HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

INQUIRY INTO THE FUTURE OPPORTUNITIES FOR AUSTRALIA'S FILM, ANIMATION, SPECIAL EFFECTS AND ELECTRONIC GAMES INDUSTRIES

Submission Prepared by the Queensland Game Developers Cluster

JULY 2003

I am writing in regard to the above Inquiry and I would like to confine my comments to the electronic games industry.

The Queensland Games Developers Cluster, which I represent, held its first meeting in September 2002 and has been very successful in providing a focal point for the consideration of issues that impact upon the development of the industry in Queensland. The Cluster has developed a strategic action plan highlighting marketing, technical infrastructure requirements, training and skills development and intellectual property protection as priorities for development. Much of the action plan has been adopted by the Games Developers Association of Australia (GDAA), which demonstrates the leadership and drive being shown by the Queensland games firms.

The following will provide you with an overview of the Queensland games industry.

The Queensland Games Industry

Queensland is well placed to benefit from this rapidly expanding industry and is already home to some of Australia's largest games companies. Queensland's games industry is already comparable in size to that of Victoria, with an estimated 40 per cent of the Australian industry located in this State.

It is estimated there are 18 dedicated games companies in Queensland, primarily located in Brisbane and on the Gold Coast, employing approximately 300 people. In addition to these companies, there are a number of companies that provide services to the sector, in particular, animation and music. Most of these companies are members of the Queensland Games Developers Cluster and their details can be found on the Cluster's website at http://www.qldgamedev.com/.

In summary, the Queensland games industry can be broken down into four levels:

1. Start-ups and pre-start-up firms which possess technical skills but lack in business skills and/or capital for growth;

2. Small to medium enterprises (SME's) with teams of 4 to 10 people. They generally have produced one or two games under contract or may have produced an electronic proof of concept (EPOC) to demonstrate to potential publishers for various platforms PS1, PS2, PC and handheld games. These SME's also typically lack in business skills and/or capital for growth. E.g. Theyer GFX, Eyecon, Wildfire Studios, Halfbrick Studios etc;

3. Large indigenous firms with teams of over 100. They have a strong track record in producing games for various platforms PS1, PS2, Gamecube, XBOX, PC and handheld games. E.g. Krome Studios and Auran.

4. Large corporates and major multinational games companies with production studios in Brisbane. E.g. Electronic Arts, Pandemic Studios, THQ, Creative Assembly.

The diversity of levels outlined above demonstrates not only that the industry is thriving in Queensland, but also that large multinational companies see the state as a perfect location to establish their Asia-Pacific bases. Furthermore, the industry is well supported by a strong education and training sector, which delivers a number of tertiary courses producing graduates with skills suitable to the games industry.

Queensland University of Technology, the University of Queensland and Griffith University all produce graduates with games and multimedia skills. Griffith University's Bachelor of Contemporary Music also includes content dealing with the composition of music for games.

In addition, the Queensland Government provided $2 million to support 80 games scholarships through the Queensland and Northern Territory Multimedia (QANTM) Education Centre. QANTM is currently in the process of developing an undergraduate program to focus on Games Programming for Interactive Entertainment and aims to have this program accredited through the Office of Higher Education by mid-2003.

In conclusion, the Queensland games industry is developing at a rapid rate, with a strong base of established developers, and a sufficient education and training infrastructure. However, in order to ensure that the industry is able to sustain growth and compete globally in the long term, it requires the assistance of the Federal Government in a number of areas outlined in the remainder of this submission.

How Federal Government Can Assist the Games Industry

I would like to raise a number of key issues, which I consider to be impediments to realising the opportunities the Games Industry represents. In raising these issues, I have sought to highlight those areas where I believe the Federal Government can make a positive contribution to the growth and development of this industry. I have listed the following issues in the order which I feel will provide the most benefits if acted upon.

1. Investment

Stimulating investment in the Games Industry is crucial for the industry's growth. This is by far the most important way that the Federal government can assist the Games Industry.

A typical development project now lasts around 18-24 months and requires a team of around 20 with a budget of AUD $3-6million. The increasing cost and scale of games development requires games companies to scale up to match these production demands. Many companies remain sub-scale and hugely dependent on the success, or failure, of single titles.

Publishers have historically been the source of funding for developers and rising development requirements make small developers more dependent than ever on publisher funding. As publishers are taking on the bulk of the risk by providing funding, they typically also take ownership of the IP rights of the game and so, much of the future potential value.

A key value creation route for any games company is the creation or acquisition and exploitation of IP. The creation, retention and successful exploitation of IP is often the only real route of expansion for independent developers. However in order to reach this point, games companies require access to finance to fund expansion and development. The latter is especially important for developers as, the more that development can be funded by the developer themselves, the better the terms they can reach with a publisher for royalties and the retention of intellectual property (IP). This in turn will allow it to self-fund growth or future development.

Licenses, for example, to sports rights such as AFL, FIFA or World Rally Championship and to films or books such as Mad Max, Harry Potter or James Bond, have also become very important as means of improving a game's chances of success in the market. However, the cost of acquiring licenses again increases the cost of producing a game. A strong funding base is needed to be able to acquire such valuable licenses.

In particular, success in attracting funding to enable the retention or ownership of intellectual property and the effective exploitation of that IP to fund future growth, consolidation or development will be critical. Without access to funds that can support this first step to growth, development companies and the Australian games industry as a whole, risks becoming simply a creative and technical "sweatshop" for overseas publishers and developers. If this eventuates, there will be a continued hand-to-mouth existence and increased financial frailty for local developers, while the majority of the fruits of our labour are retained overseas.

R&D is an inherent part of the development process. Much of a developer's time is spent developing technology or becoming familiar with new platforms and tools. However, most developers do not consider this as R&D because it is usually tied to a project, although larger developers generally have distinct R&D functions. For most small companies, the technology that they develop is inextricably linked with their products. It is only when a company reaches a certain size that it can begin to exploit economies of scale and develop technology to be used across multiple titles.

In view of the above, I strongly recommend to the Inquiry that the Commonwealth;

- **Extend the film tax incentives available under Divisions 10BA and 10B of the Income Tax Assessment Act 1936 to include the games industry.** This would provide a strong incentive for private investors, as well as games publishers, to invest in the local industry.

- **Establish an Equity Investment Vehicle for game development ie FFC.** This funding vehicle should facilitate both concept and prototype development as well as development funding for game products developed by local developers.

- **Extend the Digital Content Mechanism currently managed by the Australian Film Commission with a specific allocation for games.** This will assist prototype and early stage project funding (eg new projects/start-ups).

- **Establish an AusGames office in the US.** This will assist with attracting game projects to Australia.

- **R&D Start Grant.** Games should be an identified category. Game developers conduct innovative software development as part of the new media industry and this should be recognised. Applications from game developers to the Program should be considered in this light.

- **R&D deductions.** Should be extended to the whole game software development process.

2. International Marketing

Given the international nature of this industry and its export focus, coupled with the fact that Australia has no indigenous publishers who can compete on a global scale, there is a need for a comprehensive market development and international branding strategy for the Australian games industry. This strategy could be modelled along similar lines to those introduced in Scotland, England, France, Hong Kong and Canada. Consideration should also be given to developing effective market entry strategies for the Asian market. This strategy should focus on supporting Australian companies' attendance at key events, such as those listed below.

The Game Developers' Conference (GDC) held in San Jose every March. This is considered to be *the* most important conference for game developers. Statistically, more deals are done at GDC, even though publishers have a larger presence at E3. Game companies typically get more time with publishers at GDC and access to them is easier as all events are hosted on site.

Electronic Entertainment Expo (E3) held in LA every May. This is the largest trade show and expo for the game industry and attracts all the major players. This year, over 30 Australian companies participated in the Technology Australia: Games Downunder pavilion in South Hall, the main exhibitors' space. This was made possible through cross-Government support facilitated by the GDAA. It is critical that Australia continues to build its presence at these shows.

I recommend to the Inquiry that the Commonwealth takes a lead in marketing of Australia's games capability overseas and provides resources to:

- **Support an Australian presence at the Annual Game Developers' Conference** held in San Jose, United States every March. Specifically, it should sponsor a private invitation-only networking event, targeting 120 key industry players and decision makers plus media, in order to promote the Australian game industry's strengths.

- **Increase the amount of Federal support provided for the Australian industry to increase its presence at E3** in 2004 onwards.

- **The Federal Government should support bringing US-based publishers and key industry players to Australia to visit local studios.** This could be done with the assistance of Invest Australia and Austrade. This might also involve Government sponsoring a major event to raise profile and showcase capability to publishers and investors as part of the annual Australian Game Developers' Conference.

3. Skills and Training

There is a general lack of business and management skills at all levels throughout the industry. Of particular concern are small, inexperienced developers who are often directed by technically proficient programmers or artists but who may not have the experience to run the business.

A skills gap is also emerging in terms of the actual development talent that is available. Current training lags behind industry needs and expectations and large up-skilling costs are associated with employing recent graduates. To compound matters, there is also a lack of highly experienced local development talent due to the relative infancy of the industry.

I recommend to the Inquiry that the Commonwealth takes a lead in marketing of Australia's games capability overseas and provides resources to:

- **Develop sales and communication skills.** Developers need sales skills to explain and communicate titles to publishers. They also need sales skills to communicate with financial communities.

- **Develop business skills.** There is concern about the lack of solid business skills within the development community. Developers need to know what to present to investors and publishers - such as business plans, projections, marketing plans, technical plans, project plans etc - and how to create these.

- **Develop project management skills.** There is a growing emphasis on the importance of project management, as budgets and team sizes increase. Both project managers and producers are rarely given specific training. They are often successful programmers, designers or QA testers who are moved into project management. Training in basic tools and skills is therefore urgently needed - from using MS Project, to keeping budgets, and the development of interpersonal skills. As project budgets grow, project managers are finding themselves responsible for budgets of $4 million or more. Project management skills are therefore essential.

- **Draft standard or benchmark contracts and deal terms.** Clear, standard or reference contracts and deal terms would expedite the process of concluding development deals and reduce the chances of misunderstandings or disputes. Established developers should work with law firms with games industry experience to draft standard contracts and make them available, along with checklists and guides for completing them.

- **Spread best practices within the industry**. The development of best practice case studies and open seminars for their dissemination and discussion should be actively encouraged. The topics for review should be driven by industry demand, but should include a focus on those issues likely to become more complex with increased scale for example, managing multiple projects and managing funding partners expectations. There is a need to ensure exposure to the working practices of successful games companies from around the globe.

- **Establish a national accreditation system for game development education and training**. An effective Council could also focus on incubator activity as a key component of growing the industry as well as creating avenues for both trained and experienced personnel.

- **Support establishment of 'Internship Program' in local companies**. This will help alleviate some of the up-skilling costs associated with new graduates.

- **Attract Australian expatriates with experience in the games industry back to Australia.** This will provide a means of increasing the skills and knowledge base in the local industry.

- **Establish and support incubators to nurture start-up game companies.** Most of the initiatives listed above could be provided via incubators.

4. Development Kits for Proprietary Console Platforms

Rising development costs have also been driven by the cost of development kits and software. Typically, the former costs $20,000 per kit, the latter $6,000. With around 10 kits per team required, this makes for a total of $260,000 per project team.

More importantly though is the issue of access to development kits. Development kits for new console platforms (Sony PS2, Nintendo Gamecube, Microsoft XBOX) are only available to approved developers. Eligibility is usually determined by the developer's previous track record i.e. games developed and published. This is a major barrier for start-ups and small developers, who have no track record. Although publishers will consider prototypes built on PC, a concept has far higher likelihood of success if the developer can prove their experience and understanding of the relevant platforms. This makes development kits (dev kits) essential and creates a vicious circle for smaller developers: small developers cannot get a dev kit independently; they cannot develop a suitable standard of prototype; they cannot communicate their idea; they do not win a publishing deal; they cannot get a dev kit. As a result, larger developers with dev kits have a significant head start on those that do not.

In view of this, I strongly recommend to the Inquiry that the Commonwealth;

- **Support the national rollout of GDAA's Playstation 2 dev kit program by providing funding for the purchase of additional development kits.** The

PS2 dev kit program is currently only available to Victorian developers. Access to dev kits will remove one of the major barriers for small developers.

5. *Industry Data Availability and Use*

There is a lack of affordable, comprehensive and consistent global market and consumer data. Even what is available, most small developers are unable to afford or do not appreciate the value of it. Addressing this is seen as vital to better understanding consumer demands for games and hence improved market success.

In view of this, I strongly recommend to the Inquiry that the Commonwealth;

- **Support establishment and maintenance of an Industry Database** that provides information on:
  - Major game publishers and contact details (locally and globally)
  - Major distributors and contact details (locally and globally)
  - Key industry recruiters (locally and globally)
  - Local game development and service sector companies in the game industry.

  This database could be established and managed by the GDAA and would be available to the local game development industry (including service companies), Government, and educational institutions. This database would be particularly useful for new entrants to the industry looking for contacts, established companies wanting to keep up with changes across the value chain and access current recruitment support, and Government and educational institutions wanting to track industry profile.

- **Provide funding support to the GDAA so it can collect and provide industry data** to industry, Government and educational institutions. This would include market research and data on market trends/figures, evolving business models, sales figures and data on publishers, and other relevant market information.

6. *Broadband Access*

The Queensland Games Industry Cluster has identified access, pricing, reliability and capacity of broadband infrastructure as a key issue for the industry.

The games industry, like the film industry, is a heavy user of broadband. There is a continual need to provide large files to overseas publishers during development stages. Moreover, firms like Creative Assembly with development teams in two countries make significant use of the Internet to exchange information. Thus, the cost of telecommunications is a major input cost in games development.

The industry works to very tight deadlines as games releases are often timed to coincide with film releases or the Christmas season. In most cases, the competitive advantage of Queensland and Australian companies lies in their ability to operate in a

24/7-production environment taking advantage of time differences between countries to significantly shorten the time to market for new products.

In this context, it is critical that connections are also reliable. Disruptions to connections which may only take a few hours of local time to fix can blow out to many hours or even days when time differences are taken into account.

The Queensland Games Industry Cluster has successfully negotiated a broadband demand aggregation offer with the Film Industry Broadband Resources Enterprise (FIBRE), a Commonwealth supported entity, to improve broadband pricing and access for games companies, in this State.

I recommend to the Inquiry that the Commonwealth, using its powers with regard to telecommunications to;

- **Continue to support and expand funding for initiatives such as FIBRE**, which deliver improved broadband services to the games industry.

I commend your Committee on embarking on this and look forward to your report.

Yours sincerely

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