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Retail/Distributor Support

Ode to Game Finance

By Mike Bennighof, Ph.D., President, Avalanche Press
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What does it take to make a game?

Like many things, the answer depends on how you want to define your terms. Do you include staff costs in the game's price matrix, or is that part of your overhead? How do you assign costs for items or services that are used in multiple products? And so on. Here's a breakdown of an upcoming game, *Kursk: North Flank*.

Boxes (including freight): \$5,000
Playing pieces (including freight): \$11,500
Playing piece art: \$500
Map printing: \$6,500
Map art: \$1,000
Box art: \$500
Black and white printing: \$2,000

Subtotal: \$27,000

Now, that's subject to some waffling. It doesn't include things done by paid staff: rules editing, game development, layout, production administration, assembly and others I'm forgetting. For a project this size, that probably comes to around \$5,200 (taking our pay rates and multiplying by the time I expect those folks would work on the game). The list doesn't include what we call "series parts," things like the *Panzer Grenadier* marker sheet that we make in huge numbers and put in many games.

Total: \$32,200

That gives you 3,000 units, at a production cost of \$10.73 apiece. Traditional game industry math says multiply by 7 to get the retail price, in this case \$75.13 which would round down to \$74.99. Lys Fulda, our sales manager at the time, was adamant that it should not top \$64.99 and so it's priced there.

Wholesale prices in the game industry run at 40 percent of Manufacturer's Suggested Retail Price; the remainder is taken by distributors (10 percent) and retailers (the rest). One could argue, and some have with great energy, that this "discount" is not "deserved" but that's another discussion. Justified or not, it exists, so we'll get right at \$26.00 for each one.

That puts the breakeven point, or Mendoza Line as we call it around here, at 1,239 units sold wholesale (495 at full retail). A game as popular as this one should make that with its initial sales; only two Avalanche Press boxed games have ever failed to cross the Mendoza Line (*Airlines* and *Airlines 2*; a couple others have been breathing pretty hard when they got past it). Sell all 3,000, which a *Panzer Grenadier* game will within a couple of years, and the paper profit is pretty tidy. You can make money making these things.

There's one catch: If you bring them out regularly. Well, unless you're content working as a part-time "gentleman's business," and there are people who do that. Otherwise, the regular bills like rent, taxes, payroll, utilities and so forth have to be paid every month whether you brought out a new game or not (technically, you're paying those bills with the cash generated by the game you released a couple of

"When you have to kill
a man it costs nothing
to be polite."

Winston Churchill

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months before).

Cash ebbs and flows even in normal times; lately, it's been more ebb than flow. Avalanche Press is a full-time operation, which has many obvious advantages. That also means that, when cash is low, you don't have the option of just not taking pay (though I've done that more often than I care to recall). And there's no day job to draw on for funding, and in our case, no associated independent wealth. The company exists on what it can make and sell.

So why the need for money now?

Mostly because we didn't put out more boxed games in late summer and the fall. While we had a couple of hard years, by this past summer things began to look up; putting out a product a week for most of that season certainly helped with cash flow. In the fall, the slowdown began.

There were reasons, none of which really should have been more than a minor glitch. But then sales of the boxed games slowed down through the fall season. I'm not sure why; a retailer I know claims that a deep discount internet operation wrecked the market by taking losses or minimal profit on our line and one other wargame company's to attract volume.

I don't know if I fully agree, but it certainly didn't help things. Their stock of games to sell at ultra-discount did eventually work its way out of the market, but my retail friend, who seems to spend his entire waking life probing prices on the Internet, says the effects lingered. And while he is definitely nuts, he does know the secondary game market. We indulged in some discounting of our own to make up the difference, which is not at all healthy behavior in the broader scheme of things (line-wide discounts, that is; remaindering an older product like *Austerlitz* to turn dead inventory into live money is a different act). But I tend to think that would have been more than evened out if we'd had more boxed game releases.

And so we find ourselves needing more boxed games in production. The company needs about \$40,000 per month to operate, or the sale of 1,500 *North Flank*-sized games (that's substantially less than before our move from Virginia). We do that, but doubling that to send new boxed games to press is tough. Getting that out of Virginia killed any cash reserve. We've managed to get a couple boxed games into production at the moment (like *1866: Frontier Battles*) but it took a lot of aggressive selling and a lot of making books and downloads to generate those production costs.

We'll recover those costs eventually, but distributors receive 30-day terms and the next boxed game, *Frontier Battles*, is still a few weeks from release. We can't wait another six weeks just to start printing, six more to make the stuff, and four more to get paid. More games need to be on the presses right now. And this is why we've put on a large discount sale this weekend and outright asked for money.

I spent a good bit of this week asking for money and getting smacked in the face. Well, actually the refusals were polite and even sympathetic. But the fact remains that, two years after the TARP bailouts "injected liquidity into the economy," it's pretty well impossible for a small business in a risky industry to see any loan money. And a small business owner's personal credit is a contradiction in terms.

I have a formidable stock of friends and good will in the game industry (the part that doesn't make wargames, anyway), especially on the distribution level. And they all have their capital tied up in Christmas stock, hoping their retail customers will actually pay up in 30 days and fearing they will not. Their friendly refusals were actually harder to take.

Doug McNair had an alternative suggestion last night. "How many hard-core fans does *Panzer Grenadier* have?" he asked. "A couple thousand? More? And you know it's got to be more than that for the two naval series. They want these series to continue. Ask them."

So I'm asking. I want the company to grow and prosper, and it needs boxed games to do that. The books and other small products are nice, and they do make money, but

they only sell as adjuncts to the boxed games.

I'm looking for \$50,000, or five hundred \$100 orders. After the costs to pack and ship them, that will put another boxed game on the presses together with the long-lead-time items (box and counters) for another. We'll mix in some counters for a supplement or two and the Gold Club. With those items on hand we can keep turning these things out at a fairly quick pace; the work isn't a problem. The cash is.

You can help. Look through the webstore and use your special coupon. You'll get a direct reward with great prices on great games, and you'll know that your purchase helped make us healthy enough to keep making the games we love.

Thank you.