



Spare No Expense!
Starbucks™ and
Aeron™ Chairs for
Everyone!

Presented by Mike "Mr. Mike" McShaffry
Game Developer's Conference 2004

Who is Mr.Mike?

- First gig: Origin Systems circa 1990.
 - Floppy disks. Big ones. Sneaker net.
- Graduated Origin in 1997 after Ultima Online.
- Advanced degrees earned at Glass Eye Entertainment and Compulsive Development.
- Currently - working at Ion Storm Austin on Thief III.

What You're Going to See...

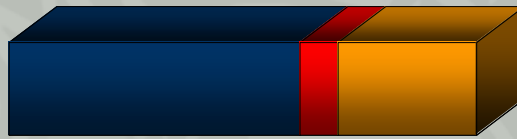
- A romp through Compulsive's books.
- Our studio – 20 people, 3 small projects.
- What we spent, why we spent it.
- What we would do different.

- **CAVEAT** – Our way of doing things is not the only way, just ours. Forget right or wrong.

Points to make:

- Why would you ever spend your studio's money? Because it returns you a profit.
- The most important asset you have is people – they walk out of your door every night.
- Spend money to make their work more pleasant (better quality), more efficient (more work per hour, lower risk to cash flow), and to minimize turnover (lowers risk, and hiring expenses)

The Big Picture



■ Payroll ■ Contractors ■ Everything Else

- Here's the breakdown:
 - Payroll (57.26%)
 - Development Payroll (49-47%)
 - Admin Payroll (8-10%)
 - 10:1 development/admin headcount ratio
 - Payroll Taxes (4.85%)
 - Contractors for product development (8.19%)
 - Everything Else (29.63%)
- Depending on who you asked – we over AND under spent!

Points to make:

- We're going to be talking mostly how to get the best out of that 29.63%
- Maybe a quick discussion about the proverbial "sweet spot" where you are big enough as a studio to have a high payroll / non-payroll ratio (most of your money goes to your people), but small enough that most of those people are developers and not managers.....

Employee Compensation

- Fair pay for the work.
- Raises don't happen forever...but...
- Owners pay was based on profit.
- Profit sharing – 15% was reserved.
- 401K matching – too expensive for small studios.

When To Hire More People

■ 5/6 Rule

- This is as far as your team can stretch for long periods of time.
- This stretching does NOT come for free...

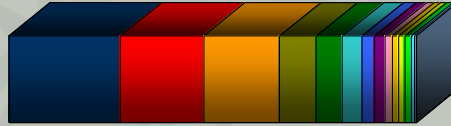
■ Contractors vs. Full Time

- Crank the numbers based on your studio multiple and your hiring costs.
- Contractors are GREAT for support roles like IT.
- They're also good for specialized tasks.

Points to make:

- Temporary jobs get temporary people!
 - You can hire contractors for 10hrs/week – but a full time employee is exactly that FULL TIME.
 - Especially for support positions – IT, HR, etc.
 - Our QA guy wanted to move into IT, so we obliged by hiring part time QA and he took on IT tasks. That worked out for everyone.
 - Where's the fall line????? Where's studio efficiency going?
- 5/6 Rule – if you only have 3 people to stretch, you can't fill the tasks of a full time person. Maybe a part time contractor can help.
- This is one reason why being a small studio is so painful. You can't usually afford to hire someone, but you also can't stretch your people far enough to accomplish the work in the time allowed....YIEEEEE

Non-Payroll Expenses: 29.63%

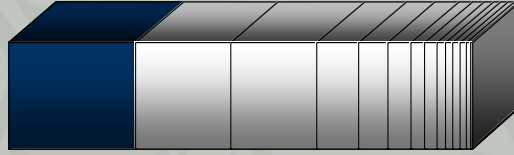


■ Rent	■ Facilities & Office Expenses
■ Insurance	■ Depreciation
■ License Fees, Permits	■ Legal and Professional
■ Meals and Entertainment	■ Travel
■ Misc PR "Feel Good" Stuff	■ Research and Development
■ Lots of Random Stuff	■ Employee Benefits
■ Dues and Subscriptions	■ Texas Franchise Tax

Points to make:

- Biggest non-payroll expenses:
 - Rent
 - Facilities and Office Expenses
 - Insurance
 - Depreciation
- IMPORTANT – spending more money in the tiny categories, such as travel can make a world of difference to your employees.
- Be frugal, be efficient, but NEVER EVER be cheap.**

Rent: 8.03%

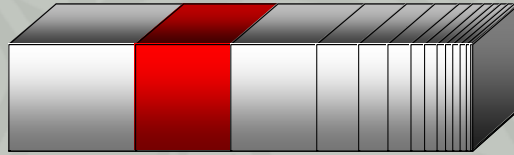


- Totally controllable – but it can have a huge impact if you go too cheap.
- Rents are cheap in Austin – anywhere from \$12-\$30/sq.ft./year.
- Our rent was higher as a percentage – we planned for growth.
- We leased 400+ sq.ft./person; it was palatial – 250 would have been acceptable.
- Our culture – generally single person offices, no cubes.
- Assuming no growth, we overspent for the Austin market.

Points to Make

- We call Austin Home, so these rents are going to seem insanely low to most of you.
- Both locations had plenty of common area and meeting space. This is really important...
- Tell some stories of the 5th Street location.
 - 7000 sq/ft – \$7433/mo - \$12.74/sq/ft/yr
 - 11 employees – 636 sq/ft per person seemed palatial
 - Flood
 - No AC
 - No Heat
- Contrast it with SoCo
 - We invested \$80,000 of 2001 profits to do some important build out. In exchange, we got a lower rent for 2 years.
 - 9600 sq/ft - \$10,750/mo - \$13.43/sq/ft/yr
 - 22 employees – 436 sq/ft per person, was still palatial
 - Morale Boosting Spot
 - Central location
 - Visible in the community
- Single vs. double offices. We did individual offices for most people (no cubes). Double offices can work fine if they are comfortable (I'm in one right now, and I think I get more work done and it's more fun.)
- Avoid overcrowding – it weighs on the mind.

Facilities and Office: 6.04%



- Includes things like:
 - Internet (1.0%)
 - Utilities & Security (0.97%)
 - Office and computer supplies (0.74%)
 - Leased hardware (0.70%)
 - Groceries (0.45%)
 - Telephone (0.33%)
 - Cleaners (0.28%)
- Spending this money gave us a great working environment.

Points to Make

- This money lubricates your studio and makes it a nice place to work. Don't be cheap – spend exactly what you need.
- Groceries especially – we had free drinks, snacks, and other foods to keep people in the office working.
- We leased as much hardware as we could – desktops, portables, servers, and, phones – it was also a great way to establish a credit record.

Detailed Breakdown

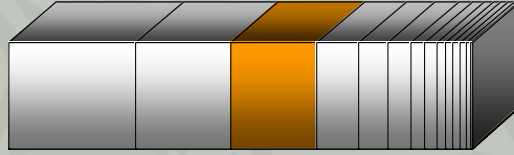
Facilities Expense

Bottled Water		0.06%	
Cleaners			0.28%
Crunch Meals		0.06%	
Furniture Leased	0.03%		
Gas			
0.02%			
Groceries			0.45%
Internet Expense	1.0%		
Library			0.11%
Moving			0.12%
Repairs & Maintenance	0.16%		
Security			0.07%
Services			0.08%
Telephone			0.33%
Trash&Recycling	0.05%		
Utilities			0.9%
Gifts			
0.24%			

Hardware Leased

Phones			0.03%
Hardware Leased - Other	0.67%		
Total Hardware Leased		0.7%	

Insurance: 5.53%



- Unfortunately, this isn't as controllable as you'd hope...and these are 2002 costs, which weren't nearly as high as they are now.
- Here's the breakdown:
 - Medical insurance through Principal (4.74%)
 - E&O Insurance (0.53%)
 - Workers Compensation (0.13%)
 - Business Insurance (0.09%)
 - Key Man Insurance (0.03%)
 - 401K Surety Bond (0.01%)

Points to Make

- We didn't cover optical – instead we paid for eye exams and contacts or glasses out of the “Employee Benefits” account.
- E&O was required by our Microsoft contract.
- Business insurance will cover you for catastrophic events like fires, floods.
- Key man covered buying out a partners shares from their estate should they die.

Insurance

401K Surety Bond

0.01%

Business Insurance

0.1%

E&O Insurance

0.53%

Key Man Insurance

0.03%

Principal Medical

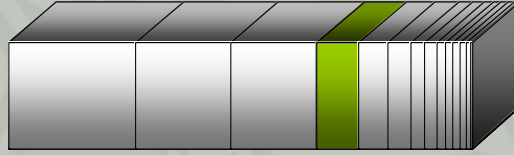
3.66%

Workers Comp

0.14%

Insurance - Other

Depreciation: 2.68%

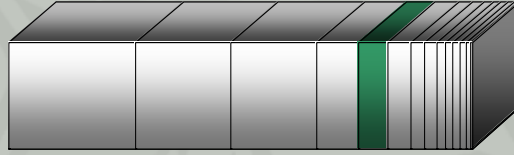


- Generally – we leased everything we could.
- What we couldn't lease we had to buy, and therefore depreciate.
 - Expensive network hardware – routers and switches.
 - Appliances like refrigerators.
 - Other things our accountant wouldn't let us expense!
- We would do this again, too.

Points to Make

- We didn't have tons of cash to buy things, or pay taxes on big capital expenditures.
- In fact, cash flow was ALWAYS the most serious financial problem – not receivables or expenditures.
- Even so, there are tons of things you simply can't lease easily – but there are financial services companies out there that will “lease” you almost anything you can buy.

License Fees: 1.85%

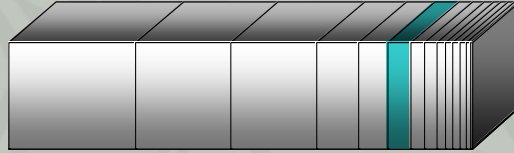


- RAD Game Tools for Miles Sound and Bink licenses for 3 projects.
- Yes, I know John Miles. No, he didn't ask me to say this.
- Yes, the money was well spent and we'd do it again.
- Yes, you can use this information to back calculate actual dollars from these percentages – if you have that much time on your hands.

Points to Make

- Don't waste time generating IP like sound and video systems that are only "as good as" something you can license. It's a waste of your precious cash.
- Invest in significant technologies that separate you from the pack.

Professional Fees: 1.50%



- Here's the breakdown:
 - IT Consulting (0.85%)
 - Legal (0.27%)
 - Business Development (0.22%)
 - Accounting (0.16%)
- WARNING!!! Hire professionals only when you can define the task. This goes for product development contractors, too...
- We'd spend the same amount, or maybe more, but we'd get more value for our money by defining the tasks better.

Points to Make:

- The IT fees were really, really, well spent.
- Remember that lawyers will do what you want them to, but left alone will protect your interests almost to a fault.

Detailed Breakdown

Legal & Professional Fees

Biz Dev

0.22%

IT Consulting

0.85%

Legal Fees

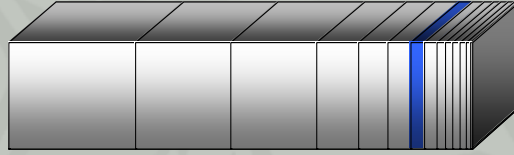
0.02%

Legal & Professional Fees – Other 0.25%

Total Legal & Professional Fees

1.35%

Meals and Entertainment: 0.86%

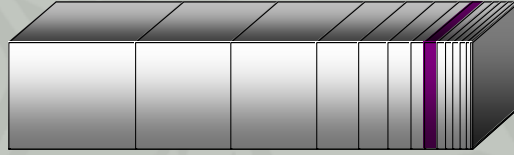


- Totally controllable.
 - Sometimes, but not always, we'd pick up lunch.
 - The Christmas Party!!!!
 - This is morale money....and our morale was pretty good.
- Yeah – this is the stuff Uncle Sam says you can't deduct 100%
- We overspent here, but that was our conscious choice.

Points to Make

- Make lunch on the company a surprise, but never an expectation.
- Give senior employees a monthly budget to buy lunch. Trust them.

Travel: 0.78%

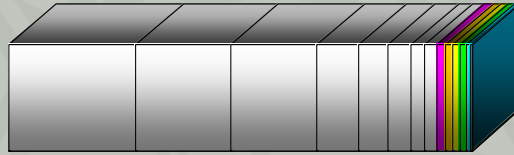


- There's a catch – Microsoft paid for half of our travel.
- Not to GDC, not to E3 – just to Redmond. Wow. Redmond.
- Travel is a reward for your best performers.
 - Budget one trip per year for each employee.
 - Domestic travel to SIGGRAPH or E3 is a good deal.
 - GDC, uh, well, encourage your employees to be speakers....
- Assuming this was more like 1.5%, we spent the right amount.

Points to Make

- But we were lucky here too...
- Microsoft Reimbursed us directly for (0.6%) additional travel expenses....
- Plan for each employee to spend \$2,500 per year on some travel – not everyone will actually spend that, but it's a good idea to give trips out as rewards for excellent achievement. Send em to E3, GDC, SIGGRAPH – there's a lot to be learned, experienced, and they always come back better than when they left.
- If you're worried about your employees being recruited by other companies, you've got bigger problems. You should go to these shows hoping other companies employees are looking to be recruited by your people!

Miscellaneous Stuff: 2.36%



- Small stuff, but important!
 - Public Relations (0.31%)
 - R&D (0.47%)
 - Employee Benefits (0.41%)
 - Dues and Subscriptions (0.22%)
 - Gifts (0.24%)
 - Texas Franchise Tax (0.11%)
 - Stuff even more boring than TxFT (0.60%)
- We might have overspent here too – but it was effective.

Points to Make:

- Public relations was gifts to charity, trade show expenses, marketing, and advertising.
- R&D – Expenses tied to getting new projects. 20-20 hindsight says we should have spent more money here. A lot more money...
- Employee Benefits
 - Baby Bonus – We gave a \$1,000 bonus when someone had a baby or adopted. The added expenses around this time caused stress that was alleviated by the bonus, and therefore worth the money. Oh – we decided to cap it a 4 kids. After that, we figured the add'l stress was your own fault!!!
 - Cell Phones (0.22%) - Very cheap and very effective. \$50 cell phone allowance (which they needed to expense every month, and were reimbursed) allows an employee to choose their cell service and phone (impossible with a corporate wide plan), and allows the company to call them if there's an urgent need.
- Dues and Subscriptions – our studio membership for IGDA, magazines, etc.
- Gifts – We bought Xboxes for every employee at Christmas. Also - flowers for employees families on certain occasions – like hospital stays, etc. The good will was worth many times the money we spent.

Wrapping Up...

- Be frugal but not cheap!
- Watch out for the big expenses: salaries, contractors, rent, and insurance.
- Loosen your purse strings on the little things that make a real difference to your people and their work.
- In other words – buy Newcastle, not Bud Light.

Thanks For Listening! Here's Where to Find Me...

My web site:

<http://www.mcshaffry.com/GameCode/portal.php>

Or...just Google "mcshaffry"

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