Podcast Episode #41 – How to use lean startup principles to start the world's first VR cinema franchise, with Dimitri Nabatov of WeAreCinema, Switzerland

RAW TRANSCRIPT OF INTERVIEW

Balint: VR topic is back after talking about VR meta tagging in episode 36 recently. Today I have another entrepreneur in this field, in VR, and I'm happy to talk to Dimitri Nabatov of WeAreCinema. Thanks for joining, Dimitri.

Dimitri: Thanks a lot for the invitation. I'm very happy to be on the show.

Balint: We met at the Lean Startup, Zurich, here in Switzerland, meetup in August this year where you gave a presentation on your startup how you use Lean startup principles for a non-online, so non-software initiative business, actually involving hardware, which we will talk about as well. This is not straightforward this initiative. And I'm glad to have you on the show because it's the Hardware Entrepreneur podcast so that we can show, we can share with the audience your experience on this topic.

Dimitri: Sure, yeah.

Balint: So before diving into it deeper into this topic, first I have to say that VR is a hot topic these days and there is a lot of buzz around it in terms of hardware that people use to create content and also on the content itself mainly. So what makes you stand out?

Dimitri: I think that's a very good question. VR has been a lot in the news recently and people have been talking a lot about it, companies have invested millions, even billions into VR space. But what I see now that the headsets we currently have, it's 2017, they are not as good as they will be in the future, that's for sure. I see them sometimes as the black and white TV as it used to be on the TV hardware a few years ago.

But I think the country has made a lot of progress recently. And it's right now the point of time where you can use it, which you could also do with the black and white TV. It's just that the experience is not as good as it will be in a few years. But for me, the technology is not even the most important thing. As you mentioned, content behind it it's the driving force and we see a lot of content being created now and becoming better and better. You used to have only two minute sketches a few years

ago and now we people are coming up with really fantastic pieces of let's say 20 minute or even more, which for a VR show is quite a lot. You are immersed into the show and 20 minutes feels like one hour maybe, if you compare that. So I'm pretty positive about the development of it but I'm aware that it's still the black and white TV we have now.

Balint: And how do you standout on this market? So what is your uniqueness in terms of business?

Dimitri: Yes. I think VR is quite a lonely place. Once you have the headset on, you are immersed in your world and it's a virtual world. You're in there by yourself. So what we try to bring to the market is this mutual experience of VR, which is kind of incorporated in our name. We call ourselves WeAreCinema and that suggests that we offer virtual reality as a neutral experience and that works in a way that if you would come to our venues, you wouldn't go there by yourself, you would usually come with friends or as a couple. And if you sit into a VR show, you will see exactly the same content synchronized to the frame as your girlfriend does next to you. But as VR is a 360 experience, you wouldn't necessarily see the same things in VR, which after the show results very often in discussions like, "Did you see that bird flying by?" and your girlfriend goes, "No. I didn't see that." So, there is something to talk about after the show, which I think if you would own a headset at home, it wouldn't be as emphasized as with this concept that we ran.

Balint: What was the motivation for founding this company? I would love to learn more about it but also more about how you actually implemented this, the business model.

Dimitri: Sure. I mean virtual reality is a new technology and per se new technology I found always very interesting space because once there is a new thing, a new technology on the market, there is tons of opportunities opening up what you can do with that. And VR is just a case of that where it's a new medium and it's a medium that allows to create more emotions for the viewer or even have more empathy.

And our industry, the entertainment industry is looking exactly for this. They're looking to create emotions. They're looking to create empathy. And what better medium could we have than VR for that purpose? And the same goes for advertisement. I mean, if you could have an advertisement that provokes more emotions, you would pick that medium which is able to do that.

So, I mean the motivation behind was really to take a new technology, have a look at the opportunities it presents and then try to explore something. And also that gives you a little bit the freedom to make a strategic move. And I think our strategic move

was to try to occupy the entertainment sector and the opportunities VR brings to the table with that.

Balint: And what were the steps of founding? So, even before starting the company, what were you doing before that helped you perhaps in coming to this step, that is starting your company?

Dimitri: Yes. I think that's a funny story. Before I had WeAreCinema as a company, I used to work as a portfolio manager for a fund that actually financed startups. So each time there was a pitch, I would sit on the other side of the table, I would look at the concepts, I would look at the strategies that startups presented to me, I would look at the finance models and so on. And once there was a company, which had something to do with VR and I had no clue what that was, so the step was to go out there and buy a simple Google cardboard, $2 I think, and to try that out. And that was actually the first step for WeAreCinema: getting in touch with that technology and being fascinated by that.

Balint: And later you used also this Google cardboard as a kind of MVP. Can you maybe elaborate on that?

Dimitri: Sure. For me as a portfolio manager back at the time the biggest question was, related to VR, "Does the technology sell? Would people be interested to buy that in one or another way?" So what we did there is we bought this Google cardboard, we tried it ourselves and then we wanted to get some feedback from the market. We wanted to have a market test. So we thought, "What is the most tangible way to present VR as a technology and try to sell that? And for us the most tangible way was the cinema. Everyone understands the concept. Everyone knows it from the classical use. So we just pretended that we had this VR cinema already in place, which we didn't. The only thing we had was at the time this cardboard.

But we created an event, we did a ticketing system behind and we tried to sell that event. And funnily, even though we didn't specify a fixed location, we just said it's going to be at a secret location, which will be announced one day before the event. The reason behind that was obviously that we didn't have a location at the time but people bought that. And I think eight hours later we sold 300 tickets. And for us that was, first of all a validation of the market test. That was absolutely VR sold as a technology, which is very important for us. Secondly, we had already customers without having anything but that Google cardboard, which I think was a very nice opportunity to actually jump on that train and continue building based on that. So I think that was the whole story behind it.

Balint: Yeah. What other key lessons would you highlight so far during your career with this company? Because you used the Lean startup principles. So basically, vali-

dating in smaller steps what you can validate based on assumptions. And what other key lessons would you highlight, maybe even including ones that are connected to hardware?

Dimitri: I think one very interesting lesson was to start gathering feedback as fast as possible even though it's feedback that you cannot implement right now but it's important to start gathering it because that feedback on your journey that will help you and that will stick somewhere in the back of your mind and always kind of push you into the right direction. And we didn't do that from the very beginning. We started collecting feedbacks maybe a few months into the venture. But I think that's a very important step to have a process in place built in your business model that allows you to call to collect feedback on which you can improve gradually.

And I think another anecdote was that our very first show, or I think few first shows, we experienced the problem that the headsets got pretty hot, so the VR Google got pretty hot because it was summer outside, our venue was cool but not as cool as we hoped it was. So what would happen is those headsets were heated and the only solution we could come up within the next hours was to go to a shopping mall and to buy some cooling pads which you usually keep in your fridge to cool down whatever. Those are not professional VR cooling headsets, those are just plastic bags containing a liquid that is cooled easily and we would distribute that to people and they would have to stick that on their foreheads and to keep the headsets running which is ridiculous and it looked ridiculous. And that was kind of our funny story, a startup story if you will. But we realized the problem and we had to work on that. And eventually after the fourth show there was no cooling pads anymore. But that was a very funny story. I try to tell that every time I tell about this venture.

Balint: Improvisation is important at an early phase of the startup, also later and that's very good, a nice story that you shared.

Dimitri: I think that was the highest form of improvisation there is.

Balint: And you could have actually kept it perhaps as part of your uniqueness because I've never heard it.

Dimitri: Well, maybe. We still have one of those cooling pads lying around just to remind us about the beginnings.

Balint: And at the beginning of this interview I mentioned when I was asking about the founding story and your motivation for founding it what your business model is, how would you describe it? And because you have this VR franchise, right? I would love if the listeners could find out more about it. And actually just to add a little bit of explanation to your company name it's, WeAre like W-E-A-R-E and not VR just that the listeners can find you.

Dimitri: Exactly. So as you said correctly the company or the brand is called W-E, like We, and A-R-E, like Are Cinema. It's not like V and then the letter R. Now with that we wanted to signalize that we make it a mutual experience people come together. So that's why we have this We, W-E.

The second part of the question, why or how our model looks like. Well, in the beginning we had this concept we had a cinema where people would get a headset instead of a seat and a screen but a few months into the business we started asking ourselves, "How can you scale this?"

We have a venue, we have the cinema concept but you cannot multiply that just offering it on the App Store, right? It's not so easy to scale. And we started thinking what can be a way to scale that concept. And we thought, "Well, if you want to be really fast and deploy the concept to as many places as you can very quickly, you need to have a franchise system in place, which allows you to go out there, look for people who are interested in working with your concept, provide them with everything they need to start operating tomorrow and give them a quick teaching about how the whole system works."

And that's exactly what we did. I think four months after our start we sold the first franchise to a resort in the Swiss mountains and that was a no-brainer for them because there is not a lot of space in this valley and they don't have a normal cinema. So for them it was a no-brainer to pick this very modern way of having a cinema, which is quite, which is a lot smaller and cheaper to build up than a classical cinema. You just need the headsets and some spinning chairs and you can use a room, which is not fitted out with a huge screen and comfortable chairs as in the classical cinema. And that's exactly what happened. They were very interested and they bought our franchise operate and two weeks later they were running their own cinema.

And for us that was doubling our reach and we continued like that. So we improved the franchise model and etcetera. And now our main customers are classical cinemas who try to reinvent themselves and try to bring new technology into their venues. And we helped them by providing our VR capabilities in their complexes.

Balint: What's the operating margin that you have, if I may ask?

Dimitri: Sure, that's a funny question. Cinema by itself you would expect that's a volume business, right? You need a lot of people to earn profit and in our case that's different. If we have a fully sold out show, we have only two factors, cost factors, which is the licenses for the movie and the personnel that has to run the show. Now you're probably thinking, "Well, there's rent, right?" No, in our case we don't pay rent and that is due to a very funny reason.

As you know, Switzerland is quite an expensive country and as a startup in the beginning we simply couldn't afford to pay rent. So we went out to venues and tried to find those venues, which were not occupied on cinema nights like Mondays, Tuesdays, Wednesdays, Sundays and we found out that night clubs were the perfect spots. They had customers on Thursday nights, Friday nights, Saturday nights but the rest of the week that was empty.

So we pitched them and said, "Listen, we're going to bring this concept into your venue. We're going to attract people who were probably never in your venue before. You can sell them drinks, you can promote your venue to them and we will run the cinema concept. And it's a win-win." They have additional customers and we can have a nice space, which is already furnished and looks well from outside. And funnily, they agreed and we had this rule that we don't pay rent and it worked out. So the biggest challenge in the beginning turned out to be a very favorite one for us. And if you put all those factors together, we have for a fully sold out event a margin of around 80 percent, which is very nice I think.

Balint: Wow, that's very high. This that the higher rent and also the topic that work how it is for a startup working in an expensive country like Switzerland, this topic was brought up in my previous interview with Gunter Faltin, professor in Berlin, in Germany. And he also mentioned that one has to find clever solutions, ingenuous solutions to this because you want to minimize your costs. And for him it was outsourcing, for example the bookkeeping or also if you need a secretary, you can outsource that, that there are specialized companies in that. And he also brought up the rent, the higher rent that you want to minimize it, you don't want to have it as a fixed cost in your cost structure because that's not good, you have then continuously you have to cover those costs.

Dimitri: I cannot agree more. I mean the fact that there was such a high cost burden in terms of rents, made us creative, we had to think. If we had, let's say 3 million funding from the beginning, we would just have paid the rent and that was it. But that would have impacted our margin a lot and probably we would have burned through the money already.

But the fact that there was this problem, we had to get creative and a creative process started and there was a solution, which helps us until today. So I think those problems or you can also call them cost factors, if you face them, that's not a bad thing, that's a good thing because even though it might be a struggle for a while but you eventually come up with the creative solution which might even set you up from the competition. Who knows?

Balint: Regarding the technology, what technologies do you think will become more relevant to you in the near future, especially for cinema applications? And how do

you see that… I heard it from some people who experience VR immersive content by looking at this content through the headset is that it can make people feel dizzy. So do you see some ways to overcome those technologically?

Dimitri: This dizziness problem I heard that a lot. I experienced that a few times when watching VR. I figured out the only case where dizziness occurs is when your eyes perceive something different than your body. Let's give you an example here. If you are sitting on a boat in VR and you see that the boat is shaking for your eyes, but your body doesn't feel this shaking, so that's where dizziness emerges. And we try to overcome that by just picking the right content. Honestly, I wouldn't dare to show a sketch on a boat because that's the typical case where people get dizzy. And I know there are people who are more and less impacted by that. But in general, as a rule of thumb I try to avoid cases where you see something shaking but your chair doesn't move because that's a discrepancy between the eyes and the body and causes dizziness. So we just maneuver around that and then we've been able to avoid that so far.

Balint: And do you see some hardware, some technologies, which could become interesting for you?

Dimitri: Absolutely. I mean, having said that the body doesn't move and the eyes do move, well if you were to combine that, that would give you even a more immersive feeling right? You would sit on that boat, your eyes would see the boat shaking and your chair would move along the lines with your eyes. Imagine that, that would be a more immersive experience, which is a great thing.

Balint: Yeah. So this is a request for innovators to come up with a solution for this.

Dimitri: Absolutely. And if you do, please contact me.

Balint: Yeah. What is your single biggest mistake ahead of you? What are your next steps?

Dimitri: The biggest mistake I would say is not to make any mistakes because making mistakes is the learning process. They go along. The biggest challenge for me right now is I think coordination and communication with the team, with stakeholders because there was an initial success with the venture we have here. But that has opened so many different possibilities and ways.

And I think right now it's very important to focus and to communicate and coordinate correctly in order that everyone in the team marches in the right direction. Because I think this is a crossing where you can get lost very quickly if one of your team goes into the other direction and you don't realize that or you don't communicate correctly.

I think that's the biggest challenge right now to align everyone and to see everyone in the same direction.

Balint: So this means also you're using some project management tool but maybe it's also that you have to organize meetings where you come to the same let's say decisions so that you commonly make a decision and you move forward.

Dimitri: I think absolutely true. If you're facing strategic problems right now, it is very important that you don't solve those problems alone in your room and then go to your co-founders or coworkers and just present them your solution but you should try to onboard them on this problem-solving process so they feel involved, they feel like they're participating and then you come up with a solution where every stakeholder is already involved and has helped to form it. So that's what I mean by communication and coordination.

Balint: And as for mistakes, what kind of mistakes would you highlight during your journey with this company? Because we all make mistakes. These are really great for learning. So how do you see this?

Dimitri: I think mistakes are absolutely necessary. If it's small mistakes, you should do them. You should take care of those mistakes that lock you in for a while. If you sign a contract that really locks you in for a long time, that can be a very bad mistake.

We've been fortunate so far and I think not to have made any of the big mistakes, we made a lot of mistakes but those weren't those kind of mistakes that lock you in for a long time or could even destroy your business.

But I think it's important to make the small ones. But if you realize, "Well, that is a decision that might lock me in for a very long time on the wrong path," then I think that's the time to step back and really, really try to minimize your risk there and try to avoid that potential mistake which lies ahead of you. But for our case, I think so far we've been able to avoid them, which doesn't mean we will be able to avoid them in the future but we're doing our best.

Balint: So in principle don't make or try to avoid fatal mistakes. But feel free to make the smaller mistakes that make you better.

Dimitri: Absolutely, absolutely. Absolutely. Maybe one example of those large mistakes would be to pick a partner unwisely. Because if you have a partnership in place and it just doesn't work because you didn't do your proper analysis or the partner has absolutely different views on things, that will slow you down massively. And I think that is something you should absolutely avoid.

Balint: They say you should choose your partner as if you were choosing your wife or your life partner. So you really have to assess it. And this is actually also what the investors are looking at in the first place. I even read an article on this in Harvard Business Review recently where among all the criteria this was number one.

Dimitri: I mean I can understand that if you have the wrong partners and everyone marches in a different direction or lands in disagreement, this is fatal.

Balint: So now I would say we should move on to the so-called ultrafast round of questions. This means that I would ask short questions and it would be great to get relatively short answers. The first one. If you could go back in time, time travel, what kind of notes would you give to your 20 something yourself?

Dimitri: Diplomas are overrated.

Balint: All right. All right. I agree that, again, that one can learn more by going through experiences than just going to school and listen to the theory.

Dimitri: Absolutely.

Balint: The second question. If you had to name a book which one had the biggest impact on your career, entrepreneurial career?

Dimitri: *4-hour Workweek.* It was funny that you mentioned it before because I had to mention that later.

Balint: Yeah. Before our interview started I mentioned it, just for the listeners to talk about it a little bit. Yeah. So this had a big impact on you then?

Dimitri: Absolutely. Absolutely. Actually, things are mentioned that are pretty clear but they are presented to you in a very nice way. So it had quite an impact.

Balint: Yeah, on me too. It was a big eye opener on how you can optimize your life and your startup. Not only just being occupied with the nitty-gritty details but optimizing things, the process, the workflow.

The third question. I'm amazed by habits and how these can positively impact our life. What kind of routine, morning, evening or daily routine do you have?

Dimitri: I go with monthly challenges so every month I would give me another challenge, which might be sports in the morning, no coffee for one month or I don't know, meditation or whatever, but I think one constant is that I take a cold shower every morning.

Balint: That's good. Me too. I started it about maybe three months ago. I had one guest, podcast interview guest, Christian Smith from TrackR from Santa Barbara and

he mentioned it, actually in the ultrafast round of questions and then I was like, "Oh, maybe this is a message to me as well."

Dimitri: I think that's a very good one. Your body feels like, "Oh-oh, it's getting dangerous." So It activates all the life forces there are and that's how you feel afterwards.

Balint: Yeah. I always say to my friends here that once you survive a cold shower, nothing worse can happen probably during the day. And I feel just happier after that.

Dimitri: I can confirm that really.

Balint: The fourth question. In your work if you had to pick one or two cultural differences because you're now based in Switzerland, but slowly you're moving out of Switzerland expanding globally, which ones you wish you knew before and how did you overcome those challenges?

Dimitri: That's a tough one. I would say you can solve a lot with communication, you can overcome a lot with communication. But the question then would be, "Well, how would you communicate in a way that the other person understands? So I think you need to spend a little bit of time in the new culture in order to be effective at communicating. And maybe that comes down to travel a bit more, visit other cultures, talk to people.

Balint: That's a good point and it also opens your eyes to new ways of living and experiencing things.

Dimitri: Absolutely, and it also makes your brain, your horizon broaden, I think.

Balint: Yeah, yeah, wiring it differently, rewiring it.

Dimitri: Absolutely.

Balint: So I really enjoyed this interview, Dimitri. Before we depart, wrapping it up completely, one last question. What is the best way for the listeners to reach you: by e-mail or social media?

Dimitri: I am reachable by email under dimitri@wearecinema.ch. "We are" as W-E-A-R-E cinema.ch.

Balint: All right. I will put it into the show notes as well as some of the links, some other topics that you mentioned as links. So thank you very much.

Dimitri: Thanks a lot. That was a pleasure talking to you.

Balint: All the best. Thank you for listening.