local chamber of commerce, go to some seminars at the GAMA Trade Show, and/or find a local businessman who will teach you. If at all possible, get a day job where you can learn these skills in the real world, and do that two years before you want to start your game company.

This is serious. If you have not run a business, you do not know how to run a business, even if you think you do. A lot of hard study can overcome this lack but even so, without actual "running a business" experience, you cannot learn everything and discovering the things you do not know will be expensive and painful. You need to minimize the unknowns before starting any business venture. Learn to run somebody else's business (where *their* money is at risk, not yours) before you bet your life's savings, your house, and your credit rating on a new game company.

### Nobody Owes You a Game Company

There are far too many people starting game companies on the basis that the world owes them a chance to publish their great games and become rich and famous. No, *the world doesn't owe you anything*, except maybe oxygen to breathe and the opportunity to be responsible for your own actions. If you start a game company, which is your right, you are responsible for it. You cannot expect to start this company at no financial risk to yourself. You break it ... you own it.

You absolutely cannot start your company on the theory that if your game does not sell, you will just file bankruptcy on that small corporation you set up on the Nevada web site and avoid paying the printing bills. You're going to find out very quickly that printers will not give credit to companies they have never heard of with no history of business or sales and whose only asset is an unpublished game design. If you ask a printer to give credit to your brand new tiny corporation which has no assets other than your unpublished game design, the answer is either going to be "No" or is going to require a personal guarantee that ruins the reason you started the corporation. You may have told your spouse that you could start this company at no risk to your personal finances, but you were wrong. If you cannot convince your spouse that this is going to work, don't do it. That's the voice of God speaking to you from your spouse's lips.

I should note that I once had a man offer me a business deal. In the middle of discussing it, he said: "I set up a small corporation so that if my product tanks I won't have to pay you." Anyone here want to guess if that deal got signed? If you go into a deal intending not to live up to it, don't call me.

You're going to have to find the money to print your first game yourself, either saving it from your real job or borrowing it from somebody or maybe you can win the lottery or inherit the money from a rich aunt. (Please do not borrow it from a friend or relative who does not understand the tremendous risks that your company represents.)

### Alternatives to starting a game business

There are many alternatives, but they all start with this question: "Just what do you want that you think you can only get by starting a game publishing company?"

**Partnering:** If you want your game published, consider the idea of working with an established middle-sized game company or one of the consolidators that has print on demand capabilities. Show them your game, offer to pay the printing bills and pay them a percentage of sales to cover the costs of warehousing, selling, and shipping your products for you; **the income can then be split by some negotiated formula**. This makes them look like a bigger company, avoids making you start up all of the non-design parts of a company, and lets you focus on what you want (being a published designer) without making you do things (like running a business) that you have no idea how to do. Plus, you won't have a lease on a warehouse and won't owe thousands of credit card dollars for office equipment and furniture if the game doesn't sell. **I have just recently (summer of 2009) signed a deal similar to this, offering to print and distribute copies of some excellent products which have previously been available only as PDFs.**

**Writer:** If you just want to be part of the game industry, consider writing articles for magazines, or playtesting for a game company. You could make yourself the best friend many game companies have by just running demonstrations of their games at your local store every weekend (and get yourself a pile of free games and other stuff as part of that process).

**Reviews:** Another low-cost high-respect option would be to start a game review web site. Take the last ten games you bought and write reviews of them. Start a web site, and include such reviews. Then bombard chat rooms, bulletin boards, and news groups with announcements that you are running a game review web site, and bombard game companies with requests for review games. You'll get a pile of free games, become known in the industry, and be a true friend to gamers and publishers alike.

**Print on Demand:** Another way to do this is to deal with Rapidpod.com and Ken Whitman. **(This company is now out of business, but similar companies exist.)** He offers a deal to print and market your book (a book you write and find art for) and pay you about 25% of what the wholesalers pay him. This is sort of a combination of printer and consolidator. There are other companies that offer similar services.

**Sales Specialist:** In a conversation on the GPA list on 13 June 06, the present author and Aldo Ghiozzi ended up suggesting that a viable game industry business would be making sales calls for small companies and getting a commission whenever you get a new store to try their products. In the three years since then, several people who were trying to make a living as a "marketing" consultant were offered such a deal by me. Not one of them took the deal, but then, not one of them stayed in business as a consultant either.

**Retailer:** Another way to do it is to start a retail game store. I will allow somebody else to write THAT book. **Just be aware that "Retail is HARD" is the most common phrase in the retail industry.** A few thoughts and comments for the third edition. I do not propose to write an entire book on how to run a retail store; I don't know how to run a retail store. But I have collected a few thoughts, and present them here more because they may help manufacturers than those who want to be retailers.

First, read this whole book. It will tell you a lot about business in general. Most of the general business stuff, like:

- don't try to start a business without enough money
- nobody owes you a business.
- you have to pay your bills.
- the basic concept of a retail game business is you sell products for MSRP that you bought at 40-50% of that price.

The problem is, you have expenses (your own pay, your rent, the cost of fixtures, the cost of the stuff you bought that did not sell, employee salaries, government taxes and fees, utilities) which keep coming even if sales do not.

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- Two words: Business Plan. If you haven't written one, don't start a business. And if you have, don't start a business until you get three people who are running successful businesses to read your plan and approve it.

- you won't get credit for a new corporation, and will have to personally guarantee the rent payments for the entire term of your lease.

The above items of advice apply to a retail store just as much as a manufacturer.

Watch out for "fad" games and don't overstock.

Buy from Alliance and from one or two nearby regional wholesales. Rotate who you buy from each week. That way if somebody puts a freeze on your account because you had a cash flow problem, you will have another source where you credit it good for long enough to tide you over.

If you try a new product line and it doesn't sell, put it in the half-price bin. Somebody will buy it and you get your money back.

Have space for gamers to play games. Require those gamers to "welcome" new gamers who might start playing those games. Have a policy that only games bought in your store can be played in your store.

Avoid allowing your store to be used as a babysitting service by parents who drop the kids off for the day but never spend any money for games in your store.

### To start a game company, begin two years ago...

You need to do a lot of preparation to start any business, not just a game publishing company. You should have already spent a lifetime acquiring skills and assets to make this possible. You need good work habits, an education that will get you a job outside of the gaming business, some money, a few well-playtested unpublished game products, a broad knowledge of the gaming business, and experience with many kinds of games.

Here are some ideas to do in those two years.

Get two or three games ready to print.

Work in the industry. Run demos for game companies, do playtesting for game companies, work Saturdays as an unpaid intern at the local game store, write reviews of games for web sites, write articles for game magazines, write short expansions and additional rules for your favorite game system.

Attend Origins, GAMA Trade Show, GenCon, and any local conventions even remotely within driving range. Even better, work as an unpaid helper at a game publisher's booth. Lots of small to middle-size game companies need booth help. For extra credit, get your local game store manager to take you with him to the Open House held by the nearest distributor.

Build a network of contacts in the industry. If you suddenly needed plastic gaming pieces, or die cut counters, or a color game cover, where would you go to get them? Obviously, it would be better to know these things before you start a game publishing company rather than after you needed them yesterday. One rule about contacts. You do not have to have a list of people who, collectively, know everything. You just have to know enough people that one of them can give you the phone number of somebody who knows what you need to know.

Read every game magazine and trade journal you can get your hands on. This especially means the trade journals like Game Trade, Game Buyer, Games Quarterly Magazine (now called Greater Games Industry Catalog), and Comic & Game Retailer (which I think went out of print, at least, I haven't seen it in a long time).

Play a wide variety of games from many companies. You may not be able to make a living doing the kind of games you want to play and might have to expand your horizons.

Have good personal and family health (sudden big medical bills can wipe you out and it's better not to own a

company that is in debt if that happens) and a good credit score. Sooner or later you're going to have to borrow money and with a couple of bankruptcies, foreclosed mortgages, credit cards in the hands of collection agencies, personal loans in default, and even some felony convictions for bad checks, you might as well stay on the sidelines. If you have a lousy credit record and just desperately want to be in the game business, save money until you have most of what you will need to start it.

Attend Lou Zocchi's seminars on starting a game company and selling your wargame design which he runs at GenCon every year.

Understand that running a small business means giving up a lot of personal time, hobbies, vacations, time with the family, and so forth.

### Write a Business Plan

Whoa!

If you don't know what a business plan is, and you are planning to start a small press ("real") company with an office and equipment and a credit card account and employees, stop right now and come back when you have learned how to write a business plan. If you have never seen one, go find one you can read somewhere on the Internet. If you have never written one, study up on how to write a business plan. There are all kinds of books, web sites, business magazines, and college courses on how to write business plans. Study them all. Then find a real businessman who would be willing to read your plan and give you his thoughts.

Now, technically speaking, a business plan exists to get funding, such as convincing a bank to loan you money, convincing a supplier to give you credit, convincing an investor to put up some cash, convincing the government or some foundation to give you a grant, or whatever. If you're going to providing your own funding (from savings, lottery winnings, home equity loan, or whatever) you technically do not need one but should still write one and get others to comment on it. Even if your spouse already agreed to get a home equity loan, write the plan and show it to your spouse and see if they are still willing to go along with this idea.

**Elements of a Business Plan:** A formal business plan (the kind you use to get credit, loans, or otherwise convince people to deal with you consists of several parts:

- Executive Summary, Written last, the primary purpose of this is to convince people that it's worth their time to read the rest of it. This begins with your punchy mission statement.

- Market Research, What are you going to sell, what's on the market, what is it selling for, that sort of thing.

- Company Description, Start with basic information (location, years in business, sales volume, any big ticket equipment) and then add company strengths, why you can succeed in the market.

- Organization and Management, How is your company organized (both legally and functionally), who are the primary officers and why are they smart enough to make this work.

- Sales Strategies, How are you going to convince the market to buy your product?

- Service or Product Line, what are you going to sell?

- Funding Request, How much money you want the lender or investor to give you, along with what you're going to do with it and (if at all possible) what money of your own are you adding to the business.

- Financials, balance sheet, income statement, cash flow statement. Also helpful is an equipment list and depreciation schedule.

- Appendixes, anything else they should know, such as samples of your great cover art, advertising you have run, etc.

**Local Help:** Many cities have some kind of agency or institute or center or something to help small businesses.

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Some are part of a university or part of the city government. In my hometown of Amarillo Texas, we have the Small Business Development Center, the Chamber of Commerce, and the Enterprise Network. Our city even has an annual contest for small business plans with a prize of \$50,000 cash. (I won this contest in 2005.) All of them operate on the theory that more well-run local businesses are good for the town. If you can find such a place, please go see them and sign up for their (usually free) seminars before you try to start a business.

In essence, a business plan is a number of separate things all rolled into one.

It is a list of things you need to do (along with information showing that you have the knowledge, skills, and drive to do them) along with a list of things you think are going to happen (along with solid information to prove that these guesses are within the realm of possibility). Be conservative on good things and pessimistic on bad things. Everything you do will cost more and take longer than the best research says it will.

A business plan is a list of money you are going to have to spend (after exhaustive research to prove to yourself that you didn't miss anything) and a list of money that you expect to receive (along with some kind of actual data that can convince others that your estimates have some relationship to reality). Remember what I said about conservative and realistic.

It is a sales presentation to convince other people (those who might work for you, extend you credit, loan you money, or allow you to use family assets) that their investment in your dream is secure and worthwhile and likely to produce a return.

Take your plan to a convention and offer to buy lunch for a game publisher you admire if he (or she) will read your plan while eating and tell you what does and doesn't make sense.

You can start a business plan with a lot of guesses and then start hunting down real facts. Here is a quick outline:

**Income:** Estimate printing four products a year with a retail price of \$25 each. Estimate selling 500 copies of each book to wholesalers at \$10 each and 100 copies of each book to gamers who buy direct for \$25 each. That gives you a total income of \$20,000 from wholesalers and \$10,000 from gamers. [How can you prove to a total stranger that those sales figures are realistic? You might get data from other companies producing similar products. You are unlikely to have pre-orders from wholesalers. You can certainly show that comparable products sell for about that retail price.] **All the Game Babe recommends that you count on getting only 90% of the money from a sell-through of your print run since you will have samples, spoilage, and unpaid bills. Good advice, but for me, I don't count on a sell-through in the first place. I had a game designer come to me once with a game he wanted me to publish. He insisted that as part of the deal I guarantee "sell through" so he would get all of the royalties he was due. I refused. I had no idea how well his game would sell and was not going to be responsible for guessing wrong. Three years later, that game has never been published.**

**Direct Expenses:** Printing those books will cost you four cover pictures (estimate \$200-400 each), some interior art (minimum of \$200 per book), printing color covers (\$500-800 per book for a supply of 2000; **you may be able to find a POD printer who will do these one at a time for a higher cost each, which avoids being stuck with cash invested in unused covers for a book that did not sell**), and then a quote from a print-on-demand house for the per book cost of binding and printing (let's say \$2 per book, and don't forget the cost of having the books brought to you; in our case we'll guess that you can find a local printer and pick them up in your car). Then figure that shipping the 2,000 copies to the wholesalers will cost you \$400. (The retail customers will pay a shipping fee on your shopping cart.) Now, all of that adds up to \$2400 for art, \$3200 for printing color covers, \$4,000 for printing the books, and \$400 for shipping. Total cost is \$10,000.

**Indirect Expenses:** Rent on a small warehouse-office for a year (\$2,400), telephone (\$600), utilities (\$600), your own part-time salary (\$6,000), a trip to GTS with space in the GPA booth (\$1000), advertising (\$3000), and Misc (\$2000). That adds up to \$15,600. If your production and income figures are accurate (and they aren't) you should be able to spend \$4000 a year improving your business such as buying equipment or paying off debt. (It could easily cost \$10,000 to set up a business and office with equipment, licenses, and so forth.)

**If you can, do it without debt:** Dave Ramsey constantly preaches that you should not go into debt to start a small business. He says this is because debt costs money and you become a slave to the lender. He is too kind to say that this is really because your small business has a best a 50-50 chance of surviving two years and you'll be stuck with the debt on a failed business.

### The Greatest Trap

In anything you do in your company, the greatest possible trap is to fall into the habit of believing that anything that *can* be done *should* be done. Certainly, you can pay extra (a lot extra) to have all of the examples in your rulebook printed in blue ink, but does that really add enough to the product to justify the cost? If you were willing to spend another couple of thousand dollars making your product look good, is printing the examples in blue ink the best place to spend that money?

You could offer to take game questions on collect phone calls 24/7. You could even make this work (giving up a lot of sleep and paying a huge phone bill and distracting yourself from your real work of creating new products). But is it a good idea? Just because you *could* do that, does that mean you *should*?

**I am constantly bombarded by ideas for new products that I *could* print, but the problem is that most of these new products won't sell very well and the last thing I need is a product that takes a lot of my time and produces no money.**

### It Sounded Like a Good Idea at the Time

Lots of opportunities to spend a few hundred dollars will present themselves, and all of them will sound like good ideas.

You need to look at your business from several directions at once, both from the perspective of each individual element and from the perspective of the whole package. It is easy to spend a little money you don't have in enough different places that you end up owing a ton of money you don't have for things that produced virtually nothing of any real value.

One classic example is overprinting. You ask a printer for a quote on 1,000 copies of your new book. He comes back with \$2000 for the 1,000 copies you wanted, or he offers you a bargain of \$2500 for 2,000 copies. Wow! What a bargain! (This is not that unusual in printing. By the time the presses are running at full speed, it's incredibly cheap to just keep them running.) The problem is that if you never sell more than 1,000 copies (something you would know from tracking your own sales and swapping sales data with other companies) then the \$500 you paid for the extra thousand books is just wasted money. The other side of the trap is that \$500 doesn't sound like that much money in the greater scheme of things, but if you get a chance to spend "not that much money" every day for a week, you can easily blow enough money to have paid yourself a paycheck for the whole month. Even worse, you have to store and insure (and in some states pay inventory taxes on) those extra books, plus they make your "cost of inventory" lower (the average of all 2000 books) meaning you will pay income tax on more "profit". Remember that "profit" (which you get taxed on) and "money" (which you can spend) are not the same thing!

Another money trap is over-advertising. Some advertising is good (we'll get into this later) but there is a law of diminishing

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returns. If you buy an ad in every magazine in the industry except one (paying the same cost per page each time), then buying the ad in that last magazine may not be worth as much (or worth doing at all) because virtually everybody will see the ad in one of the other magazines. However, advertising salesmen tend to focus on how much *their* ad is going to cost you and not on how much other ads cost, or how much your total ad budget is. **Just personally, I find that spending any money on expensive color ads is worthless. The cheapest and best ads are the wholesaler catalogs (costs you nothing if you just send them the information on time!) and cheap ads in local convention catalogs (which will often be willing to take unsold game books instead of cash).**

Let's say you are consistently paying \$650 for a full page ad in (the fictitious) *Game Business Magazine* (which, in itself, could be a valuable or useless expenditure depending on your product and the market you are trying to reach). A salesman for another magazine calls up and says "a full page in my magazine is only \$500, so if the ad in *Game Business* is doing you some good, running the same ad in my magazine will do at least that much *more* good." There is something to be said for this. You don't have to do the work to create a second ad, and more exposure would in theory do more good. Of course, if the ads you are buying aren't moving your products (whether this is because of the ad, the product, or the market is another question) then buying another ad isn't any smarter unless it is in a very different market.

A salesman for another magazine may call you up and say "I want you to be in my magazine, so I will sell you a full page which is normally \$1200 for the same \$650 price that *Game Business* charges." Wow! What a bargain! If a full-page ad in his magazine is indeed worth twice as much as the full-page ad in *Game Business*, you'd be crazy not to take the deal. Or would you? Is his magazine targeted on an audience that would buy your game? Is his magazine *really* worth twice as much, or do they just publish those high rates and then cut 50% off deals with everybody? Even if this is a good deal, do you *have* another \$650 this month? Does his readership overlap so much with *Game Business's* readership that the second ad is a waste of time? Or would a second ad in the same month mean that people who really meant to buy when they saw the first ad but forgot will be reminded by the second?

These examples show you the point that you must have an overall budget for each category of expenditures, and each category must include a reserve you can use to take advantage of a truly valuable opportunity. Within that budget, you must make an effort to ensure that every individual expenditure is worthwhile, and at a decent price if not a great one.

### Shop Around!

Somebody in your company needs to be in charge of shopping. This person must not just find the best bargain, but must know where to look for it. This person must sit in on most meetings and be welcome to say "I know where to get something at a great price that would do what you're trying to do better than the thing you are about to order."

**Try [ThomasRegister.com](http://ThomasRegister.com) which can tell you where to buy a lot of generic products, such as foam rubber to go into boxes of miniatures.**

Women are the best for this, because 40,000 years of human culture has made them that way. Long ago in the caves, the men got up every morning and went hunting. When they bagged a deer or a buffalo or a mammoth or a few rabbits and birds ... or something, they were done for the day. All they had to bring home was *meat*. It didn't have to be the right size or color or anything else. It just had to be *meat*. The women, however, went out to gather fruits and nuts and berries and grain. That stuff *did* have to be *the right color, the right shape,*

*and right texture, even the right smell.* As the women walked down to the riverbank where the grain was just getting ripe, they took a moment to notice just how close the apple trees were to having ripe fruit, and just how close those walnuts were to being ready to fall out of their husks. This is carried over into modern society. A woman looking for a new blouse wants it to be the right color, size, style, and material, with the correct washing instructions. Even if she finds a blouse that fits the requirements, she will *still* check every other blouse in the store *to find a better deal.* She mentally inventories the entire store so she knows where to find something else she might need later. She also keeps track of that rack of expensive pants and tries to predict when they will go on sale. A man going into a department store to buy a shirt will, most of the time, take the first one he finds that is in his size, has (or doesn't have) a pocket (depending on whether he wants one), is not a putrid color, and has the sleeve length he wants. A much broader range of shirts will fit his far less discriminating requirements and the first one he finds (six inches inside the door) is the one he buys. *He's still hunting a deer* and it doesn't matter if the deer is brown or tan or big or small, *it just has to be a deer.* Having bagged his deer ... err... shirt, he can get back to the business of doing guy stuff and be done with the uncomfortably tedious shopping experience.

Never assume that the first place to buy something (or the only place you know to buy it, or the place you have always bought it) has the best price, or the best quality. Never assume that only one thing will do what you need done. Using the power of Google (and/or the Thomas Register), your Vice President of Shopping can find other places to buy something that will do the job. *Always* get two or three quotes on printing. *Always* check for alternative sources for *anything*. Paying somebody \$10 an hour to play Google like a calliope can save you thousands of dollars in costs. Never assume that when your printer suddenly raises his prices or his minimum print runs that every printer in the country did the same thing on the same day.

Have your Vice President of Shopping look for unique circumstances that produce incredible bargains. In one case, our VPoS found a printer who bought a huge press to run the local University Newspaper and the local advertising newspaper once a week, and watched it sit idle the other three days. He was more than willing to print very short runs of books for a very economical cost, and once the other printers heard about this, their prices suddenly plummeted. In another case, our VPoS found dozens of places offering a particular part for a dollar, then found once place that bought remainders and odd lots and sold them for a fraction of that price. To be sure, it meant that many copies of our product went out of the warehouse with very different but functionally interchangeable parts, but it was the least important part of the game and, well, any one of a dozen such parts would work. (This part was a wipe-off marker, if I confused you.) Buying a few hundred each of several different types got us the quantity we needed at a price that saved us a thousand dollars.

One final word. When you need to buy something, think *Capabilities* not *products*. You need a capability to punch holes in paper, not the specific hole puncher you saw an ad for. Maybe another machine could provide the same capability for a lower cost or with easier operation.

### Failure is Not an Option

***Failure is, in fact, a probability.***

The rule of thumb is that half of new businesses fail within two years, and half of those that survive two years fail before their 5th birthday. That's pretty bad odds.

The primary reason for such a failure is the lack of enough money. The lack of enough money to pay the bills until the volume of business can pay them. The lack of enough money

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to take advantage of opportunities. The lack of enough money to publicize your business and find a market. The lack of enough money to print another product if your previous one isn't the smash hit you expected. **The lack of enough money to cover a sudden emergency. This is why Dave Ramsey preaches that "Baby Step One" is to have a \$1,000 emergency fund, since a lot of emergencies become inconveniences if you have cash in the bank.**

The second greatest cause of failure is that the owner just didn't know enough about the business to know what he should be doing and should not be doing. This book is intended to prevent that. Frankly, this book probably doesn't provide enough information for someone walking into the industry cold to launch a successful business. What this book tries to do is to show you just how hard it is to do and just how many things you are going to have to learn and maybe where you can learn them.

[A brief aside here. I once decided (in an insane moment) to publish a newsletter about the most recent discoveries in dinosaur paleontology. I spent two years learning all I could about not just dinosaurs, but about the "dinosaur industry". I got to shake hands with Jack Horner and tell him to his face that T-rex was no scavenger. I got to shake hands with Bob Bakker and suggest that he buy a new hat. I read books, attended conferences, prowled museums, and generally had a ball. But the newsletter *failed* — utterly, horribly, and totally, despite my being a brilliant writer well versed in the subject who knew more about the publishing business than most. Why? Two things. First, I started my newsletter because the only dinosaur newsletters that existed were for children or scientists, none were for normal people. I came to find out that normal people won't buy a dinosaur newsletter, except for their kids (normal people have too much to do to read it). Second, in my first issue I sold an advertisement for \$35 to a fossil dealer on the theory that every one of my readers would want to spend a hundred dollars buying his very own dinosaur tooth. Little did I know that fossil dealers are about as welcome in dinosaur paleontology as Rosie O'Donnell would be at the Republican National Convention. Dinosaur scientists think every fossil should be cataloged and locked in a museum just in case they want to study it someday, and they firmly believe no private citizen should be allowed to own a dinosaur tooth because then it wouldn't be in a museum where they could study it sometime. With my first issue, I was declared *persona non grata* and virtually kicked out of the dinosaur industry. Not one museum gift store would carry my newsletter, or even put the free copies I sent on display. Both cases teach the same lesson. *I did not do my research.* I did not know to ask those questions, so I did not ask them, did not know the answers, and ran into two huge landmines, either one of which would have guaranteed the failure of my newsletter. Take a minute to think that through. Is there something about the game industry you do not know that is going to make you about as welcome as a Marine at an Al Qaeda conference? Don't you think you should be *sure* that you know all you can before you start to spend money?]

The third greatest cause of business failure is that some sudden shift in the market you are in, or the overall economy, produces a temporary or permanent drop in the sales of your current product (at a time when you lack the money to get into another aspect of the business). You can't do much about that one (other than being a member of every industry association and Email list, and reading every trade journal, and trying to spot trends before they come up behind you). Our company once did a card game that had nice cards which were black and white. We printed ten thousand and they sold like crazy. The day we shipped the nine thousandth copy was the day *Magic the Gathering* was released. Six years later we still had 900 of the last thousand in the warehouse. The world had

moved on and left us behind. But hey, selling nine thousand of anything is a *good* thing! **From that day to this, I haven't sold nine thousand of anything, but I have sold five thousand of a lot of things.**

### A STORY OF FAILURE(S)

This is a semi-fictional composite of several businesses that failed, noting why this happened. No one thing will kill a company, but a couple of big mistakes and a few minor "friction of war" items and you're making less than you are spending. Many of these items are about one particular consolidator but many are not, and even the ones that are have been generalized.

- They were located on the West Coast and most of the wholesalers are east of the Rocky Mountains. Higher shipping costs had a marginal negative impact. Sometimes, that's all it takes, since margins are tight. Two equally-well-run companies, one in San Francisco and one in St Louis, will have different profit margins because of the higher shipping costs alone.

- When they got money, it meant (due to their contracts) that they owed some of this money to others (printers, designers, artists). Theoretically, that portion of the receipts should have been put in a separate account or at least kept on a running total so they didn't spend the money they owed other people. So, one day, they looked at the checkbook and at something they wanted to buy and decided to buy it. But "it" didn't produce the expected profits, and a few weeks later they "suddenly discovered" that they owed a ton of money to printers and game designers, money they no longer had in the bank. If they really wanted to borrow money from their vendors or royalty-authors, they should only have done this when they knew that actual sales on the books were due to come in and cover the "loans". You get into trouble when the anticipated income never arrives, either because others don't pay you or because you based your borrowing on anticipated sales that were either lower than expected or never showed up because the product never showed up.

- "He never took advice from anybody."
- "He took advice from anybody, and everybody, whether they knew anything about it or not."
- Their accounting was a mess, the checkbook was never balanced, the bookkeeper was a year behind, and the owner of the company did not know on any given day how much of the money in the bank he actually had available to spend.
- They had too many employees, and too many locations.
- As a consolidator, they never turned down a publisher and allowed them to send as much inventory as they wanted to. This meant the company was paying to warehouse a huge stockpile of product that was never going to sell.
- He was horrible at collecting money and had to be nagged to send invoices to people who were willing to pay on time. He did not even notice when many companies stopped paying him on time, or when two of his biggest accounts went out of business entirely.
- His quality control was pathetic and companies that bought production from him got tired of having to pay employees to check each item on arrival. Worse (for him), the companies started refusing to pay for mis-manufactured items.

### SUICIDE MISSIONS

Several true (if disguised) stories of deals that went wrong and were so big they wrecked companies:

- A game company signed a deal for an electronics company to do an electronic version of their game. The game company went into the deal based on an "estimated production cost" letter from the electronics company. I insisted that the game company write into the contract that if the real costs were higher than that estimate, the company could get out of

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the deal with no money spent. The game company told me they didn't want my advice. The real costs turned out to be much higher (due to a "start up cost" nobody ever mentioned), the game company ended up paying a huge amount of money for development of a game that was never produced.

- A game company signed a contract with a foreign distributor for exclusive sales of their new game, a contract that included buying certain quantities of the products. The game company upped the print run accordingly. The distributor then took a "first shipment" of 1/4 of the contracted amounts, found sales to be disappointing, and sent a letter canceling the contract. The contract did not have a cancellation clause but the game company did not have the money to pay a lawyer, especially in a foreign country. The game company went through some very tough times paying for a warehouse full of games that had been "ordered" by a customer who never "bought" them.

- An individual who knew nothing of the game industry invented a game, got a home equity loan, printed five thousand copies (there are "turnkey" printers who will do this for you — if you pay in advance), and THEN asked the industry Email lists how he should get stores and wholesalers to market his game, and what discounts he should give them.

- A game company had been contacted by a buyer for a government-owned travelling exhibit. The company had a game about that subject and the buyer said he wanted several thousand copies for the travelling exhibit's gift store, but never placed a firm contractual order. After the huge print run arrived on the company docks, the company learned that the buyer was no longer working for the government, and his replacement had no interest in the product.

- A company signed up for a deal which involved shipping several pallets of games to a wholesaler for a special promotion. The wholesaler was the agent for a promoter who had supposedly lined up hundreds of stores to take two copies of each of a selection of games. In the end, fewer than a hundred stores took the promotional deal and the company ended up "taking back" thousands of dollars in product that (truth to tell) was sold on a "returnable" basis. The company (several companies, in fact) had expected that the returns would be minor because every store would have only two copies and should have been able to sell them, **even for half price**. But alas, 3/4 of the inventory never reached a store.

- Your entire business plan is based on the current somewhat favorable exchange rate between the US and Canada. If that rate changes dramatically (and it can) you could end up with an unworkable model. **See whiz, that was written in 2005, and the exchange rate is now WHAT?**

- A very nice person came up with an idea to produce an updated list of thousands of stores (many more stores than now carry "adventure games" or RPGs) with very detailed information on the buyer, the local market, and so forth. The idea was that, armed with this information (for which she wanted several hundred dollars per user), a manufacturer could more effectively call stores and solicit them to carry the manufacturer's product. Lots of manufacturers who really could not afford the fee (remember, several hundred dollars) signed up and paid in advance. The nice person bought a lot of advertising to get pre-orders, then spent the pre-order money paying a telephone survey company to call the stores. At which point she discovered that it was going to cost a lot more to complete the survey than she expected (or had the money to fund). She basically halted the project for a re-think. Lots of pre-order people then demanded refunds (but she no longer had their money, having spent it on what part of the survey she did get done) and she also never paid for many of the advertisements she had placed. What went wrong is obvious; what could have been done to avoid it is less so. The present author of this book did not pre-order the list because he

decided that he could pay a college student intern (studying marketing) to call the stores on the much smaller GAMA list (updating it as he went along) and picking up new orders for product that more than paid for the intern. The nice lady who started this project and found it more than she bargained for might be faulted for not realizing just how much time it was going to take, but once she realized it, she could have (perhaps) delivered the portion of the country that she had done to her clients, and sold enough copies of "Part 1" of her project to fund later elements.

### ANSWERS TO QUESTIONS

In a recent GPA post, an individual asked me to provide the answers to certain specific questions which seem to be of general interest. Here goes:

**How can you apprentice to gain experience?** Make friends (honest, long-lasting, deep, personal friends) with people who work for other game companies. Start **planning for your game company** years before you **actually** start your company. Work for them at conventions, maybe even move to a city where there is a game company, get a day job, and work nights and weekends for the game company (unpaid at first) to gain experience. Do publishable items (start small with articles and such) for other game companies to get them to teach you how to write. If nothing else, work for a local non-gaming company that will provide real-world business experience. Pick a smaller locally-owned company.

**How do you build up cash for a start?** You need to have a pile of cash, and a pile of unused credit. Don't try to start your company with pre-approved credit cards you get in the mail, or (worse) a home equity loan. Only spend money you can afford to lose. You can build up a pile of cash in many ways. If you win the lottery or inherit a fortune, you don't need to read the rest of this paragraph. The basic concept is called Savings (money you might end up spending to start a family instead of a game company, but that's ok, too). You increase your income all you can (hard work, volunteer for all the overtime you can get, take a second job at UPS or delivering pizza) and put as much of your income as you can into the bank. The author did it by becoming a highly successful game designer, putting aside most of his royalties, and cashing in the huge amount of unpaid royalties owed by the publisher. **In hindsight, I would have made more money by walking away from the game business in 1996 (when the publisher I was working for stopped paying me) and getting an entry level job at McDonald's (and working my way up to management). However, I would not have been a happy person.**

**How Much Cash Are You Going To Need?** Lots, more than you think you do. And I say again, when you plan on this, leave your credit cards out of the equation. You will end up using them to cover things you didn't think of, but don't count on them for the first estimate. Seriously, the amount of cash you need varies by what size company and how much it will be doing. Do a serious budget and write a business plan. Get your parents, your spouse, a game company you are friends with, and a businessman you know to go over your budget looking for missing and underestimated items. If you're going to leave your day job, you need enough cash to cover six months of personal expenses. If you plan to print products, you need enough cash to print the first two, or better than that, three. If you're going to rent an office, you need at least three months of rent, preferably six. If you're going to hire employees who aren't "part of the faithful" then you need at least three months of their salaries. You need enough cash for all of your start up expenses (furniture, equipment, and things like paying a web design company to make a world-class web site) and your operating expenses for three months, preferably six. And on top of that, a couple of thousand in cash not budgeted for anything *and* some unused credit cards. Various parts of this

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book show you how to reduce or delay some of these expenses. (For example, the \$3,000 for a world class web site can wait.) But in the end, it's going to take cash. Far too many companies start with borrowed money (and when they fail, have to pay it all back out of their day jobs) or with unsecured debts (credit with the printer, that web site designer who has called three times about your past due balance).

**How Likely is Failure?** Very. Statistics show that of all businesses, half fail in the first two years and half of the rest in the next three. The number one cause of failure is lack of money; you didn't have enough cash, credit, and other assets when you started to get past the expenses that happen before any serious sales income starts showing up. Of course, if you pick bad titles and/or produce shoddy products, that sales income could be a long time in coming. And if you spend money stupidly on things that you don't really need (say, full page color ads, a company car, a trip to a game convention in Fiji) your expenses may never catch up to your income.

**How Can You Protect Your Personal Assets to Avoid Bankruptcy?** Laws vary from state to state (and outside of the US it is another whole country) so consult a local expert (lawyer, business advisor, mentor, relative in business, etc.) but the obvious answers are to establish a corporation or a limited liability company. Watch out, there are things you can do to break that protection and expose yourself to all kinds of trouble. And it's going to be tough to get anybody to loan you money or give you credit if the only thing that they can come after for the unpaid bills is a failed corporation with the copyrights to games nobody wanted to buy.

**How Do You Handle Hubris?** Hubris is defined as overconfident pride and arrogance, a feeling that you can do no wrong, a feeling that your decisions are always right, and a feeling that even if things go wrong (through no fault of your own) the world owes you a company and can just wait to get its bills paid. I have found that the best cure for this is somebody who will have no hesitation to tell you when you are wrong (although if you don't listen to them, even that doesn't help). One solution here is to have a partner who is an actual veteran businessman. You might make such a partnership with your printer, giving him a 10% share of your company for two courtesies (a little printing credit and the right to stop you from doing something stupid). A better choice might be a reasonably intelligent woman (your spouse for example) who has been given a legal right to say "No, this company is not going to do that. I'll tell you why we aren't going to, and you won't believe or agree, but we still aren't going to do it."

### MORE QUESTIONS FROM A NEW PUBLISHER

In September 2009, some questions were posed on the GPA mailing list about starting to sell to wholesalers. Here are the answers I sent:

**1. What is the "standard" discount?** i.e., our product has a \$20 retail price. How much can I expect a distributor to pay me for it?

**Answer:** They pay about 40% of retail (60% off), so they'll pay \$8 for your \$20 book, and you have to pay the shipping to them. For the British and Canadians, you pay the shipping to their forwarder in New York or someplace else in the US.

**2. How much of the product will they buy?** This is a fantasy RPG supplement for any fantasy RPG, but DOES have the Wizards OGL stuff on it. Will they take 1000? 500? 100?

**Answer:** I would think 100 (total, for all wholesalers) is more likely than 1000, but it just depends. The bigger question is whether they will buy from you at all. They ignore and refuse to buy from a lot of smaller companies. They just don't need more products; they totally fill the shelves and the markets with what they have now. The point being that it is not automatic that they will buy from you. They might insist that you go through a consolidator who will take a percentage of the

money and bundle the sales of many smaller companies so the wholesaler only has to put up with one account, one purchase order, one invoice.

**3. What is normal for payment?** Do they pay all up front? All on terms? Half and half? Something else?

**Answer:** Normal terms are to pay in 30 days at a 50% or 54% discount, but in practice, they take the "early discount" and pay in ten days at 60% off of retail. Unless they insist that you do a flooring deal. In that case, you send them stuff and every two weeks they count up what they sold and pay you for it sometime within a few days after that.

**4. Is it better to work with multiple distributors?**

**Answer:** Yes, if you can get more than one to talk to you.

**5. Any other questions** that are vital and I should have asked but didn't?

**Answer:** Read this book!

Please do not post this document on a web site or pass it around. Anybody who wants a copy can ask or download a free PDF; feel free to link to it. That's not because I want to be a control freak but because I do update individual chapters whenever I think of something to add and would just as soon there be one place for the most recent copy.