13 July 2015

ENVIRONMENT AND COMMUNICATIONS REFERENCES COMMITTEE
PO Box 6100,
Parliament House,
Canberra ACT

To whom it may concern

Re: Inquiry into the future of Australia's video game development industry

I have responded to your terms of reference based on my experience of starting and growing a video game development business in South Australia for the past 4 years.

Yours sincerely

Ben Marsh
Managing Director,
ODD Games Pty Ltd

1. **How Australia can best set regulatory and taxation frameworks that will allow the local video game development industry to grow and fully meet its potential as a substantial employer?**

The video game industry is best akin to that of the film industry whereby the success of the business lies on the typical hit or bust scenarios. There are few companies that exist in the middle, and those that do exist in the middle often resort to 'paid for work' services to substitute revenue from loss of sales in their game titles. With this in mind I would suggest reviewing the existing regulatory and taxation frameworks that are available and work for the film industry with the view to adopting these for the game industry.

If the government were seeking to develop a new set of regulatory and taxation frameworks for the gaming industry then I would suggest some or all of the following:

- A tiered company income tax, similar to that of personal income tax – the more you earn the more you pay. In the early days of establishing a games company cash is scarce and any profit that is made is crucial to be able to reinvest
  - Perhaps further concessions could be made to companies if they reinvested their profits in hiring local labour
- Alter the frequency of income tax payments from quarterly to annually. Due to the highly cynical nature of video game sales you can often report high sales in one quarter and very flat if any sales in the remaining 3 quarters. Most video games companies rely on this initial high revenue to see them through the remaining financial year, but often this remains a challenge if a large portion of this initial income is paid in tax in the 1st quarter. They may not be around at the end of financial year to square up the ledger.

2. **How Australia can attract video game companies to set up development operations in Australia and employ local staff?**

Australia will find it difficult to compete on price therefore we need to look at what else is required for businesses to be successful, in my mind these are resources and connections. Australia needs to become known as the connector, the connector to publishers, the connector to marketers, the connector to support, the connector to learning institutions for employees and R&D, the connector to helping local companies expand into overseas markets, the connector to device manufacturers, and so on. We need to be better than all other countries at supporting video games companies to be successful.

When we started at ODD Games we had no connections to Apple, Microsoft, Google, Amazon, Intel, etc… Yet 4 years later we established these connections by ourselves. Imagine if you could start a video game business and get introduced to each of these companies within the first month or two – this would be powerful, especially for new start-up companies.

In order to attract large video game corporations to Australia, I believe this would work best through acquisition. I don't believe an Electronic Arts is going to have Australia on its strategic map to establish a studio as a greenfield operation, the costs are too high. Most of the large video game corporations have established studios in low labour cost countries already. Australia needs to be build its own large corporations inside and promote to the world. Therefore thought and support needs to be given to helping those people making games at home start a business.

3. How export opportunities from Australia's local video game industry can be maximised?

Most video game sales made by Australian developers are exported via online/digital channels; I don't believe there would be any video games companies surviving on local Australian sales alone. In order to create how export sales developers need to a) develop content that users want and b) have the appropriate distribution channels to get their games out to the marketplace. Content creation is up to the developer and this will determine their success/failure. In regards to maximising export opportunities governments can assist by establishing games missions to key overseas markets such as USA/China/India/Japan/South Korea to name a few. These markets are key for maximising downloads and revenue and face to face discussions/networks will greatly assist in local developers understanding the overseas markets needs/wants in video games. Those Western countries with English as a primary language can be tailored for with our local content as its not dissimilar, however Asian content is very different and if we don't understand it how can we export to them? The Asian markets are very large, and given our close proximity to them I personally see this as our biggest opportunity to maximise our export sales.

4. Any other related matters?

The video games market is forecasted to exceed $100bn by 2017 (http://www.polygon.com/2015/4/22/8471789/worldwide-video-games-market-value-2015) with the USA and China representing some $20bn each. Given our close proximity with Asia lies our greatest opportunity as does the US as we share many western understandings. Australia has the ability to house at least a dozen large games corporations (i.e. turnover >$50m pa) with many more cascading underneath. What is needed to get us to this point is the following:
- Financial support to start a video games business
- Tax incentives to trade and grow
- Business mentorship to these start-ups as the founders are often technicians and artists, not business people
- Connections to device manufacturers and distribution channels through video game business missions to key gaming markets such as USA/China/South Korea/Japan