

GAME INDUSTRY FACT SHEET

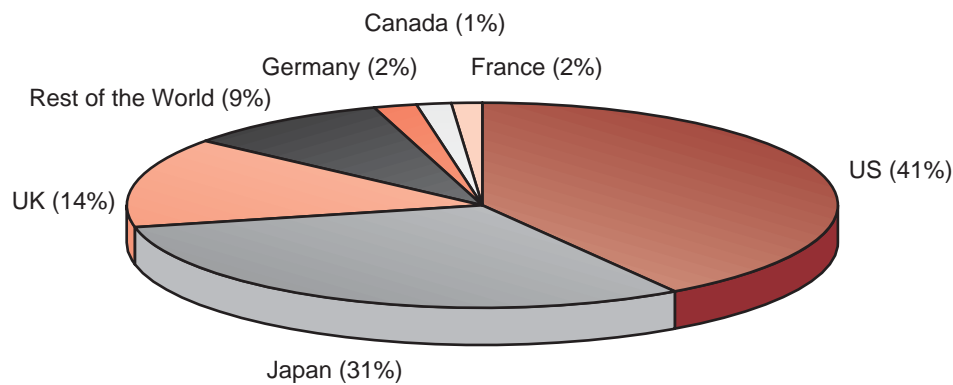
The Global Game Industry

Structure of the global game industry

- The global game industry, in both software and hardware market segments, is dominated by firms from the US, Japan and Europe.
- This fact is especially evident within the hardware-side of the game industry. Multinational hardware companies based in the US, Europe and Japan – such as Microsoft, Sony, Nintendo, Nokia, Compaq, Dell, IBM, and HP – produce approximately 84 per cent of all PC and console products.
- Figure 1 illustrates the dispersion of game developers across global regions.

Figure 1

GAME DEVELOPERS BY GLOBAL REGION



Source: Department of Trade and Industry, UK (2002)

- Spurred by the rising costs associated with complex game development, the game industry globally has been undergoing a period of considerable consolidation. As a result, a relatively small number of publishers are emerging as dominant players within the industry.
- In the US marketplace in 2002, the 10 largest entertainment software publishers accounted for 65 per cent of total US retail sales while the top 20 publishers accounted for 91 per cent of sales¹.

Increasing convergence between games and other creative content sectors

- Increasing convergence between the game industry and other creative content industries is an important emerging trend.

¹ NPD data reported by Larta (2003) in their White Paper, *The Electronic Games Industry*

- It is becoming common now in the US for games to be developed in collaboration with the film industry. Film stars are now increasingly being contractually obliged to record dialogue for games and to participate in additional filming in motion capture studios for the development of their game characters.
- A game development team from Atari spent several months on the set of the Matrix movie sequels while developing the *Enter the Matrix* game. The game uses exact film sets and some scenes are ‘filmed’ with the express purpose of inclusion in the Matrix game.
- Reflecting this trend to convergence between game and film content, three leading Australian developers are currently engaged in the production of games linked to major film properties.

Scale of the global game industry

- The international market for games is large and growing. In its *Australian Entertainment and Media Outlook Report* (2003), PriceWaterhouseCoopers (PWC) quoted the 2002 global market for interactive video game software to be worth \$A40.9 billion compared to total global film box office takings of \$A39.6 billion.
- These findings are in line with those produced by The Informa Media Group (IMG) of the UK which forecast global retail revenues from games to exceed \$US31 billion in 2003, with more than two-thirds of this total (\$US20 billion) attributed to the software market segment alone.
- The growth potential for the global game industry over the medium term is very high. A number of analysts have forecast that the double-digit growth enjoyed by the industry in the past decade could be matched or surpassed in the next five years.
- PWC projects a compound annual growth rate for game software of 11.3 per cent between 2003 and 2007 compared to a projected growth rate of 6.4 per cent in the filmed entertainment market (film box office plus cinema advertising plus dvd and video sales and rentals).
- The Informa Media Group similarly projects the global market for games to be \$US 40 billion by 2008, and furthermore expects emerging software segments, such as online, mobile and interactive television games, to account for at least one third of total demand.
- As barriers to publishing console games rise, due to rising costs, analysts expect to see the market for emerging platforms such as mobile technology, PDA, and online games, which rely less on costly, high-end graphics, increase as a proportion of total game industry demand.
- Online software demand is forecast to grow rapidly. In 2002 the Informa Media Group estimated that the size of the internet game market, which generated revenues of \$US328 million in 2002, would grow nearly eight-fold – from 7.3 million players in 2002 to 56.7 million players in 2010 – to generate revenues of \$US4.7 billion.
- Interactive Television demand, which will be facilitated by increased access to broadband networks, was predicted by Informa Media Group to grow from only \$US73 million in 2001 to \$US7 billion in 2010.
- Screen Digest forecasts that by 2006 spending on PC-based internet multiplayer games will reach US\$1.3 billion per annum and that in Europe alone spending on multiplayer PC and console based games and interactive mobile phone and other handheld device games will reach €6.5 billion by 2006.
- Ovum Research forecast global demand for mobile game products to double from \$US4.3 billion in 2003 to \$US9 billion by 2010.

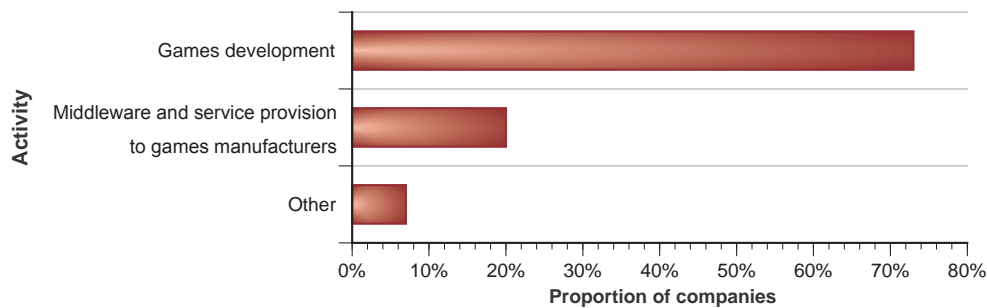
The Australian Game Industry

Structure of the Australian industry

- While small relative to the global industry, the Australian game industry is active in several segments of the game market. A recent GDAA survey revealed that the Australian game industry is characterised by three types of company:
 - the Australian subsidiaries of major international game publishers;
 - relatively established Australian companies with turnovers of more than \$1 million; and
 - younger, smaller companies that employ only a few staff.
- Figure 2 shows that about 73 per cent of responding companies indicated that game development is their primary business activity. Middleware and service provision to game manufacturers is the primary activity of 20 per cent of companies, and a total of 40 per cent of companies are involved in this activity to some degree. One third of responding companies are involved in game distribution, but this was not the primary activity for any business.

Figure 2

AUSTRALIAN GAME COMPANIES: PRIMARY BUSINESS ACTIVITIES



Source: Game Developers' Association of Australia (GDAA) 2003, 'Questionnaire: Australian Game Industry Investment Strategy', unpublished.

- A majority of companies operating within Australia are domestically owned. The GDAA survey revealed that less than 20 per cent of responding companies were owned by foreign firms.

Scale of the Australian game industry

- Domestic demand for games has matched or exceeded the global appetite for games. Australians spent about \$825 million on game software (\$420 million) and game equipment (\$405 million) in 2002, which was 39 per cent more than in the previous year (Inform, 2002). PWC anticipated sales on games and game equipment to increase at a similar rate in 2003.
- Australians now spend around \$2.3 million per day on interactive computer games alone, about the same as is spent per day on cinema (Inform, 2002).

AUSTRALIAN GAME INDUSTRY – BUILDING CREDIBILITY GLOBALLY

In recent years the Australian game industry has produced a number of successful and well reviewed titles that have been distributed globally by major publishers. These successes include (but are not limited to):

Atari – After securing US\$4m investment from its parent company, Atari produced PS2 Grand Prix Challenge: which has been rated the best racing game on PS2 by IGN.com, Gamer Nation UK and PSM2 Magazine UK.

Auran – Dark Reign, which was distributed by Activision in 1998, sold 685,000 units and was rated in the Top 10 real time strategy games by Game Developer Magazine in the US.

Blue Tongue – The recently released (March 2003) Jurassic Park game developed by Blue Tongue has been distributed by Universal Interactive and has sold 400,000 units and generated revenue of US\$10 million.

Krome Studios – Krome self funded and has retained IP ownership of Ty the Tasmanian Tiger, a game that has been distributed by Electronic Arts and proved an international success.

Micro Forté – Micro Forté has secured a significant development deal with Microsoft for the development of software to support its Xbox online gaming environment.

Ratbag – Ratbag's Dirt Track Racing franchise, distributed by Infogrames, has generated total sales of US\$24 million and has received a number of awards, including: Racing game of the year from Computer Gaming World; Best simulation of the year from Operation Sports; and, Sim of the year from Power Sims.

Tantalus – Top Gear Rally, recently released in Japan, represents the first Australian game on any platform to be published by Nintendo. Top Gear Rally is the highest ever reviewed non-Japanese developed GameBoy Advance game in Japan according to Famitsu game magazine (Japan's leading game magazine).

Torus Games – Torus has developed a string of GameBoy Advance titles for major publisher Activision. These include The Lion King, Doom II, Jackie Chan, Minority Report, Ironman and Pitfall Harry. Doom II was named best first person shooter game on GameBoy Advance at E3 in 2002.

Source: GDAA 2003

- Around 700 people currently employed in the industry across over forty companies. This refers only to those employed in game development companies and therefore does not include those employed in the other elements of the game industry value chain such as service companies (e.g. animation, special effects, post-production), distribution and marketing.
- Industry is export oriented with total industry turnover currently around \$100 million per annum.
- The GDAA survey also found that the game industry currently spends over \$10 million per annum on inputs provided by other industries, especially the IT and filmed entertainment industries. Game developers must maintain high-end computing infrastructure and they also draw upon the services of animators, user interface designers, web developers, film directors, motion capture actors, voice actors, musicians, storyboard artists, screenwriters, motion capture studios and so on. Typically, the development of a console game will involve the game developer accessing the services of 25 or more external service providers.

Future Growth

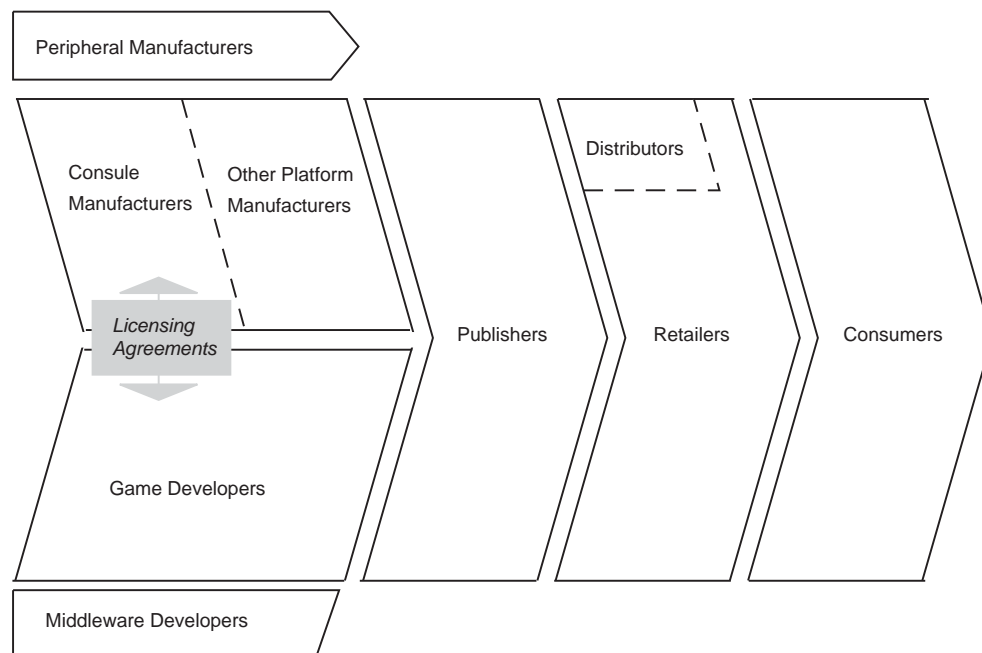
- The GDAA has identified three strategic priorities:
 - Raise profile, locally and globally;
 - Attract capital and investment; and
 - Attract and maintain skills base
- Industry has identified access to an optimally functioning private capital market for game investment as the key strategic priority if the Australian game industry is to reach its full potential
- If current market failures are addressed, the vision for the Australian game industry in 2010 would include: industry ownership of a considerable IP portfolio that both generates a strong royalty stream and positions the industry to create and retain ownership of follow-on game titles; the industry buys rights to valuable existing content franchise licenses; recognition of Australia as a centre of game development excellence with a sustainable position within the rapidly expanding global industry; game exports exceeding \$500 million per annum; direct industry employment exceeding 2,000; and reflecting increased synergies between different forms of digital content, the game industry being an important part of a vibrant creative content cluster in Australia.

Game Industry Value Chain

Like other comparable media industries such as the film, music, and book industries, the game industry hinges on the creation, publication and distribution of intellectual property products. Figure 3 shows the value chain for the game industry.

Figure 3

GAME INDUSTRY VALUE CHAIN



Source: Derived from a Spectrum Report on the UK Games Industry (2002)

- **Game Developers** are the creators of the game. Developers can be independent companies or may work as in-house departments of a publishing firm. Developers either pitch an idea to a publisher, who will then fund the building of the game, or developers are commissioned by a publisher to produce a work built around a specific concept originated by the publisher.
- **Manufacturers** include all companies involved in the production of game hardware. This group is divided among the various game platforms: PC, console, mobile, PDA, iTV. To develop a game for a specific *console* platform, developers must enter into a licensing agreement with the respective console manufacturers by which they agree to pay the manufacturer a license fee in exchange for access to the platform.
- **Publishers** are key sources of funding for game development. As such, the publisher decides which games will be developed and manages their creation with the developer. Where publishers provide the bulk of development funding, they generally own IP in the game and often also the software tools created during its development and will retain the bulk of future revenue streams associated with the game.
- **Distributors** act as intermediaries between the publishing firm and retailers. However increasing industry consolidations between publishing and retail houses have meant that the role of the distributor has been in relative decline.
- **Retailers** are the primary route to market for games. Stores are the most common point of purchase although consumers are increasingly purchasing game equipment and software online.