

# Future of Australia's Video Game Development Industry

## Kumobius Inquiry Submission



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18th September 2015

### **Executive Summary**

Australian-made games have been downloaded hundreds of millions of times and have generated millions of dollars of revenue.

To ensure current and future funding is fair and accessible to a wide range of creators we believe funding caps, matching funds and reasonable application fees are required.

Additionally, to maintain our competitiveness with our international rivals and counterparts, grants for overseas travel to crucial industry events should be considered.

In order to grow the local industry, intellectual property tax-credits should specifically target Australian-owned intellectual property.

The federal government has the potential to help significantly improve the diversity of the Australian games industry.

## Topics

- About Kumobius
- Fair Public Funding
- Funding Models
- Infrastructure & Creative Hubs
- Growing Talent
- International Representation
- Incentivised Spending
- Diversity
- Community

## About Kumobius

We are a small but growing studio with several internationally recognised successes in our short history as a studio. Over the last four years, Kumobius has released 4 successful titles including the mobile hit “Duet” which has been downloaded over 10 million times across Apple and Google smart devices.

By travelling overseas and submitting our products to both international and local award ceremonies we have continually championed the Australian games industry. In particular, we have always highlighted the importance of the Australian government’s funding for games including Film Victoria’s games funding, the Interactive Games Fund and the former DSDBI’s TRIP funding.

The Film Victoria, Interactive Games Fund and DSDBI funding opportunities were instrumental in Kumobius’ growth and success. Unfortunately, only one of these funding systems remain today.

## About the Australian Industry

Australia has a great history of innovation and success in the video game industry.

In terms of raw economic success, our country has released incredible products that have become instant global hits via platforms such as the App Store & Google Play. Examples include Hipster Whale’s Crossy Road<sup>1</sup> and Halfbrick’s Fruit Ninja<sup>2</sup>, combined these games have been downloaded hundreds of millions of times and have generated millions of dollars of revenue per month with only 6 figure development costs required. The potential financial output vs input required in the games industry is astounding when compared to any other creative or digital industry.

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<sup>1</sup> "Crossy Road on Twitter: "100,000,000 downloads! Thanks ..."  
<<https://twitter.com/crossyroad/status/626204570381717505>>

<sup>2</sup> "Fruit Ninja celebrates 5th anniversary Halfbrick Studios."  
<<http://halfbrick.com/press/fruit-ninja-celebrates-5th-anniversary-with-biggest-update-ever/>>

From an artistic perspective, our industry has created critically acclaimed products with incredible production and polish such as Armello from League of Geeks, Hand of Fate from Defiant & Crawl from Powerhoof. These independently developed games have highlighted our creative prowess around the world to critics, media and consumers.

Regardless of financial versus artistic merit, all of the above games have garnered various international awards. In fact, Crossy Road won an Apple Design Award and was showcased at the recent September 2015 Apple event focusing on their new television product. Time and time again our local efforts turn the spotlight of the global games industry onto Australia.

## Fair Public Funding

Victoria is well established as a paragon of creative excellence, arts and industry. In particular this is true for the creative games industry in Victoria due in large part to the efforts of the government body known as Film Victoria.

Film Victoria currently provides an excellent pool of production funds for game development companies in addition to marketing funds and skills development funding<sup>3</sup>.

To ensure current and future funding is fair and accessible to a wide range of creators (both larger studios & new independent game developers) we believe the following to be important conditions of any funding:

- **Funding Caps:** Whether the funds are for marketing, production, enterprise or travel, we believe that funding should always be capped otherwise abuse of funding is almost guaranteed. These caps should be placed where appropriate given the scope of the funding purpose.
- **Matching Funds:** Presently Film Victoria provides an excellent production funding model that requires any funding provided by Film Victoria to be matched by the applicant 1-to-1 via either salary or sweat equity. We feel this is an appropriate model for existing companies to operate within and for new businesses to springboard themselves with.
- **Reasonable Application Fees:** To offset the costs of processing applications and to ensure only mature, sensible and high quality applications are submitted we believe it is worthwhile to include an application fee for larger funding options. For example, Film Victoria requires a \$500 AUD application fee (whether the application is successful or not) in the case of production funding which we believe is appropriate.

We believe the above restrictions are effective methods of ensuring that funding is fair and protected from abuse in our industry. We implore the Australian government to always be aware of these protective measures when creating any new funding models or altering existing models.

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<sup>3</sup> "Games - Film Victoria" <<http://www.film.vic.gov.au/funding/games>>

## Funding Models

The recently retired federal “Interactive Games Fund” initiative organised its funding under two models: Production and Enterprise. Enterprise aimed at expanding and strengthening existing companies as a whole rather than on a project-focused level. This type of funding is logical to offset risks for Australian companies that are looking to expand, grow or simply maintain momentum in a globally competitive landscape.

Kumobius strongly believes that a mix of project-focused funding and company-focused funding is essential for the enhancement of our local industry as a whole. The games industry, like many creative and entertainment industries, can be volatile as it is regularly disrupted by new technologies. This creates a complex landscape of opportunities and risks that studios must navigate in order to either grow or in a worse case survive. By supporting studios at a company level we can ensure that our larger studios have the breathing room to take risks that have massive potential payoff. The history of the Australian games industry is filled with notable success stories such as the recent success of Crossy Road and the aforementioned Fruit Ninja.

In project-focused funding there are two key cost components for games: production and marketing. It is common for younger creatives to underestimate the importance of marketing and we believe this is the reason that Film Victoria has chosen to provide two separate, distinct funding budgets: production and marketing.

Film Victoria's decision in this regard is a sensible solution to this problem of underestimation by creatives. However, a longer term solution would be to educate young creatives more on the necessity of strategic marketing and planning from the very start of development projects.

We strongly believe that the following models are important in the current landscape:

- **Project-focused Production Funding:** with separate or integrated marketing budgets.
- **Company-focused Enterprise Funding.**
- **Skills Development:** see ‘Growing Talent’ section.

## Infrastructure & Creative Hubs

Games are complicated projects requiring a variety of different disciplines and knowledge including but not limited to software, game design, art design, business, marketing and audio design. Therefore it is imperative that creators be able to communicate quickly and work together effectively to produce great results. This can be achieved by way of two elements: fostering closer direct collaboration via creative hubs and improving internet connectivity via prioritised NBN rollouts.

An existing games working space hub known as “The Arcade”<sup>4</sup> has already begun to fulfil this creative hub need. Funding to enhance the Arcade and other creative spaces (such as the Nicholas building) would be highly appreciated by the games industry.

The most logical enhancement to bring to any creative space is fast and affordable internet connectivity such as the NBN. If prioritisation of NBN connections could be supplied to existing creative hubs & workplaces this would greatly enhance the productivity of game development businesses.

While developing entirely new creative hubs would be appreciated, we believe that focusing efforts on enhancing existing spaces will be more effective from a ROI perspective.

## **Growing Talent**

Film Victoria currently provides a Professional Placement funding opportunity for studios which has already proven to be an effective method of both mentoring new practitioners and growing existing businesses.

To determine whether further assistance is needed in this area we would recommend contacting Film Victoria to ascertain whether application demand for this funding budget outstripped the supply of funds or not.

## **International Representation**

Australia has become a consistently represented entity at international events such the Game Developers Conference in San Francisco and the Penny Arcade Expo (PAX) in Boston and Seattle thanks to the efforts of studios such as ours, other Australian studios and especially Tony Reed of the GDAA.

For our international competitors in the USA, Europe and Asia the costs of travelling to other events either located in Europe, North America or Asia is dramatically lower than ours simply due to the fact of geography. Australia is simply isolated which has been at times a negative and at times a positive in our history as a nation. In commerce, business and trade this is a difficult problem to overcome as travelling overseas for international events can be surprisingly expensive especially when the falling Australian dollar value is taken into account as well.

To maintain our competitiveness with our international rivals and counterparts we must continue to travel overseas for crucial industry events. Not only to represent Australia but additionally to acquire current knowledge -- as the landscape of our industry changes so swiftly it is easy to lose touch with the current trends and miss opportunities.

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<sup>4</sup> “The Arcade” <<http://thearcade.melbourne/>>

A previous Victorian travel funding program known as "TRIP"<sup>5</sup> was effective for our business. The estimates on future revenue we provided in our reports were always reached or exceeded dramatically. The international relationships and opportunities afforded to us due to this funding program cannot be overstated.

We are not aware of whether the above is true of all games businesses that partook in this program. We believe it's important to have a program specifically for travel although we propose some alterations and restrictions:

- **A Lower Maximum:** TRIP included a maximum restriction of 3 events per for companies to attend. We believe reducing this to 1 or 2 events per year would be beneficial overall.
- **Introduce a Small Application Fee:** To reduce costs and reduce the overall number of applications. A fee such as \$100 AUD may be appropriate.
- **Allow Additional Travel for Special Circumstances:** Many international events include exhibitor showcases in which games are submitted to judging panels and selected to appear in sponsored booth spaces. Kumobius has been selected several times at international events and this has greatly reduced our costs, primarily by avoiding the costs of the booths themselves. It may be wise to have a separate maximum for companies that are specifically invited for these showcases as it is an excellent opportunity to further push the representation of the Australian games industry. This additional maximum could be restricted to 1 or 2 events as well.

## Incentivised Spending

Fostering new intellectual property in games is an important area that could be stimulated by introducing tax reduction or tax credit incentives specifically focused around the creation of new IP. Canada and Europe have been at the forefront of these initiatives and they have demonstrated to be effective in stimulating their games industries.

Typically these models will provide a percentage of tax offset or credit towards the spending of funds on the production of game projects. However, one criticism of these models in Canada and Europe is that often larger international companies have chosen to expand into these states, cities or countries specifically to capitalise on these new tax incentives with no interest in long terms stability of these regions. The result is if new and even better tax incentive programs appear these international companies will relocate their focus and exit these areas just as quickly as they arrive.

While convincing international companies to spend their budgets in Australia may be effective short-term we believe it is more important to grow the local industry and intellectual property in the long term. International companies utilising these incentives would be a stop-gap that inevitably collapses when future financial instabilities such as the GFC occur again. There is precedent for this: when the 2008 financial crisis occurred there was a reduction in outsourcing

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<sup>5</sup> "Grant: Technology Trade | Business Victoria"  
<<http://www.business.vic.gov.au/support-for-your-business/grants-and-assistance/international-technology>>

of international contracts to Australia; the result were closures of several larger Australian studios that relied on these international relationships to operate effectively. It is important that we do not shape an industry that is as fragile and reliant on international investment as before.

To reduce the potential abuse of international companies we believe it is important to specifically target these benefits to Australian owned intellectual property. Ultimately, from a legal perspective we cannot answer how this would be best achieved but we believe it is worth considering and researching. The ideal result is that new Australian-owned IP is stimulated and able to flourish under this model -- not for international entities to temporarily expand purely for short-term ROI.

## Diversity

Unfortunately the games industry has performed poorly in the area of gender & racial diversity. Efforts are often organised to improve this situation by external bodies but if this is not embraced inside the workplace itself and by hiring managers then it is unlikely to truly alter the course of the work culture.

The Australian Bureau of Statistics determined that in 2011 - 2012 the percentage of women working in our industry hit a low of 8.7%<sup>6</sup>. Conversely, research has shown that the percentage of women who play video games globally is actually close to 50%<sup>7</sup>. Clearly there is a massive imbalance within the industry that should be addressed.

Incentivisation for companies to improve this situation may be required to stimulate and change this systemic issue. For example, any funding models could incorporate conditions which favour applicants of minorities in the games industry. Additionally, new professional placement programs and games-focused education scholarships for women could be included in funding programs.

This isn't an issue that can be solved overnight but it is extremely important to consider it at all times when creating or reconfiguring funding programmes for our industry.

## Community

Melbourne has been home to many great initiatives in both consumer and developer community efforts, including festivals such as GCAP<sup>8</sup>, the Freeplay Independent Games Festival<sup>9</sup>, PAX Australia<sup>10</sup>, the Melbourne chapter of the IGDA<sup>11</sup>, the Global Game Jam<sup>12</sup> and more.

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<sup>6</sup> "Film, Television and Digital Games, Australia, 2011-12."  
<<http://www.abs.gov.au/ausstats/abs@.nsf/mf/8679.0>>

<sup>7</sup> Brand, Jeffrey E.; Pascaline Lorentz; and Trishita Mathew. "Digital Australia DA14." Interactive Games & Entertainment Association. Pg.3. 2014

<sup>8</sup> "GCAP" <<http://gcap.com.au/>>

<sup>9</sup> "Freeplay" <<http://www.freeplay.net.au/>>

<sup>10</sup> "PAX Australia" <<http://www.paxaustralia.com.au/>>

<sup>11</sup> "IGDA Melbourne." <<http://igdamelbourne.org/>>

The Interactive Games Fund wisely invested, albeit a small amount of funds, into these community groups and any additional funding to continue them would be wise in Kumobius' opinion:

- The various IGDA events across Australia & the GCAP conference drive developer collaboration, communication & knowledge transfer.
- PAX Australia promotes the games sector to the public and opens press/media to lesser known developers.
- Freeplay highlights exceptional creative work in our industry.
- The Global Game Jam events promote experimentation in our industry, help create new partnerships between developers & drive innovation.

## Conclusion

While other creative industries are hamstrung by gatekeepers, old guard processes and more restrictive expectations of their mediums; the games industry is a young, dynamic and creative area that is continuously disruptable with new business models, market trends & innovation.

The games industry has been continually disrupted and altered within its short history: from personal computers to home television consoles, from dedicated handheld gaming devices to ubiquitous smartphones, from social networks to freemium business models, from physical games spaces to wearable technology, from ivory tower publishers to independent digital distribution and soon towards a new wave of home television micro-consoles, augmented and virtual reality experiences.

Opportunity arises whenever disruption occurs and capitalising on these moments is paramount to global success. The Australian games industry has continually punched above its weight and has the potential to grow enormously. It is imperative that we continue to stimulate across all vectors with appropriate measure -- production, marketing, enterprise, talent, diversity, infrastructure, travel, incentivisation & collaboration -- to ensure our industry is ready to execute and grow.

Thank you again for your openness throughout this process and your continuing support of our industry.

Sincerely,  
Tom Greenaway  
Kumobius Pty Ltd

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<sup>12</sup> "Global Game Jam." <<http://globalgamejam.org/>>