**Notes from the SEEDA/Wired Sussex/CENTRIM Games Development conference, held at The Freeman Centre, Brighton
4 December 2003**

Wired Sussex recently consulted and collaborated with SEEDA and CENTRIM to showcase the gaming report '*Getting a Measure of the Games Development Business'* at its Games Development Conference on 4th December.

Wired Sussex event-managed the day and contributed to the development of the report. As the business development agency in the region, Wired Sussex contributed its knowledge and expertise of the new media cluster in Sussex to help shape the report and the day's presentations.

The report and conference conclusions are noted below, and provided an interesting debate on current trends within the gaming sector, lessons to be learnt from leading publishers in the region, and their predictions for the future.

More than **50** industry players attended the event which focused on presentations by three keynote speakers (see speech synopses below).

The event was organised with the following aims:

- To launch the report *Getting a Measure of the Games Development Business: Strategies to Meet Global Challenges*

- To engage stakeholders, through keynote speaker presentations and interactive workshops, in clarifying the nature of business challenges and consider strategies for retaining and expanding high-value development work in the UK

Keynote Speaker 1:
Richard Leinfellner, VP Executive in Charge of Production, Electronic Arts

Whilst Richard's presentation was informed by the EA view of games development, it was by no means exclusively corporate.

Richard pointed out that although games such as GTA Vice City have shifted 10 million units, electronic games remain not only a niche market, but it is unique in entertainment terms in that there is no place for 'b' games to go. Unlike in the film industry, there is no equivalent of 'straight-to-video' or low-audience cable channels - electronic games remains a hit-driven business.

It is also a hostile business for small companies. Not only does the technology change frequently, but also costs are increasing for essential preparatory work such as prototype development – something that all developers have to produce to win business from publishers. However, Richard firmly believes that creativity and new talent remain central to the sector.

One thing that may help new talent is their having missed out on what Richard called 'the 8-bit legacy' of poor management. In particular, Richard highlighted project management and process implementation and control as some of the least understood and appreciated elements of the business. He drew attention to, amongst others, the following elements:

- The development and use of metrics is important

- Missing deadlines blow profit margins; time-to-market is decreasing and is effectively non-negotiable

- Teams should be founded on mixed talent with smatterings of new blood

- More contract staff will be a feature, but they will have to be integrated sensitively to ensure continued buy-in and commitment to projects from all team members

- Pre-and post production are cheap; production is expensive – hence a need to plan projects appropriately

- Pitches need to be compelling, and to be so in 30 seconds

- Over complexity in product and process should be avoided

- Re-use product and process technologies where appropriate, but invest in better tools

Richard noted that developers also need to understand players, their expectations and tolerances. Innovation in the form of new ideas, characters and features are important. That said, players also need to be hooked into any particular game quickly. Moreover, there is a finite appeal to most games – making them too long may be a poor strategy.

Keynote Speaker 2:
Nick Gibson, specialist interactive entertainment consultant and founder of Games Investor Consulting Ltd

We asked *Nick Gibson* to address one of the other key factors arising out of the report, namely sector financing.

In his examination of funding dilemmas, Nick considered a number of **hot facts** visible in the sector. These included:

- A rise in failures in 2003
- New start-ups coming from the ashes of the failures rather than new talent
- Developers are tending to contract rather than expand (with some exceptions)
- Over-supply of developers fuelled by 'PlayStation era'
- Near doubling of development costs in recent years
- Greater financial risk borne by developers for pre-production
- Growth in importance of brand (not owned by developers)

Nick also made a number of **predictions** relating to these observations, including:

- The next generation consoles will increase the 'risk bar' for developers
- Continued uncertainty as to whether platform owners will restrict access to development kits for next-generation technologies
- Publishers will make greater use of in-house teams
- Eastern Europe offers development work at one-third of that in the UK

Nick's advice, fortunately, was **not to give up**. Amongst the good **reasons for not giving up** are the following:

- Well managed and high-quality developers will always attract publisher funds for games development
- Original and innovative IP is still sought after

Nick's **advice for getting sector funding** was seductively simple:

- Consolidate in both size and expertise (product and process)
- Reduce costs by outsourcing (engine technology, low-end artwork) and employment of contract staff

The missing element is attracting the funding in the first place. Nick was pessimistic about the prospect for venture capital funds. Factors such as the poor performance of listed games companies, risk, limited opportunities and the relative attractiveness of publishing contribute to poor VC interest in development businesses.

The '**White Knight**', however, comes in the form of R&D tax credits and the formation of tax-driven games development funds, as well as the need to divert development *investment* away from Canada.

Keynote Speaker 3:
Professor Raphie Kaplinsky, Principal Research Fellow at CENTRIM, University of Brighton

The final keynote gave an applied academic perspective. Raphie Kaplinsky drew on business improvement experience from other sectors. Central to the thesis, however, is continuous improvement at the process level.

Raphie illustrated this with the way Toyota revolutionised car production by placing uncompromising demands on process improvement and downward pressure on cycle-time and waste (physical and temporal). He argued that this was imperative for Toyota, which could not compete with Ford and General Motors in the US in terms of scale and scope. The rest is history!

The second critical consideration for developers, Raphie argued, is to think systemically. The theoretical aid to this is the concept of the *value chain,* demonstrating a trend where competitive pressures often focus on the production link in the chain where barriers to entry are lowest (this increasingly relates to developers in the electronic games value chain). The real value is increasingly invested in the design and marketing functions within the chain where the intellectual property is located.

Finally, Raphie argued that an essential tool for businesses subject to competitive pressures is **benchmarking**.

Benchmarking offers:

- Systematic comparison
- Calibration of practices and performance
- Enhanced performance

…leading to competitive advantage.

Significantly, and illustrated through examples, Raphie argued that businesses with a country base should see the competitive challenges as collective rather than individual. Benchmarking, therefore, has the added benefit of being a tool of collective efficiency as well as a provider of internal business improvement indicators.

Workshops and Discussions

The three workshops and an extended plenary (coupled with the lunch networking opportunity) proved a valuable exercise.

For the workshops participants were split into three groups with the brief to discuss and criticise a proposition based on a statement that captured some of the main points in the report. The statement and proposition were:

Statement	Proposition
The evolution of the games development sector over the last three decades is defined in terms of entrepreneurialism and reluctant professionalism in management. (By this we *don't* mean unprofessional). Today's development companies suffer from a lack of specialisation in disciplines (e.g. marketing, market research, and sales). These factors are indicators of internal business processes and increasingly determine how successful a pitch is likely to be to a publisher. It also limits the ability of games developers to evaluate the need and options for *strategic positioning*; for example, product upgrading, service provision, outsourcing, etc.	Management specialisation will progressively determine how the business will be received by key stakeholders such as publishers and finance providers. Integral to the development of management specialisation and professionalisation is systematic training – on- and off- the-job – in partnership with educational establishments and trainers. Moreover, without a raised understanding by *measurement* and 'reflexivity' (being able to review critically one's own activities/behaviour), the sector will be ill-informed and ill-equipped to meet future business challenges of managing innovation, effective business process engineering and leveraging IP.

The key points from the report backs were:

Management specialisation
Marketing is imperative – the big question is about feasibility; do businesses have the resource to do it effectively even with management specialisation?

One group used a 2x2 grid to map trends and open up the problems with increased management specialisation. Where early models have been driven by entrepreneurialism, management specialisation has been low.

The fear from this group was that increased management specialisation would result in reduced entrepreneurialism (and perhaps innovation) rather than moving horizontally to a situation of high entrepreneurialism coupled with high management specialisation (a panacea?).

Measurement
Devising the measures is costly and requires external inputs, especially from publishers. Measures may be particularly necessary for leveraging internal intellectual property.

Business processes
Whilst robust business processes are essential for specifying a clear management responsibility, games developers need support in developing these from Government and business support agencies. For most businesses it seems to be a time resource.

The plenary discussion is summarised below:

1. Measurement

Metrics are important, and primary amongst them is time-to-market (downward pressure to deliver in one year); for publishers it is not a budget question.

Six years ago, the average slippage was two years, now it is two weeks (and declining). This is good for developers because on the whole they did not really want to be finalising a product for two years. New products are attractive to all in the value chain.

It was suggested that the report lacked metrics around business plans and consumers. Whilst the authors admitted to this weakness, they indicated that they had collected considerable qualitative data during the research process containing just such data, but they are more difficult to incorporate into a report of this kind.

Knowledge sharing in the sector really is not adequate. Publishers in particular are accused of not sharing their data. Publishers in turn argue that developers don't actually ask for research data from them. However, one observer noted that there is limited data from the US and Europe. Data from Japan is a shade more abundant. **Ultimately there is lots of data about, but what is missing is the vehicle for pooling it.**

2. Value chains

Developers and other stakeholders in the value chain may care to apply some of the strategy approaches that proliferate on the Web. They may well be a self-selected group if they do so, but such tools are cost effective and genuinely enlightening.

3. Funding models

Funding models are a key challenge and advances on royalties may be an outdated method. The future has R&D tax credits, which are now available for business processes. In addition there will also be funding by customers (online games is a case in point).

The trend is that fewer titles are doing all of the business. Few titles actually make royalties for developers. **Royalties** should never be part of business turnover expectations.

Moreover, there may still be scope for involving banks in business development. Grants, however, are usually unhelpful as they often involve having to relocate to somewhere inappropriate.

However, it was suggested that **fees from publishers are just too low** (up to $5000 per person per month). This is too low for a sustainable business. To some extent this may be influenced by competitive price challenges from Eastern Europe.

4. Contracts

There is also immense instability fostered by contracts that favour publishers over developers. It was noted that many contracts enable publishers to terminate, a state which leaves many developers extremely vulnerable and with overheads that cannot be met.

Whilst publishers argue that it is up to developers to negotiate better contracts; experienced developers, however, reported that publishers resist agreeing to such contracts.

On the nature of competition, some organisations experience their greatest competition internally (between teams, functions, etc.).

Much of the discussion, however, hinted at narrow thinking. The key, may be games businesses embracing the value chain framework and ensuring that the organisation is informed systematically about the activities of the chain as a whole.

4. Training

There was considerable agreement that training is essential, particularly in the realms of project management. At least two development companies argued the efficacy of training as an accelerator of business improvement.

5. Mobile

Mobile is fast growing as a platform for games developers. The range of handset capabilities is rising, but complacency about the US is dangerous. The US has a higher revenue on games than Europe.

Mobile is getting tougher. The portals are making fewer games available – actively promoting those that are doing well or are anticipated to do well. So brand is becoming increasingly important. A lot of investment, however, is self-funded by the games developers.

SEEDA
SEEDA has a number of initiatives designed to support businesses in the South East. Finance SE is heavily involved – and successfully so – in the creative industries. Eighty per cent of businesses supported are still trading 18 months from inception. In addition, the Lean Manufacturing Network is extending its remit to services and ICT. There are also learning networks of which Wired Sussex and the South East Media Network (SEMN) are at the forefront.

Action points
The chair summed up the discussion by proposing the following action points:

- Establishing and maintaining a database of business (improvement) indicators

- Development and delivery of generic training programmes

- Bringing together the stakeholders in the value chain, possibly by generating a learning network with events on a monthly basis to discuss, amongst other things:

    - Effective outsourcing
    - Management
    - Funding sources
    - Benchmarking

In addition to keynotes, thanks also to: Algy Williams **(Babel Media)** for chairing the event; David Bailey **(Black Cactus)**, Ally Charles (SEEDA), Cheryl Clemons (Wired Sussex), Charlotte Cumming (Wired Sussex), Fred Hasson (TIGA), Julie O'Sullivan (University of Brighton) and Alan Searle (SEEDA).

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