A guide to running a business in the Digital Games Development sector.

The Creative Industries Innovation Centre (CIIC) supports the business of creative enterprise. The CIIC is part of the Australian Government’s Enterprise Connect program, and is supported by the University of Technology, Sydney.

This Forensic Report summarises the insights drawn from our interactions with this sector. Overall, the CIIC has worked with more than 800 creative enterprises (2009-12).

Talking point

Can a shift to Intellectual Property (IP) based revenue models deliver a sustainable future for Australian digital games development companies?

Digital games development companies are under constant pressure to produce ‘the latest and greatest’ content for the latest platforms. Australian firms have suffered in recent years as international publishers shifted lucrative contracts to more affordable markets. Some of Australia’s biggest gaming studios closed their doors.

Today the sector is made up predominately of small, independent studios developing for mobile and touch devices; often developing own-IP as opposed to under licensed contracts. Whilst rewards can be high, with a shortage of capital and a high chance of failure, these businesses remain vulnerable.

Like many in the broader creative industries, games development firms often lack clear strategic planning and are especially weak in marketing their wares.

But as this CIIC Forensic Report reveals, survival may depend on having a solid marketing plan in place, and applying skillsets to other sectors beyond traditional gaming.

Pressure points

Challenges specifically impacting digital games development businesses:

- High australian dollar
- Limited revenue streams
- No marketing plan
- Volatile earnings & speculative returns
- Lack of management expertise
- Limited capital injection
- Rapid technological change
- Staff burnout

High australian dollar
Many studios are struggling with the strength of the Australian dollar, and the resulting off-shore competition.

Limited revenue streams
Many studios are too reliant on a single source of revenue, be it one game title, one market such as high-end console games, or only fee-for-service work.

No marketing plan
Studios that create their own IP often lack marketing expertise. Diversification requires a dedicated marketing/sales strategy for each revenue stream.

Volatile earnings & speculative returns
Only a handful of games developed are successful. Most produce very mediocre returns or are loss-making; returns for App-based games are highly speculative.

Lack of management expertise
Business principals commonly focus on the launch of their next game title at the expense of business strategy, financial management, workflow pipelines, managing personnel and refining the business model.

Limited capital injection
Many digital games development businesses lack the funds required to develop their IP and broaden their revenue base over the long-term.

Rapid technological change
Studios developing games for one platform may find this platform redundant in the next business cycle in a high-risk, fast-changing industry.

Staff burnout
Despite levels of under-employment and unemployment in the sector, employees and contractors often work extremely long hours to complete under-resourced projects. Under-staffing and staff burnout are common repercussions.
Steps towards sustainable growth

The CIIC has identified the following steps to help digital games development companies exploit market opportunities and achieve sustainable growth:

**Step 1**
Revisit the business model
Rewrite the business model in response to new technologies and opportunities. Options include expanding vertically and developing tools, middleware and equipment for games developers and consumers; or reaching consumers directly through online sales portals. Another option is developing your own IP, and/or providing services to the interactive media sector. The CIIC uses the Business Model Canvas (developed by Alexander Osterwalder and Professor Yves Pigneur) to help companies adapt their business models in line with technological change.

**Step 2**
Migrate from ‘fee-for-service’
When developing own-IP product, consider the range of income streams available: freemium or paymium models (revenue from additional in-game content), or advertising and sponsorship revenue. Often these revenue models can deliver much higher margins than fee-for-service.

**Step 3**
Exploit the rise of gamification
Reduce the risk of speculative own-IP product revenues by applying your expertise to brand funded promotional games, educational and training ‘serious games’, gamification, experiential and informational media. Look for co-exploitation opportunities with existing and commercially proven content or brands.

**Step 4**
Write marketing plans
Who is your target market? What is your promotional and media strategy? How many units will need to be sold to break even? It’s vital to write a marketing plan well before development on any new game is completed. Business-to-consumer (B2C) marketing skills are extremely valuable if you intend to sell games through market portals such as the App Store or Android Market.

**Step 5**
Improve financial projections & analysis
Careful financial planning and resourcing can provide the longevity required for survival until a ‘hit’ game arrives.

**Step 6**
Invest in new technologies & skills – constantly
Develop HR systems and mentoring programs, and improve workflow and pipeline management to address skills shortages and reduce staff burn-out. Incentivise high quality staff by providing a clear career pathway, or profit-share arrangements. If the skillset of business principals is highly technical, the CIIC recommends business mentoring.

**Step 7**
Seek venture capital or government grants
The Federal Government’s Australian Interactive Games Fund will provide $20 million by 2014–15 in financial assistance to digital games development businesses. Seek advice on funding grants, Research & Development (R&D) tax incentives, linkages with educational institutions, and export assistance.

---

**Summary**

In an industry that is undergoing major transformations and consolidation, balance is the key. Business owners should step back from ‘code-cutting’ to navigate their businesses in a strategic fashion. Gaming studios must adapt as the marketplace evolves, balancing fee-for-work commissions with in-house IP. Expanding vertically or exploring fast-growing niches such as gamification, educational games or brand-funded content are other ways of diversifying the revenue base. Multiple revenue streams necessitate an adjustment in strategies, skills and project management.

© CIIC 2013
Disclaimer: The views and opinions expressed in this publication do not necessarily reflect those of Enterprise Connect, the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE), or the University of Technology Sydney (UTS). Enterprise Connect, DIISRTE and UTS cannot accept any responsibility for any use of or reliance on the contents of this publication by any party.