

Future of the Australian

GAME DEVELOPMENT INDUSTRY

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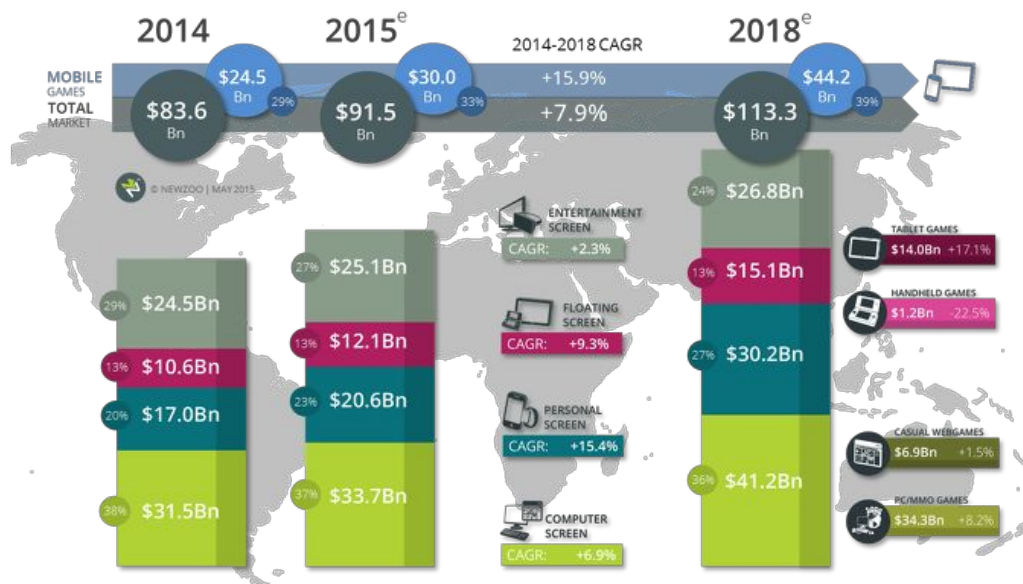
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The aim of this submission is to outline challenges those working in the games industry in Australia face and how the government can assist in increasing our share of the multi-billion dollar international games market(see graphic below). This is based on my four years experience developing games professionally and obtaining an applicable bachelor degree (Bachelor of Computer Games) at an Australian university. I have been lucky enough to be employed by a studio that has achieved success as an independent development studio with a very highly skilled and experienced team, some of which coming from other studios based in Australia that have since closed.

The Global Games Market | 2018^e Revenues Per Screen & Segment | Growth Rates 2014-2018



Graphic courtesy of gameindustry.biz⁶

The format of this submission is arranged in a way to catagorise each number of suggestions and observations outlined in the terms of reference for the inquiry. In order to more effectively answer questions about taxation and export opportunities, it is important to understand how Australia can attract and support development operations. For this reason, I have reordered my response to explore this line of inquiry first to better frame the following suggestions. Thus my response is ordered as follows:

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

- Rethink Team Size and Operation Goals

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.

- Startup grants
- Wage Assistance and Tax Breaks : aim to sustain, not to fund
- Software, Licensing and Hardware support

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

- Games as a major export to foreign markets

Any other related matters.

- Our poor National Broadband Network presents challenges when collaborating internally and with international business partners
- Government funded incubators to grow small teams
- Monitoring any distributed assistance

Above all, I hope to provide an insight into what a young person has identified when entering the industry straight out of university and also highlight areas in which we can improve support for anybody looking to build a business of their own.

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

Rethink Team Size and Operation Goals

One common misconception about the development of video games is the assumption that the bigger the team, the more chance there is of success. This scale of development is known as AAA production and involves substantial initial investment into a large team, long development time and expensive marketing strategy. To put it simply, this is not the kind of development Australia should be aiming to attract. It is expensive, our locale makes it hard to work collaboratively with any partner studios that commonly assist in large scale development and high reward operations attract similarly high risk that consequently leads to job instability. This is best exemplified by the closure of 2K Canberra, Krome Studios, Team Bondi and a plethora of AAA standard operations in Australia that prompted this inquiry in the first place.

I want to make this clear, **Australia packs a mighty punch when it comes to talent, creativity and innovation when you look in the right places.** I strongly believe that we don't need to attract existing companies, especially those that will take most of their profit and reinvest offshore, to establish development operations in Australia. Instead, we should shift our focus to support small teams that target easily accessible digital marketplaces and leverage the highly skilled graduates our education system produces. This is after all, the place our existing industry shines the brightest.

A small team creating a game that they can publish in a digital marketplace can establish a revenue stream for themselves that not only allows them to keep making games, but encourages them to grow their business as their revenue increases. The most poignant examples of such success in Australia are Halfbrick (creators of *Fruit Ninja*) and Hipster Whale (creators of *Crossy Road*). Both studios initially started with small teams that supported and distributed their games using digital platforms that allowed them to not only maintain the revenue stream of their successful and popular projects, but invest money earned back into the Australian industry.

In summation, I believe the goal of attracting existing game development companies is the wrong approach. Instead, creating opportunities for existing developers to grow their business and support any new startup teams is a far more beneficial and sustainable goal for game development in Australia. It would require a relatively low cost investment by the government into a massively exportable and profitable industry to provide sustainable growth and innovation. By leveraging existing and upcoming Australian talent in partnership with well established digital distribution methods, Australia could increase its share of the multi-billion dollar industry and create jobs for our ever growing population of highly educated and skilled workers across a number disciplines.

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.

Wage Assistance and Tax Breaks : aim to sustain, not to fund.

To be clear, all of the below suggestions and discussions are reliant on understanding the above section outlining Australia's strongest potential for success in the global game development climate.

Any framework that is aimed at assisting the growth of game development in Australia should strive to achieve two things; startup funding to establish a studio (team and resources) and tax relief aimed at easing the burden of operational costs.

The first challenge is creating a revenue stream that can support the business in the future. To do this, you need to develop a product that can support the ongoing growth of the business, and this requires an initial investment. This is where start up grants that meet a predefined set of requirements, have a clear vision and plan for development can be extremely useful.

Start up grants are a proven method of establishing more game development opportunities, with the most well documented example being the Canadian games industry. The Entertainment Software Association of Canada found that Canada on a per capita basis, is the biggest gaming industry in the world¹. In order to support the development in new games, the Ontario Media Development Corporation in conjunction with the Interactive Digital Media Fund offer a grant that covers \$150,000 up to 50 percent of a project's budget. This led to 23 gaming companies in Ontario alone leveraging the grant to fund the development of their first game² in the first year the grant was made available. This is just one of many programs available in Canada to incentivise the establishment of game development studios that consequently draw on the large pool of talented university graduates and citizens not unlike our own in Australia.

The second helpful system that has proven to assist other nations in supporting their industry are specialised tax models aimed at easing operational costs of the business. Sticking with the Canadian example, schemes have been set in place that refund between thirty five and forty percent of all money invested in artists, programmers and marketing by a company³. Such a scheme established in Australia

would not only make it a more affordable place to run a game studio (and bring it in line with the cost to open a studio in other knowledge driven economies), but it would also relieve the stress of having high operational costs after initial establishment. I suggest that these tax incentives be structured around a tier based model, meaning new operations that have less revenue benefit more than a business that is self sustainable.

Another system that would help the establishment of a studio could be likened to the HECS loan system available to university students. A business could apply for a loan that would be paid back once they are meeting a certain revenue requirement. This assistance could be delivered on a case by case basis and would allow businesses to be established, grow and also repay the government for the startup assistance. If a particular project enjoys major success, a tiered repayment scheme could be outlined to ensure faster repayments. If a studio does not generate the revenue required to repay the loan, they would not be required to make payments on the loan until they were financially stable.

By coupling well structured start up grants to give developers and potential investors assistance in establishing a development studio, it would not only make Australia a more attractive place to establish a business, but also encourage growth once a product has been developed and a revenue stream has been established.

Software, Licensing and Hardware support.

One of the issues developers face is keeping up with the platforms for distribution, software and licensing fees they need access to in order to make world class games. Something that could benefit small and large operations alike would be government subsidisation to help studios purchase the hardware and software they need to develop for their target platforms.

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

Given the nature of modern distribution of video games, the industry has galvanised its potential to be a powerhouse export industry for any economy. Just last year, the industry in New Zealand doubled its exports. As NZGDA chairman Ben Kenobi highlighted, smart digital exports have no limit on how many physical copies you can sell⁴. There is no shortage of publishing avenues for developers for any platform to pursue. The App Store, Google Play Store, Steam, Xbox and Sony App stores are the best known examples of digital distribution services that any developer can access and distribute on.

With this in mind, we must think globally. One of the biggest challenges for a developer is to get enough exposure to lure downloads and purchases. It takes time to build relationships with companies like Apple and Google, and is even more challenging if you intend on targeting the most profitable global markets. According to the latest Digital Australia Report, sixty-eight percent of Australians play games⁵. Despite this, Australia sits a considerable distance behind countries such as the USA, China and Japan when it comes to generated revenue. Game industry research firm Newzoo best highlight the need to prioritise a global focus with their latest analysis for game industry revenue around the world in the last year.

REVENUE RANK	COUNTRY	REGION	POPULATION	INTERNET POPULATION	TOTAL REVENUES IN US DOLLARS
Totals:			6,329,986,699	2,852,091,391	\$83,418,832,431
% of Global:			(100.00%)	(100.00%)	(100.00%)
1	United States of America	North America	322,583,006	278,066,551	21,270,366,138
2	China	Asia	1,393,783,836	687,135,431	18,046,647,006
3	Japan	Asia	126,999,808	109,537,334	12,022,672,000
4	Republic of Korea	Asia	49,512,026	42,303,075	3,847,522,830
5	Germany	Western Europe	82,652,256	70,727,851	3,581,759,171
6	United Kingdom	Western Europe	63,489,234	58,834,330	3,493,083,382
7	France	Western Europe	64,641,279	54,246,832	2,687,106,304
8	Canada	North America	35,524,732	30,835,467	1,783,678,344
9	Spain	Western Europe	47,066,402	35,098,310	1,485,270,314
10	Italy	Western Europe	61,070,224	37,306,946	1,442,248,748
11	Brazil	Latin America	202,033,670	112,330,721	1,285,392,161
12	Russia	Eastern Europe	142,467,651	90,324,491	1,225,475,934
13	Australia	Oceania	23,630,169	19,849,342	1,125,979,408
14	Mexico	Latin America	123,799,215	58,396,090	997,100,456
15	Taiwan	Asia	23,532,713	19,296,825	591,513,882

Australia sits at number 13 on the list found at Newzoo⁸

Building relationships with digital distributors in order to receive coverage in their global app stores is critical to the survival and growth of a studio. Currently, developers have to go it alone and build the relationships themselves. A system that could help link developers with representatives of major distribution platforms would greatly benefit the chance of success and allow studios to build active and loyal consumers of their games.

Government assisted publishing avenues (consider it as the ABC of the video game industry) could be a monumentally useful support system to connect the world's leading distributors of content with the wealth of talented developers Australia has to offer. It would provide services a traditional publisher in the game industry would offer, except it would be government run and the large sum of revenue would go back to the development team instead of the publisher. Not only would such initiatives provide a critical point of contact and support for developers that don't know how to market their game and break into international distribution services, but it would also encourage large existing businesses to leverage a support network to further grow their existing products in regions they had not been able to penetrate in the global games market before.

Any support that would provide advice and avenues for developers to work with distributors in markets like North America and Asia would all but guarantee the growth of the local industry and could potentially generate huge amounts of revenue for the local economy by targeting the biggest consuming nations of all types of games.

Any other related matters.

How the National Broadband Network inhibits workflow and international collaboration opportunities.

The dissatisfaction in the quality and rollout of the NBN among the public and business sector is no secret, but with this aside, I would like to take the opportunity to discuss how it directly impacts the ability for game developers to work both within their own studio and more importantly, with other game development operations across the world.

When the NBN is discussed, a lot of people seem to focus on download speed. Although download speed is very important when you are requesting content from the web, the biggest hinderance to the day to day operation is the **poor upload speed** most of Australia is stuck with. In my day to day work, I use version control mediated through BitBucket and SourceTree (both made by *Atlassian*; Australian and one of the world's biggest productivity software companies). If I do a sum of work, I upload it to a cloud server where it is stored and archived and also made available for the rest of the team to access. When I submit large amounts of work (data), I often find myself sitting for up to half an hour at a time, waiting for my work to be uploaded to the cloud service because **the internet services available to us will not allow us to upload content any faster than 1-2Mbps**. This is made considerably worse when you consider assets can be large in size and also frequently revised and submitted.

Apart from losing a considerable amount of time in our working day to progress bars, if you apply this on a larger scale, the problems this presents to our industry as whole is downright **scary**. Developers cannot collaborate with businesses internationally if they cannot deliver content in a timely and reliable manner. Uploading a build of a game for a publisher that may be looking to assist you in a foreign market could potentially take **days** if the project is several gigabytes in size. This is an enormous turn off for anybody looking to collaborate in a fast moving and time sensitive industry. In fact, I would consider our lack of internet infrastructure as a major player in the decision to cease large scale development projects for companies like 2K and EA in Australia. Given their requirement to work with their partner studios overseas, the time it would take to share assets and deliver updates for current versions of work **almost immediately discredits Australia as a viable location to develop games**.

A National Broadband Network with a fibre to the premises structure would do positive things for the video game industry that would be hard to quantify. It would remove our inability to collaborate because of our locale. This makes working with highly educated and experienced teams based in Australia as accessible as any other knowledge driven economy to established global game development companies.

Government funded incubators to grow small teams.

If the government is serious about letting local talent flourish, it should also be serious about providing an environment that would encourage the sharing of knowledge, experience and resources where it may otherwise be lacking. Setting up a space that teams could rent at a small cost, or even be free for a certain period of time, that is focussed on bringing teams that would otherwise be working from home or small isolated offices together comes with a number of benefits.

This would be most likened to a government run and operated 'hackerspace'. That is, a place in which people with an interest in computing or technology can gather to work on projects while sharing ideas, equipment, and knowledge⁷. Such a program would set a space up in each of the major cities in a region with access to the NBN and could be partnered with other government initiatives such as providing internship opportunities to universities. Anything that brings more teams together to share knowledge, contacts and experience is a good thing for what can sometimes feel like an isolated industry.

Monitoring any distributed assistance.

One important factor to the success of any government assistance made available is the proper distribution of funding to industry that has the primary goal of economic growth. In my time in the industry, I have seen funding and grants from the Interactive Games Fund of Australia go to educational institutions and studios more than capable of supporting and growing their businesses independently. Furthermore, many research projects that were granted funding under the scheme at both educational and private establishments were a fantastic exercise in testing the limitations of tech, but ultimately did absolutely nothing to help grow the games industry as a whole. Investment should be carefully considered by somebody who is familiar with the

industry, and should primarily target entertainment focussed games that aim to generate revenue and profit that can then be reinvested in the industry.

Final Word.

Australia has huge potential. Despite an impossibly difficult development climate, there has been growth in the industry thanks to small talented teams. With the right support, Australia has the potential to be the leader in small to medium sized independent development teams and create one of the largest technology based export economies in the world.

I would like to thank the senate for the opportunity to submit to the inquiry and eagerly await any chance I may get to help Australia lead the world in the field I am so passionate about.

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