

## GAME COLAB: CAN IT CONNECT INDIE GAME DEVELOPERS?

*Collin Sellman and T.S. Raghu wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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Ben Reichert and Joseph Darnell had been discussing their next moves for the Game Colab (the CoLab) for over two hours. It was July 2014, nine months after they had begun their new venture to develop a collaborative workplace for independent (indie) game developers. They sat in their Phoenix, Arizona office to discuss how to move the business forward.

“Our minimum viable product (MVP) is really about the community and being an advocate for indie gamers,” Reichert reminded Darnell. “How about instead of focusing on the coworking idea, we pivot to be a way for them to start their game businesses?” His idea was essentially to act as a startup incubator for indie developers looking to launch their own games. Such an incubator would interview potential game developers and select those who had the most potential to be part of the CoLab, which would include funding and office space similar to companies such as Y Combinator.<sup>1</sup> Given their growing connections to the educational technology market, Reichert and Darnell thought they might be able to make a niche for themselves in the educational indie game segment. Indie games were continuing to generate a lot of interest, and their research into the educational technology market indicated that there were investors and venture capitalists interested in funding smart educational technology companies. So, the combination of indie games and education seemed to be a good one. In order to provide some validation for this new idea, Reichert had a video call with an indie game incubator in Montreal, Quebec. It was very positive and motivating. His contact there suggested, “Look at the current demographic around you and try to match and fit whatever you’re doing to them.”

Darnell: We’ve got a lot of balls in the air, though.

Reichert: You’re right. We’ve got to make some real choices about how to move forward. Do we continue to try to maintain the coworking space concept? Do we continue to build the community with events and our CoLaborator memberships? What about the corporate business? That will require a lot of time that might take away from the incubator idea.

Darnell: Well, I guess that is what being a lean startup is all about . . .

Reichert: No doubt. Why don’t we go back to the drawing board and try to work out what our new lean canvas should be?

<sup>1</sup> “Y Combinator Created a New Model for Funding Early Stage Startups,” [www.ycombinator.com/](http://www.ycombinator.com/), accessed July 21, 2014.

## COWORKING SPACES

Reichert and Darnell formally began their new startup, the Game CoLab, in October 2013. Neither were rookies in the startup game. Darnell successfully participated in Startup Chile<sup>2</sup> and taught entrepreneurship in Mexico before moving to Phoenix, Arizona a year ago. Reichert was the chief executive officer (CEO) and cofounder of Abeona Games, an Arizona-based video game design and development studio focused on the transportation industry. It was their shared passion for continuing education that brought them together. They met in an entrepreneurship class where they were looking for ideas for their next business opportunity. It didn't take long for them to see they had a lot in common. They were both interested in socially conscious startups that contributed to the community in addition to being viable businesses. Darnell had previously been involved in a startup looking at mobile games for social change. Reichert had worked at Arizona State University's Center for Gaming and Impact (ASU) where he explored how video games could help address important social issues.

The CoLab was a synthesis of two ideas that Darnell and Reichert had been independently exploring during their time in the entrepreneurship class. The coworking idea was Darnell's. He had been considering the potential of a new coworking space in the Phoenix area for several months prior to meeting Reichert. Coworking spaces offered shared offices to entrepreneurs or small businesses as a cost-effective alternative to individual office space and an opportunity to network and interact with other like-minded people. Most coworking spaces differentiated themselves from executive suites or similar shared offices by having a focus on both the community and networking aspects of the space rather than just being "offices for rent."

Coworking spaces often focused on technical or creative professionals who were independent or starting new businesses. Many of these people were attracted by the opportunity to network with people sharing similar interests and careers. In 2013, the coworking industry had grown to the point it had its own online magazine (deskmag<sup>3</sup>) and a wiki detailing the history of coworking spaces. The concept emerged in 1999 when the first recorded coworking space opened in New York City.<sup>4</sup> Citizen Space in San Francisco was another early pioneer.<sup>5</sup> Many coworking spaces adopted a shared set of values — collaboration, openness, community, accessibility and sustainability — which were reiterated by others on their websites. Much like the Agile software movement's "Agile Manifesto," the coworking movement developed a manifesto that documented and described these values.<sup>6</sup>

From a business perspective, a 2013 survey by deskmag reported that 9 out of 10 surveyed coworking space owners expected revenue to grow in 2014.<sup>7</sup> Mainstream press outlets such as *Forbes* published positive reviews of coworking spaces as a viable business model.<sup>8</sup> Coworking spaces became popular enough to spawn books such as *Working in the UnOffice: A Guide to Coworking for Indie Workers, Small Businesses, and Nonprofits*,<sup>9</sup> which offered advice for those looking for the perfect coworking space. The

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<sup>2</sup> Startup Chile is a program sponsored by the Government of Chile to encourage early stage entrepreneurs to start their businesses in that country.

<sup>3</sup> Deskmag website, [www.deskmag.com](http://www.deskmag.com), accessed January 15, 2015.

<sup>4</sup> "The History of Coworking," [www.tiki-toki.com/timeline/entry/156192/The-History-Of-Coworking-Presented-By-DeskMag#vars!date=1996-06-14\\_14:17:31!](http://www.tiki-toki.com/timeline/entry/156192/The-History-Of-Coworking-Presented-By-DeskMag#vars!date=1996-06-14_14:17:31!), accessed January 15, 2015.

<sup>5</sup> "What Is Citizen Space?," <http://citizenspace.us>, accessed January 15, 2015.

<sup>6</sup> "Manifesto for Agile Software Development," <http://agilemanifesto.org/>; "Coworking Manifesto: The Future of Working," <http://coworkingmanifesto.com/>, accessed January 15, 2015.

<sup>7</sup> "The Coworking Forecast 2014," [www.deskmag.com/en/the-coworking-market-report-forecast-2014](http://www.deskmag.com/en/the-coworking-market-report-forecast-2014), accessed January 15, 2015.

<sup>8</sup> Karsten Strauss, "Why Coworking Spaces Are Here to Stay," May 28, 2013, [www.forbes.com/sites/karstenstrauss/2013/05/28/why-coworking-spaces-are-here-to-stay/](http://www.forbes.com/sites/karstenstrauss/2013/05/28/why-coworking-spaces-are-here-to-stay/), accessed January 15, 2015.

<sup>9</sup> Genevieve DeGuzman and Andrew Tang, *Working in the UnOffice: A Guide to Coworking for Indie Workers, Small Businesses, and Nonprofits*, Night Owls Press, San Francisco, 2011.

concept became a worldwide phenomenon with well-known spaces in London, Berlin, Saint Petersburg, Glasgow and, unsurprisingly, Silicon Valley.

Darnell knew that there were only two coworking spaces in the greater Phoenix area, but his informal conversations at startup events led him to think there was an opportunity for another if it was focused on the right market segment. He had spoken to the owners of the two most well-known and successful local coworking spaces — CO+HOOTS and Gangplank.<sup>10</sup> Each had garnered a fair amount of local and even national press coverage and seemed to be successful. CO+HOOTS, which focused on “creatives, entrepreneurs and small businesses,” was located in downtown Phoenix and had recently expanded into a new space. Gangplank was partly funded by the city of Chandler, a suburb of Phoenix, and offered a different business model where space was free for members who were asked to contribute with their “time, talent and relationships.” Both CO+HOOTS and Gangplank were active in promoting events and learning opportunities for their members. Gangplank tended to be more focused on software developers, CO+HOOTS on creative professionals such as designers. Darnell was impressed with how open and supportive both CO+HOOTS and Gangplank were when he asked them about their business. Given Phoenix’s status as the sixth largest city in the United States,<sup>11</sup> he felt sure that there was room for another coworking space in the area; his contacts at Gangplank and CO+HOOTS agreed and encouraged him to launch a new space.

## INDIE VIDEO GAME DEVELOPERS

While Darnell was exploring the Phoenix coworking market, Reichert had been meeting with indie video game developers as he looked for people to help with his Abeona Games venture. He was struck by what appeared to be a fairly large community of video game developers and designers in Phoenix who were completely disconnected. Most worked at home and were unaware of each other. While they were all independent, they came from many different backgrounds. Some had worked on triple-A titles<sup>12</sup> for Sony and EA; some had worked in Phoenix at larger video game studios such as Rainbow Studios, a subsidiary of THQ; and some had never had a traditional job in the industry but were nevertheless plying their trade in the new and rapidly growing marketplace for smaller indie game titles.

Reichert knew the market for independent video games was exploding. The console and personal computer (PC) video game market had traditionally had fairly high barriers to entry that meant only large, well-capitalized game development firms could access it. However, much had changed in recent years to move indie game development into the mainstream. A key enabler of this move was the creation of several new digital distribution channels that allowed indie games to reach very significant worldwide markets. One of the first of these was Valve’s Steam marketplace. Valve had been a traditional triple-A game publisher with major titles such as Counter Strike and Half-Life. Steam was initially Valve’s system to distribute its own PC games and game updates over the Internet rather than by physical media. In 2005, however, Valve opened up Steam as a full electronic marketplace for third-party developers. With that move, indie developers now had access to a new low-cost marketplace with millions of potential customers, and Valve morphed from a game developer to a significant player in distributing other developer’s games. Microsoft followed suit in 2008 by opening online markets for independent developers with its XBOX Live Indie Games on the XBOX 360 console. Sony’s Playstation Store launched a similar indie games area in 2013 for both its PS3 and Vita platforms.

<sup>10</sup> “Co+Hoots: Collaboration, Coworking, Community,” [www.cohoots.com/](http://www.cohoots.com/), accessed January 15, 2015; “Welcome to the Future of Collaboration,” <http://gangplankhq.com/>, accessed January 15, 2015.

<sup>11</sup> 2013 estimate by U.S. Census Bureau.

<sup>12</sup> <http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk>, accessed January 15, 2015.

<sup>12</sup> AAA or “Triple-A” games represent the largest video game franchises from the major game publishers.

Beyond PC and console games, mobile games for phones and tablets were also a growth opportunity for the indie developer. Using distribution channels such as Apple's iTunes Store and Google's Android Marketplace, indie game developers were able to participate in a market that was open and accessible with relatively little investment. The Gartner Group reported in 2013 that mobile games were the single fastest growing segment of video games and estimated that total revenue for that segment would almost double between 2013 and 2015 from \$13.2 billion to \$22 billion.<sup>13</sup>

Access to funding for independent developers had also become dramatically easier in recent years. As an example, the crowdsourcing funding platform Kickstarter was becoming a viable way for indie gamers to get funding for their projects by appealing directly to fans. As of December 2013, just over 8,000 Kickstarter projects had been launched in the "games" category, with 35 per cent being successfully funded with \$804 million in contributions from the community.<sup>14</sup> In 2013, three Phoenix-based video games were funded through Kickstarter, with the largest collecting pledges worth \$108,020. Nationally, more than a dozen Kickstarter video game projects had been funded for more than \$1 million each.

Beyond the existence of new digital marketplaces and new community funding sources, aspiring indie game developers also had direct evidence that one- or two-person teams could make video games that were not only financially successful but widely acclaimed by critics and players even when compared to triple-A titles. One example, *Super Meat Boy*, was developed by Edmund McMillen and Tommy Refenes who adopted the moniker Team Meat. *Super Meat Boy* was launched on Microsoft's XBOX 360 platform through the XBOX Live Arcade in 2010. According to Refenes, the game was approaching almost two million sales by March 2013,<sup>15</sup> rivaling many triple-A games that had multi-million dollar budgets and hundreds of developers. *Super Meat Boy* was a critical success, too, with Metacritic giving it a score of 90 out of 100 (universal acclaim) and users giving it 8.1 out of 10 (generally favourable).<sup>16</sup>

## INDIE DEVELOPERS IN PHOENIX

Reichert had first become aware of the dramatic shifts in the greater video game developer ecosystem while at ASU where part of his job was industry outreach. His conversations with developers both large and small almost always involved the tectonic shifts in the video game development landscape that were underway. Now, at Abeona Games, he needed to identify game developers and artists for outsourcing transportation-related game development work. While many game development firms might outsource such work to the lowest bidder, Reichert focused on identifying local talent as he greatly valued the ability to connect with people in person. He found the challenges of remotely working with a developer on an innovative game limiting even when using Skype, Google Hangouts and other electronic communication tools. Working with a developer in the same room — experiencing the same things and building a personal connection beyond just "customer and supplier" — was entirely different, and much more positive, than his attempts to work on games with distributed teams, even when they were in the United States.

Finding local developers and artists proved to be more difficult than Reichert had initially anticipated as there was no central resource, on or offline, that provided a list of them. He had worked with the Greater Phoenix Economic Council to try to identify indie developers, but they had a smaller list than the one he

<sup>13</sup> All figures are in US\$ unless otherwise indicated. "Gartner Says Worldwide Video Game Market to Total \$93 Billion in 2013," [www.gartner.com/newsroom/id/2614915](http://www.gartner.com/newsroom/id/2614915), accessed January 15, 2015.

<sup>14</sup> "Stats," [www.kickstarter.com/help/stats](http://www.kickstarter.com/help/stats).

<sup>15</sup> Tommy Refenes, "Apathy and Refunds Are More Dangerous Than Piracy," March 18, 2013, <http://tommyrefenes.tumblr.com/post/45684087997/apathy-and-refunds-are-more-dangerous-than-piracy>, accessed January 15, 2015.

<sup>16</sup> "Super Meat Boy," October 20, 2010, [www.metacritic.com/game/xbox-360/super-meat-boy](http://www.metacritic.com/game/xbox-360/super-meat-boy), accessed January 15, 2015.

had built while at ASU. Attending video game events and meetings offered one way to network in the local video game community and to search for talent. However, such events included people who just liked games so were hit or miss in terms of finding video game professionals. Of the game developers, designers and artists he did meet, many were working at other jobs while they pursued their true interest of working full time in the industry. Reichert observed that even some of these “part-timers” were extraordinarily talented and could easily work at a major game studio if they wanted to. These higher level resources were almost always interested in hearing about his projects as a way either to replace some of their non-game related work or to supplement their incomes as they worked on their own games.

## ADOPTING LEAN STARTUP METHODOLOGIES

Coming up with the idea proved to be the easiest part of the entire endeavour. Despite spending hours discussing what a business plan might look like, including potential revenue sources and estimates of costs, there were too many unknowns to really put together a traditional business model with pro forma income and cash flow statements. This was where Darnell and Reichert saw hypothesis-driven or Lean Startup methodologies as a solution to navigating the uncertainty and risks in their new venture.

The methodology detailed in *The Lean Startup*, by Eric Reis,<sup>17</sup> had become quite popular, especially among smaller startups in Silicon Valley. Based on the general principles of lean manufacturing that had proven so successful in the Toyota Production System, Lean Startup methodology proposed that startups should become learning organizations focused on testing and validating hypotheses in their chosen markets rather than spending their time developing a “perfect” product in relative isolation. Like lean manufacturing, the idea was to measure and iterate to improve the business with a constant feedback loop eliminating waste whenever possible. Significant changes in the business model, termed “pivots,” were seen as expected and healthy responses to learning more in the market. The methodology also prioritized developing the MVP above grander plans that were yet to be validated. This focus on doing the minimum required to be successful was a good fit for ventures looking to bootstrap with limited resources.

Darnell and Reichert had both been drawn to the new Lean Startup methodology since it seemed especially relevant to the CoLab concept and their desire to bootstrap. Lean Startup shared its ancestry with other Silicon Valley methodologies such as Steven Blank’s Customer Development, which emphasized getting continuous feedback from customers to inform iterative product development efforts; both Reichert and Darnell had found this useful in their past ventures. Blank’s book, *The Four Steps to the Epiphany*,<sup>18</sup> was recognized as the book that began the Lean Startup movement. For Darnell and Reichert, one of the most attractive elements of the methodology was its bias toward action. Darnell said, “The one big takeaway I have from the Lean Startup is *start*. The whole idea was keep it simple, experiment and see if what you want to do might work. But do it now!”

## CUSTOMER VALIDATION

After their decision to move forward with the CoLab, Reichert and Darnell developed their lean canvas. The goal was to complete and test the canvas with their target market in just two days. A lean canvas was a tool to document the key hypotheses on a single sheet of paper (see Exhibit 1), which was easy to update with new information and also easy to share with others in order to test its assumptions. According to Ash Maurya, “Too many founders carry their hypotheses in their heads alone . . . The first step is writing down your initial vision and then sharing it with at least one other person.” The one-page format

<sup>17</sup> Eric Reis, *The Lean Startup: How Today’s Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*, Random House, New York, 2011.

<sup>18</sup> Steven Blank, *The Four Steps to Epiphany*, K&S Ranch, New York, 2005.

had the benefits of being “fast, concise and portable.”<sup>19</sup> These elements of the canvas fitted into the Lean Startup philosophy of avoiding waste, iterating quickly and talking to people about the concept.

Reichert invited all the indie video game developers, designers and artists he had in his contacts file to come to his house and review the CoLab value proposition — what Darnell and he considered their MVP. The idea was not to review the canvas itself but to ask their guests to talk about their working situation and the game developer community in the greater Phoenix area in order to better understand their needs in relation to what a games-specific coworking space might offer them. The task of filling out the canvas went quickly. Rather than debating the various ways to fund or start their venture, Reichert and Darnell were now actually doing it. The crux of their value proposition was offering a coworking space for indie developers in a “cool” location while also beginning to build the professional video gaming community through invited speakers, classes and events. Given their targeted costs for real estate and what they thought were competitive membership rates, they felt they could cover the non-personnel related costs (everything except their own time) with as little as a dozen members.

The night of the big meeting at Reichert’s house was exciting. Both Darnell and Reichert were eagerly anticipating what proved to be a pivotal next step in their venture by hearing directly from potential customers. They began the night by asking the group of 11 indie gamers about the local community and then spent almost three hours talking through what was needed and how coworking might help. Generally, most described the lack of any real scene for local game developers. There were a few events, but often they were more focused on the end-user part of gaming and not on developing games in general or indie games in particular. The one dedicated developer community was the Phoenix branch of the International Game Developers Association (IGDA), which had one or two events — guest speakers and the occasional game jam where developers worked on games together — per month. IGDA didn’t have a physical location, however, so held its events wherever space was available, including local restaurants and bars. The University of Advancing Technology, based in Tempe, Arizona (part of the larger Phoenix metro area), was also active in promoting the community through both its degree programs focused on game development and sponsoring game jams and meetings of the IGDA.

After discussing the community in general, the conversation turned to the idea of a specific indie gamer coworking space. Initially, the discussion was dominated by one of the developers who had several criticisms of the idea, including the fact he was comfortable working at home and was worried about the professionalism of such a space if it also included students or other people who would bother him with questions. Darnell mentioned that many technology startups saw huge benefits in collaborating in coworking spaces, but this developer continued to be fairly skeptical. After he left (he was one of the first to leave), the other developers opened up. Several said that they did, in fact, miss not having other professionals to connect with. One mentioned that he worked mostly at coffee shops and had grown tired of conducting meetings in a place that didn’t represent him or his level of professionalism. The tone of the conversation turned and became very warm and positive. At the end of the night, Darnell said, “Alright, so, we’ve got this many of you. If you each pay this amount, we’ve found a space that costs this. The numbers add up. So, would you guys be willing and ready to put money down on the table now?” The response from the crowd was a resounding “yes,” a great validation of the concept.

## ITERATION #1

After this initial validation of the concept, Reichert and Darnell set out to make the CoLab a reality. They first set up a Launchrock web page. Launchrock was a website that focused on giving startups a “coming

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<sup>19</sup> Ash Maurya, *Running Lean: Iterate from Plan A to a Plan That Works (Lean Series)*, O’Reilly Media, Sebastopol, CA 2012, p.4.

soon” page to build interest in a concept in addition to collecting contact information from people interested in it. Next, Reichert began looking across the greater Phoenix area for a physical location for the CoLab. One of his contacts at CO+HOOTS suggested a downtown location, a warehouse built in 1917 and remodeled in 2007. Although part of the building was completely retrofitted with offices, the other part was still very open and industrial, ideal for the CoLab. It was large and had a lot of open area that could be used for both working and larger events. In order to test the space with potential customers, Reichert invited the developers who had attended the customer validation session to visit the building before signing the lease. They were surprised and exclaimed, “This is much larger than I thought” and “This is much cooler than I thought.” These kinds of confirmation were another big validation and gave him the confidence to move forward and sign the lease for the space that same day.

It was an exciting milestone when Reichert and Darnell unlocked the front door and walked into the CoLab for the first time. They imagined what it would be like when filled with game developers. “This space will be a large part of what defines us, but we need to remain focused on our MVP as we get things ready. If we don’t maintain our focus, we’re not going to succeed,” Reichert told Darnell, who replied, “You’re right. It’s really about the space. Let’s not get caught up in the logos, furniture, webpages and other things until we get this right.”

The physical location had some great qualities, especially its “cool” startup vibe — unfinished brick walls, 30-foot ceilings and some industrial equipment the landlord had let them keep for decoration. It was also only a five-minute walk to the Phoenix light rail. There were some challenges too, however. Parking was complicated. The landlord was still building the parking lot, so CoLab members would have to park on the street. That wasn’t usually an issue, but given the location right next to the Arizona Diamondbacks baseball stadium, it would be a challenge on game days. Although the location was downtown, there weren’t any restaurants or other businesses in the immediate vicinity but mostly warehouses and baseball parking lots. To get something to eat meant at least a 15-minute walk. Despite the challenges, the partners were optimistic that the building would be a major pull for their market.

Seven developers and designers, including several from that first customer validation meeting, moved into the CoLab within the week. Within two more weeks, the CoLab had 13 members. The number of signups was a key non-vanity metric, which Ries defined as metrics that “make you feel good, but they don’t offer clear guidance for what to do.”<sup>20</sup> He recommended that startups focus on metrics that inform decision-making, and Reichert and Darnell took his guidance to heart.

In addition to tracking signups, Reichert collected background information on each to better understand the market. In their next review of their lean canvas, he and Darnell discussed what he had found: “We have students. We have people who have regular jobs and come in and do it as a hobby or as kind of a step-up to eventually get into making games. And then we have professional guys who are working all the time on their games. And that being said, the one group that did increase the most the first month was the professional gamers.” Darnell replied, “That’s quite the mix. The fact we came very close to meeting our rent payment in our first month is the part that excites me the most!”

The revenue model for the CoLab at this point was built on monthly memberships that included four different tiers for using the coworking space — (1) one work day at \$15 per day; (2) \$50 per month, which included access to the CoLab from 10 a.m. to 6 p.m.; (3) 24/7 access for \$200 per month; and (4) \$350 per month for unlimited access, a dedicated desk and unlimited use of the conference room. Most of the initial members were going with the \$50 per month package, but a few opted for packages with

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<sup>20</sup> “Vanity Metrics vs. Actionable Metrics — Guest Post by Eric Ries,” May 19, 2009, [www.fourhourworkweek.com/blog/2009/05/19/vanity-metrics-vs-actionable-metrics/](http://www.fourhourworkweek.com/blog/2009/05/19/vanity-metrics-vs-actionable-metrics/), accessed January 15, 2015.

greater access. All packages were offered on a month-to-month basis. Reichert also developed an initial pro forma income statement to track the CoLab's performance (see Exhibit 2).

In the first three months, Reichert and Darnell organized three events. The first was the launch party, which attracted more than 150 people from the community to see the CoLab firsthand. The second was the first Indie Games Showcase (see Exhibit 3), which almost 200 people attended. The third was a meeting of IGDA members; at 65 people, it attracted more than twice as many people than any other recent IGDA meeting. Reichert and Darnell also started a weekly game night where gamers could use the CoLab as a meeting place for playing games. In the first two months, the number of game night attendees went from two to 15. All these events were free for anyone who attended.

The first four months were a whirlwind of activities and work. Reichert and Darnell often stayed at the CoLab until late into the night either working on improving the space or on their business plan. Despite almost covering their rent in the first month, by the fourth month they had identified two significant challenges and one new opportunity.

First, several of their initial members had decided to cancel their memberships after attending the Penny-Arcade Expo, a major video game convention in Seattle, Washington and deciding they couldn't afford to continue paying for their coworking space. While they hadn't raised any issues during the concept validation meeting, they now seemed to be backtracking from their earlier statements. Some now said that \$50 per month was too much, especially given they had to leave by 6 p.m. when they liked to work in the evening. They also suggested that while the industrial space was cool, it could use more amenities such as free coffee or other "perks." This feedback was similar to what the partners heard from walk-ins — cost, amenities and parking were issues preventing new members from signing up.

Darnell and Reichert appreciated getting the feedback, but the reality was that they were down five members and their revenue was decreasing. Given both the success of their larger events and the feedback, they decided to add a new lower cost membership. Darnell described it this way: "At the very least, if someone comes here for an event, they should be a \$10 a month member. I think anybody who thinks it's cool enough to come for an event, that sees the space and likes the idea, should sign up for that membership. This is our first pivot . . . everybody we talked to after we started said it was too expensive."

The second challenge was with the physical location. Reichert had signed a month-to-month contract with the property owner, who now wanted to increase the rent. They hadn't budgeted for such an increase, so they had no option but to look elsewhere. It was going to take at least two weeks to transition from the current location to the new one. Since members also had month-to-month agreements with the CoLab, they might not want to deal with all the hassles of moving to a new space and so might resign.

Despite challenges with their cash flow and location, Reichert and Darnell had also identified a new potential market for their venture — larger corporate and institutional clients. In addition to networking in the independent gaming community, Reichert had spent time talking to corporations, universities and colleges in the area. Phoenix had a significant cluster of companies in the educational technology space that were interested in engaging with indie game developers. Such companies were pursuing "gamification" strategies. Within education, gamification — a term that meant applying video game mechanics or motivations to some other activity — had become a hot topic, and many companies and institutions were keen to see how they could gamify their digital offerings.

Despite not having a formal offering for larger companies or institutions, Reichert had nevertheless been able to win a contract with a large education company interested in using indie game developers to jump-start its own efforts in gamification. He developed a one-day game prototyping workshop focused on gamification of the company's existing products. The workshop involved forming four working teams

that included employees of the firm and indie developers and designers who were part of the CoLab. Reichert charged \$3,000 and shared the revenue with the CoLab members. At the end of the workshop, the education company had four new gaming concepts, including descriptions of the game play and initial story boards. The feedback was quite positive, and Reichert was pursuing further business with the firm.

Sensing an opportunity for new revenue, Reichert and Darnell immediately set about trying to identify more prospects for similar projects. Reichert reached out to several more education firms and institutions in the Phoenix area. They were all either actively pursuing or interested in pursuing gamification initiatives. Some were even investing in new gaming startups through sponsoring startup incubators. These firms and institutions also seemed to be dealing with the same issue that he had encountered at Abeona Games, namely, trying to identify development talent to work on their initiatives.

## **ITERATION #2 AND THE DECISION TO PIVOT OR NOT**

After an extremely stressful three weeks of moving from the first location to the new one, Reichert and Darnell were at a crossroads. While they wanted to be able to provide an uninterrupted space for their members, the time taken to find and get the new location set up lasted longer than expected. The new location in a traditional office building in central Phoenix was still close to the light rail but was much smaller and lacked the coolness of unfinished brick walls and high ceilings. On the positive side, it was much closer to other businesses, with a popular barbeque restaurant right next store and a coffee shop across the street. On the not-so-positive side, after the move was complete, only three members had continued their \$50 or higher memberships.

While Reichert and Darnell had challenges with memberships, the success of their events had continued uninterrupted. They organized another well-attended Indie Game Showcase (see Exhibit 4), which was held at the Phoenix Art Museum; compared to the first showcase at the original location, more than 200 more people attended. They also introduced the new \$10 per month membership (called the “CoLaborator” membership) that entitled members to one day per week at the CoLab plus the ability to attend all CoLab events and get a copy of the CoLab game of the month. This was intended to allow the indie developers associated with the CoLab (whether or not they were paying members) to get their games out into the community. For CoLaborators, the game of the month added more value to the \$10 membership. The CoLaborator level seemed to appeal to developers who wanted to be part of the CoLab but didn’t need coworking space.

Work with larger clients had also continued to move forward despite the move. Reichert and Darnell met with the City of Phoenix, which was actively promoting the area as a hub for education technology companies and was interested in seeing how its goals might fit with what they were pursuing. The first corporate client was evaluating two larger proposals Reichert had put together to take the prototypes from the workshop and develop them into working educational products. Using their success with this first client, Reichert and Darnell had arranged several meetings with other educational technology companies and a couple of local colleges and universities that seemed interested in either similar workshops or partnerships for developing gamified learning applications.

Working with these larger businesses took a great deal of time, however, so Darnell and Reichert struggled with how much time to devote to corporate opportunities versus their traditional market of indie developers. The discussion with the incubator in Montreal had certainly been encouraging, but there were also some promising signs with the corporate customers and CoLab memberships. Could they break with the idea of pivoting and market focus and pursue all their potential markets? With those questions swirling in their minds, Reichert and Darnell went to back to work on their lean canvas and what would be the future of their firm.

EXHIBIT 1: THE LEAN CANVAS

<h2>The Business Model Canvas</h2>		Designed for:	Designed by:	On: <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> Iteration: <input type="text"/>	
<h3>Key Partners</h3>  <p>Who are our Key Partners?          - Arizona State University          - University of Advanced Technologies          - Art Institute</p> <p>Who are our Key Suppliers?</p> <p>Which Key Resources are we acquiring from partners?</p> <p>Which Key Activities do partners perform?</p>	<h3>Key Activities</h3>  <p>What Key Activities does our Value Proposition require?          - Raffles          - Events          - Expert Speakers          - Game-offs (competitions)</p> <p>Our Distribution Channels?</p> <p>Customer Relationships?</p> <p>Revenue streams?          - Rent from Game Colab          - Membership Dues</p>	<h3>Value Propositions</h3>  <p>What value do we deliver to the customer?          - Coworking          - Community          - Events          - Workshops</p> <p>Which one of our customer's problems are we helping to solve?          - Knowledge and expertise on Gaming industry</p> <p>Which bundles of products and services are we offering to each Customer Segment?          - Coworking space          - Agency services</p> <p>Which customer needs are we satisfying?          - Supporting the community          - Development space</p>	<h3>Customer Relationships</h3>  <p>What type of relationship does each of our Customer Segments expect us to establish and maintain with them?</p> <p>Trusted advisor, personal assistance, Alpha and beta testing</p> <p>Which ones have been established?          All of the above are possible.</p>	<h3>Customer Segments</h3>  <p>For whom are we creating value?</p> <p>Who are our most important customers?</p>	
<h3>Key Resources</h3>  <p>What Key Resources does our Value Proposition require?          - Facilities          - Fast Internet          - Developer conducive environment</p> <p>Our Distribution Channels?</p> <p>Customer Relations?</p> <p>Revenue Streams?</p>		<h3>Channels</h3>  <p>Through which Channels do our Customer Segments want to be reached?</p> <p>How do we reach them now?</p> <p>How are Channels integrated?</p> <p>Which ones work best?</p> <p>Which are most cost-efficient?</p>		<h3>Cost Structure</h3>  <p>What are the most important costs inherent in our business model?</p> <p>Which Key Resources are most expensive?</p> <p>Which Key Activities are most expensive?</p>	<h3>Revenue Streams</h3>  <p>For what value are our customers really willing to pay?</p> <p>For what do they currently pay?</p> <p>How are they currently paying?</p> <p>How would they prefer to pay?</p> <p>How much does each Revenue Stream contribute to overall revenue?</p>
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**EXHIBIT 3: GAME COLAB'S FIRST ARIZONA INDIE GAME SHOWCASE**



Source: The authors.

**EXHIBIT 4: GAME COLAB'S SECOND ARIZONA INDIE GAME SHOWCASE**



Source: Game CoLab.