Game Biz

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Why Investors Say No

They need to believe.

How it Works

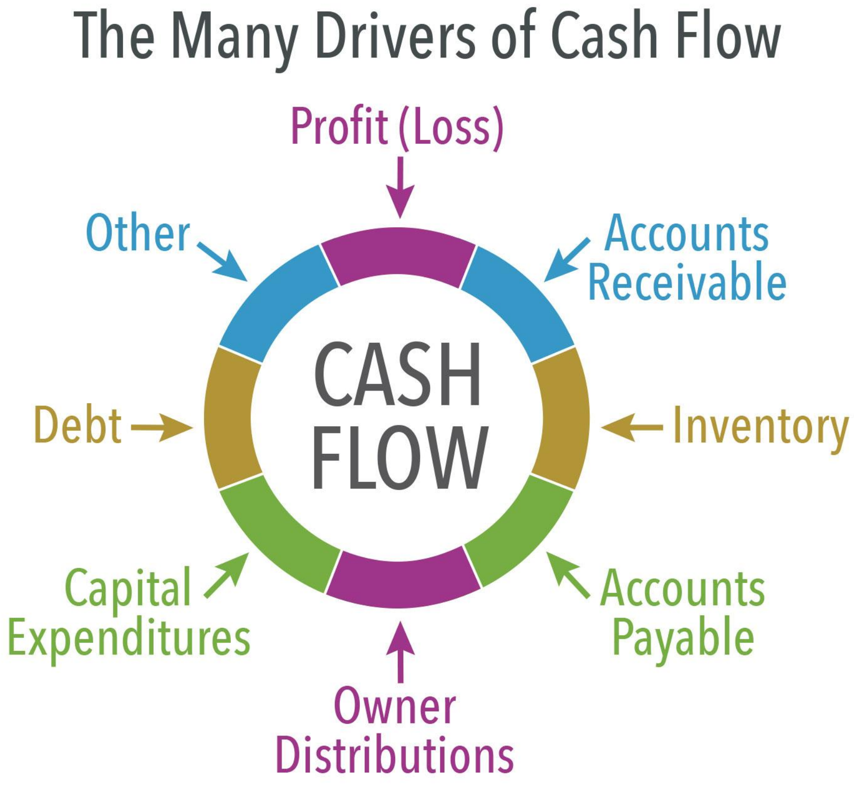
- Investors see *hundreds* of pitches each month, but only **one or two** will get it.
  - Even harder after 2022: less VC capital in general due to higher interest rates elsewhere in the economy.
- You can't just want the money and "here's our game ".
- It needs to be about something **big;** something that will require many things to go right; something with the potential of a *10x return* once the VC exits.
- **Make the investor believe in your dream.**

Reason #1: n00b approach

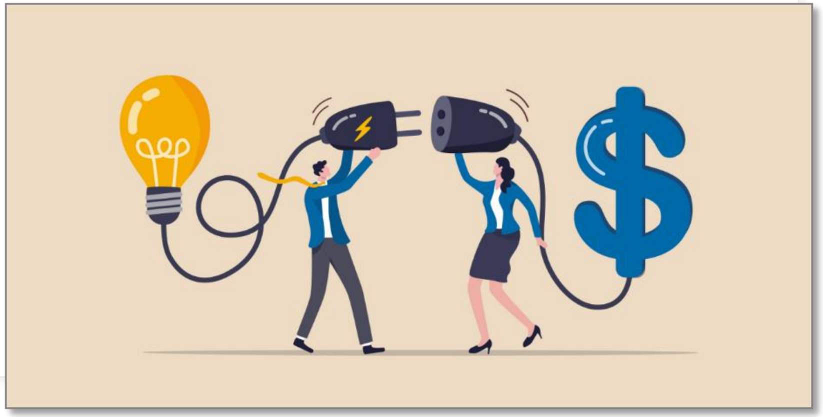
- "*Cold-email*" dozens of VCs without any research.
  - They already get way too many.
  - The best way is via an introduction: another founder who already knows the investor and can ***refer*** you.
- Ignore *VC profile or specialization*
  - Different VCs invest in different stages
  - VCs also specialize in certain interests or technologies.
- Ask for an *NDA* upfront.
  - Nope. They don't have time to deal with it.
  - And risks their next pitches.
- Make an initial pitch *too technical*. Or with *too sensitive* information.
  - Hold them for later meetings. Build a relationship. Their time will come.

Reason #2: lack of clarity on money needs

- The money is meant to be used to operate on the ***next level***.
  - You don't raise to stay at the same operational level.
  - You don't raise to increase your own salary.
  - You raise to push the business forward: bigger team, tech acquisition, launch more products, more marketing.
- Examples:
  - Pre-production -> version 1 of a game or tech.
  - Product is done -> launch, marketing and distribution.
  - Tech is in "Alpha" -> double the team size and 10x the user base.
- Project a realistic ***cash flow*** for 6 to 12 months.
  - Personnel and salaries, mostly.
  - Acquisition of hardware and software.
  - Fixed costs, rent, IT, legal, admin.
  - Marketing and user acquisition.
- After all this, ***then*** you'll have your figure and clarity how it will be spent.



Reason #3: ignoring the *fit*



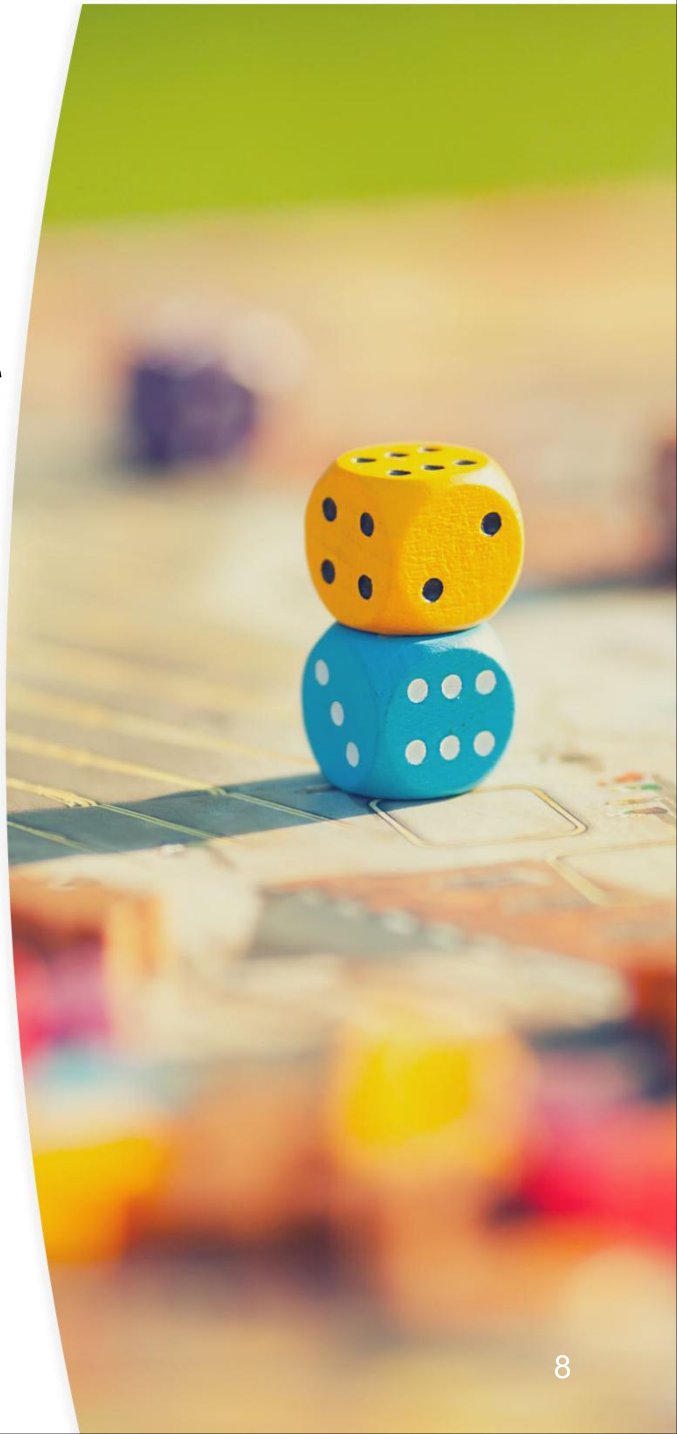
- Don't focus on their *money*.
- VC investors for early stages frequently *specialize*.
  - Many investors out there don't know the first thing of gaming.
  - That's OK, but you need to look for the ones that *know* gaming or tech.
  - Investors on later stages (Series B, C, post-IPO) may be much less specialized (like funds), but that's after the company already has a solid direction and assets.
- Investors can help running the business and with strategy.
  - They will probably have seats in your board.
  - So they should know how our business can thrive.
- Finding the right fit can *take time*.
  - Thus, the search for an investor needs to start way before you are out of money and needing to cover the next month of salaries.

Reason #4: diminishing the *conversation after*

- People prepare for investor meetings by perfecting their pitch with countless iterations.
- But the *conversation after the pitch* is more important.
  - They see a lot, and will be able to give feedback on your business idea.
  - More than one game. A broader picture.
- Know your stuff. Be prepared to answer:
  - Why do you think now is a good time for your idea?
  - What are the ways that this can fail?
  - How will you navigate around these failure situations?
  - What have you achieved so far?
  - How did you fund your efforts so far?
  - Why are you raising now?

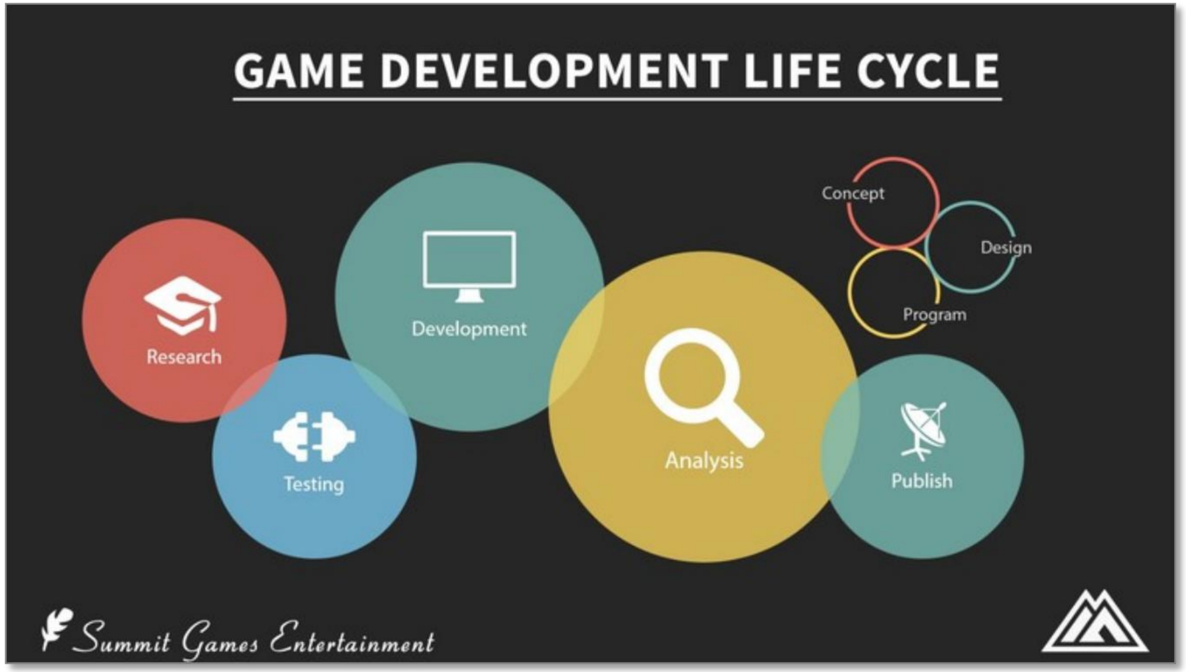
Reason #5: ignoring the *business* of your product

- Making a good game is not enough. Developing great tech is not enough. You need to know *the market you are in*.
- Investors like to hear a big vision.
  - You are raising money is to build a big company, not to fund ***a*** game.
  - The game you are making must be the first step in creating **a big business.**
- You need to know:
  - What is your customer like?
  - Who is the competition? What prevents them from taking over your business?
  - What kind of revenue do you expect? How will they be spent?
  - How much will the customer acquisition cost look like in your industry?



Reason #6: not showing progress

- Just a pitch and an idea is not enough.
- Show ***clear progress*** before you can expect investors to fund your company
- The more, the better. Examples:
    - Critical team members join the meetings (progress in team building);
    - Prototypes ready for testing;
    - Metrics already available from previous tests.
    - Tests conducted with real players, off the street.



Reason #7: lack of user understanding

- Understanding of game design, free-to-play metrics, monetization, loops and virtual economy taps and sinks is good.
- But focusing exclusively on them is a problem: founders lose sight of really understanding what a great customer experience looks like.
    - If you keep looking at the trees, you lose sight of the forest.

- Investors expect you to ***understand your end-user***: wide range of topics from player psychology, user experience, how to create challenging moments for players, ***why*** they play and what they want.

Reason #8: lack of focus

- Trying to do too many things at the same time can be difficult.
- Short-term clarity:
  - What are the top 3 things that need to happen in the next six months.
  - To show real clarity is to state what you're *not going to do*.
- Long-term is about thinking big:
  - Having a vision and a mission for the company.
  - Building a leadership team for the long term.
  - What kind of "multiple hats" can the team members wear for now?
  - What type of role will they take as the company grows?

Reason #9: lack of insight on distribution

- Long gone are the days when publishers would take care of the distribution.
- More than ever, now it’s all in the hands of the developers
- You need to know what are the current dynamics and how the market will change in the ***coming months and years***.
- You need to follow the games industry and events such as GDCs, PocketGamer Connects, GamesCom, MIGS, PAX. Even Gen Con.

Reason #10: lack of storytelling

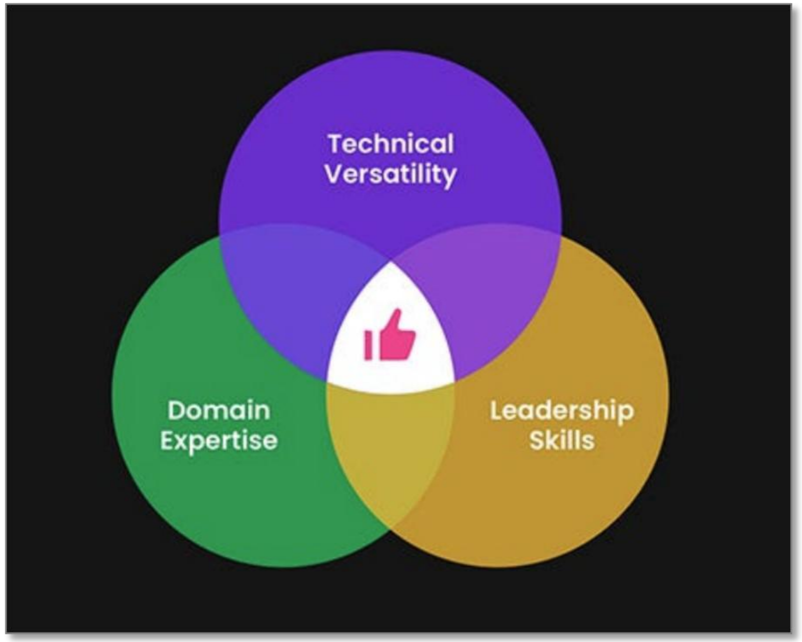
- Humans love stories. You have to ***sell a story***.
  - Don’t be humble and unexcited.
  - Speak with energy and enthusiasm.
  - Investors bet on big dreams. Make the investor to dream with you.
- But avoid being arrogant.
  - Make sure that you have a story where there are a lot of winners
  - You can take a slice of an ever-growing market.

Reason #11: overreacting to rejection

- ”When VCs say “no” to funding you… they are saying “no” RELATIVE TO other opportunities they are chasing. It does NOT mean your startup is crap.”
- Individual investors are looking at startups through their individual lenses.
  - Each investor has a history on cases they’ve backed before.
  - There are things they’ve promised to their partners they don’t publicly communicate.
- VC investors won't back companies they don’t believe can achieve a certain valuation.
  - They don’t tell it on their website, they don’t point this out to the companies.
  - They just tell the founder who pitched them that “This is not a good fit for us.”

Reason #12: lack domain expertise

- ***Founder domain expertise*** is when the founder skills and knowledge in the particular area where their startup will be operating in.
- If it's a mobile games startup:
  - Would have lead a game team or a studio before
  - Have gone through the whole process from game concepting to launching
  - Have run a live game.
- Gaming VCs may forgo a lack of market evidence or soft launch data if the founders have enough domain expertise.



Reason #13: startup is moving slow

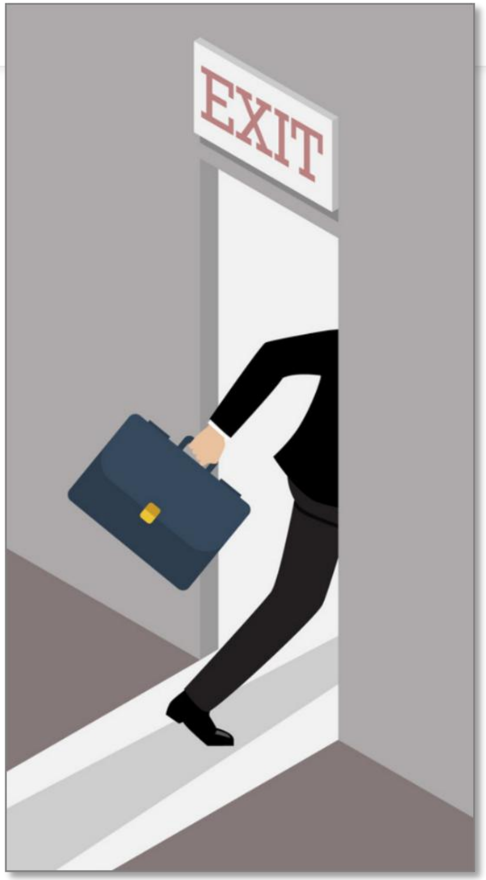
- Investors may interpret evidence on a startup moving slow as a red flag.
- Examples:
  - Team hasn’t made progress for six months.
  - They have a game ready for a soft launch, but are postponing the soft launch until they raise money in case the numbers aren’t great.
  - The team has done a soft launch, but only with a few small cohorts. They might be optimizing for short-term gains in metrics to impress investors, instead of long-term sustainable progress.
- Many investors do their due diligence work to figure out if the numbers will hold and why the team is postponing the steps needed to progress

Reason #14: “not a market we invest”

- Investors have their own thesis on which gaming markets are growing, stagnant and not venture backable.
  - Mid 2010s: VR and AR were the hottest sectors in gaming.
  - When Pokemon Go came out in 2016, location based games were hot.
  - None of these markets have so far in 2020 lived up to their expectations.
- Certain markets will push investors away: they will say no to premium games, when they’ve been won over by free-to-play.
- There’s nothing wrong with any of the above mentioned markets and founders might do very well with games in these markets.
  - It’s that you’ll need much more evidence on your success to get investors on board.

Reason #15: talking about an exit

- An exit can be a long term goal, but it's only one of the outcomes that might happen to you at the end of the line.
- A much more likely is that you run out of cash.
- Spend your mindshare on thinking about how to make your company succeed in **staying alive** with customer revenue, then how you get to grow the company from there.
- Keep exit plans to yourself, focus on making it work.



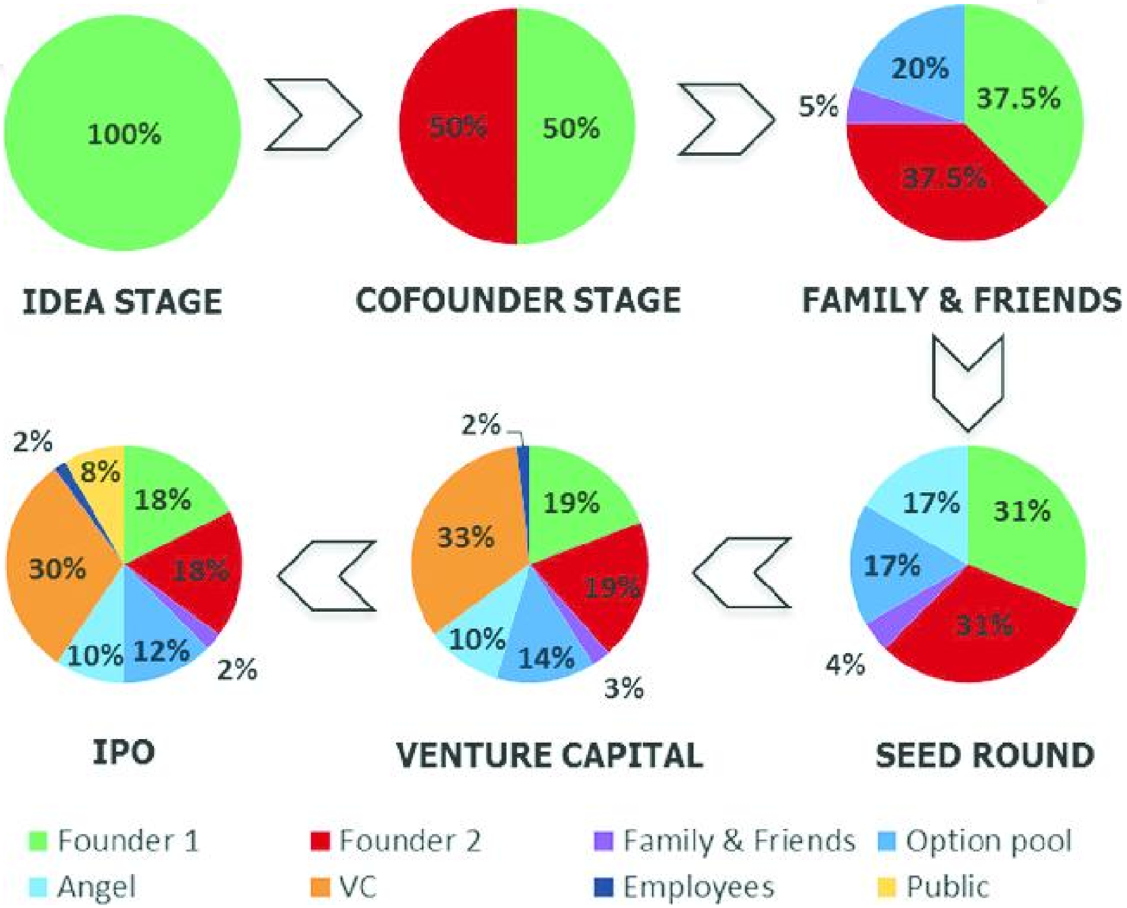
Reason #16: reference checks bounce

"Should I be concerned that all your references pleaded the fifth?"

- All the VCs will do reference checks on the founders.
  - They will call up people from the founder's network, ex-colleagues, ex-bosses, ex-investor.
- The most common questions they will ask:
  - How do you know the person?
  - What is the founder's super power?
  - What's the founder's weakness?
- Most investors will give a lot of weight on these checks.
- When you get good at reference checks, you start to pay attention to ***how*** things are said more than ***what*** is said. And you start to pay particular attention to what is ***not said***.
  - The founder CEO's reference checks will have the most weight
  - They should score well on integrity, i.e. how they treat people
  - how they wow people
  - how they deal with times of crisis.
- **How to avoid:** when a founder knows that they won't receive positive reference checks, they should be upfront about their shortcomings to investors, and to build a narrative.

Reason #17: cap table looks bad

- A ***cap table*** is a breakdown of how many shares (a.k.a. ***equity***) every shareholder owns.
- Usually, four types of entities on a startup cap table: **founders, employees, advisors, and investors.**
    - you can model a cap table for future investment rounds,
    - startup advisors could be compensated for their work with equity.
- The most common scenario where a cap table could look bad at the early stage fundraising:
    - You've done several investment rounds
    - diluted the founder ownership to under 50
    - without getting to show that your game is working.
- When the founders own less than 50%, they need to have substantial evidence on things working
    - The company might still need to do a few more funding rounds to achieve a state where they are growing with the customer's money.
    - the founders will dilute even more and it will be much harder to keep up motivation
- Make every dilution matter, so that you get closer to growing your company with customer revenue.



Reason #18: invested in something similar

- Investors might be reluctant to invest in companies that are competing directly with companies that they've already invested in.
  - This uneasiness usually comes from conflicts of interest
  - the investor might have trade secrets that the existing company has disclosed to the investor,
  - they will be in an uneasy position when it comes to giving advice to the founders
- Fortunately, in gaming, many "deconstructions" of games have democratized data on how games work, so there is less stealthy trade secrets to go around.
- Position your company differently.
  - Highlight the different team backgrounds and the different approach on finding a "solution to the market problem."
  - Investors want to be known for backing the leaders in different spaces, i.e. "we backed the #1 hyper-casual company" or "we backed the #1 MMO company".
  - Portfolio companies, taking different approaches to winning a big market, is one way for an investor to play smart.

Reason #19: too much competition

- This can happen to any developer, especially in markets where the winners will eat out all the oxygen in the market.
- One example is hyper-casual
    - startups with the best user acquisition talent will run the games studio more like a UA driven games studio.
    - Even if you've founded an art or creatively driven gaming studio, but don't have a foothold in world-class user acquisition talent,
    - a gaming investor can spot this as a problem.
- Provide empirical data on the core audience being willing to play a similar game, or a game with some critical features that create a new meaningful experience.
    - This could be done by soft-launching the game and having good enough retention metrics.

Reason #20: no confidence in the game

- This one is often the problem with a big game, looking for funding in the next twelve to 18 months.
- Quite hard to tackle.
    - The big games, i.e. MMOs, strategy games, etc. are often hard to soft launch before all the systems are in place
    - the game is up to the standards of a high quality demanding audience.
- Even when you have a big game to build out, start collecting information on your target audience as soon as possible.
- Run experiments that prove out your hypothesis, i.e. “Our game is the one that players will want to play for years”.
- Push this data collecting effort to the max, and find out if you need to change direction before reaching out to investors.