

# 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 Entrepreneurs' Infrastructure Programme, 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 1,500 creative enterprises (2009-2014).

## Talking point

**With hefty development costs and a high risk of failure, how can Australian games developers increase their chance of success?**

It has been a tough few years for digital games development companies in Australia.

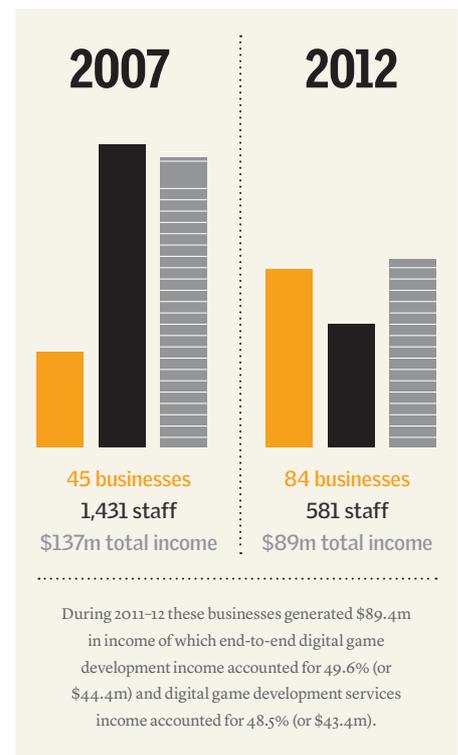
The high Australian dollar has prompted international publishers to shift lucrative gaming contracts to more affordable markets.

Some of Australia's biggest gaming studios have closed their doors, and today the sector is made up predominately of small, independent studios developing games for mobile and touch devices.

The accessibility of the App Store and similar platforms has led to a flood of new games, but competition is fierce, and development costs are high.

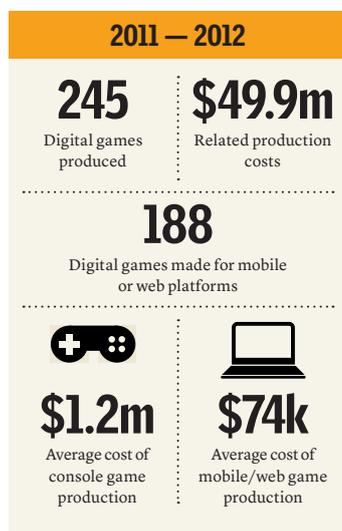
The total earnings of digital game developers in Australia has taken a dive over the past five years in a market where lower barriers to entry have led to fierce – and global – competition.

However, rewards can be high. As this CIIC Forensic Report reveals, the most successful gaming companies understand the value of sales and marketing. Those that are too focused on games development – at the expense of devising a marketing strategy and building a user community – are more likely to fail.



## Pressure points

Challenges specifically impacting digital games development businesses:



### High Australian dollar

Many studios are struggling with the strength of the Australian dollar, and the resulting offshore 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.

### 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.

### No marketing plan

Business principals commonly focus on the launch of their next game title at the expense of devising a marketing plan, often neglecting

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:



### Digital Games Development

**\$2.09m** **13.18%**

Annual turnover

Profit before interest & tax

**12**

Employees

**15.5**

Years in business

A typical CIIC client in the Digital Games Development sector has an annual turnover of \$2.09m, with profit before interest & tax of 13.18%.

It employs 12 people and has been in business for 15.5 years.

The insights highlighted in this Forensic Report reflect the challenges and opportunities faced by businesses of this size.

## Summary

This Forensic Report reflects the CIIC's work with over 1,500 creative enterprises in Australia. To register for a free Biztro session or an Entrepreneurs' Infrastructure Programme Business Evaluation, visit [www.creativeinnovation.net.au](http://www.creativeinnovation.net.au)

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### 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 a marketing plan & build a community

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. Build a community of users on social media channels *before* launching your game to generate hype. 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

Seek advice on funding grants, Research & Development (R&D) tax incentives, linkages with educational institutions, and export assistance.

### Step 8 Weigh up the costs of IP protection

IP protection can be expensive, so consider your trademarking options carefully. How are you going to trademark your game? Will you trademark the game itself, or all related merchandising as well? It is important to consider what type of IP protection to put in place prior to launch.

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.

The most successful gaming companies understand that games development goes hand-in-hand with developing a marketing plan: both are essential ingredients in creating a successful game.

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.

When success does hit, be prepared. You will need robust back-end systems in place to cope with demand, and adequate resources to provide regular updates.

Get it right, and you will reap the rewards.

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