

Senate Enquiry Submission:
The Future of the Videogame industry in Australia.

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*Stirfire is the vessel,
and the catalyst, for piping-
hot game dev magic.*

Summary:

To make game development viable in Australia from a startup/small business perspective, government can help by:

- Providing a taxation framework that facilitates R&D time.
- Assist with seeding capital.
- And ability for funding schemes to provide basic costs rather than dollar-for-dollar matching.
- Providing funding for costs including production, marketing and convention/exhibition attendance.
- Creating co-working spaces which become community and professional hubs.

Regulatory and Taxation Frameworks:

As the development of a game requires a significant amount of time, a taxation framework that facilitates the necessary time is paramount. The major cost in game development is the time of the staff required to construct the software, although there are often significant costs for hardware and software, albeit significant in terms of a small business.

The Abbott Government's scheme for allowing a \$20000 tax incentive/accelerated depreciation is not particularly useful to a single developer or small team working on their project as their chief investment will be their time. Although as game developers we do have hardware and software costs, often we are starting off with small budgets, if really any capital at all.

Attraction of Videogame Companies to Set Up Development Operations in Australia:

The execution of this depends on two major factors:

1. If the intention is to attract large international developers of Triple A titles to Australia (with multi-million dollar budgets, requiring large teams), OR
2. To elevate local independent producers, allowing them to grow a base of operations in Australia and allow for purely Australian products to be exported world-wide.

As Stirfire Studios is a local, independent producer of videogames, we are far more concerned with the latter. As all of our staff are based in Perth, Western Australia we are concerned about maximising our potential locally. To do this, we face the same issues that many other small companies and studios face around Australia- there is very little seed capital available outside of Victoria. In Western Australia, there are next to no grants available as we fall outside the boundaries of programs such as the Business Accelerator or any available arts grants.

Even a small game by industry standards can involve a budget of around \$AUS200,000 (in terms of production time of our staff at a basic living wage) and a development time over eight months to a year. This R&D time is necessary to produce a product that can compete commercially. This can be partially compensated for if members of the production team are willing to work voluntarily

or “on spec” (trading their time for sweat equity in the final production), however this is not a viable long-term strategy as even staff who are passionate and invested in the product will ultimately need to make a living. Projects that are completed in this manner often have a longer development time as the developers working on it are forced to work part-time with other jobs to support themselves. Further time issues are generated due to the loss of productivity as the developing staff have to split their attention by necessity- they often have to shift mindsets from working in a game space to that of working on more commercial applications and back to games again.

Reinstatement of the previously available Australian Interactive Games Fund, or an expanded program is the single most important piece of support that the Australian Government can offer independent Australian Developers. The ability for a studio to acquire access to an interest-free loan to construct their games with minimal commercial and personal risk for the developers is paramount.

Private investors (including “Angel” investor types) often prove troubling for games developers. Angel investors often approach their opportunities from a perspective where they expect 1000% return for any monies invested, often in timeframes that games developers cannot provide due to the time involved in development. Stirfire Studios has spoken to a limited number of investors and often their aims are not compatible with ours. We are interested in growing our company but are concerned with the fact that the Angel Investor will want to exit the investment before we are ready to do so or they would attempt sell their shares or attempt to take our intellectual property. A government program for seed capital completely removes this risk.

Government schemes that provide dollar-for-dollar matching of private investment would also have their limitations. Many producers of videogames, with small businesses in startup phases are usually young and lack the ability to acquire the capital. Game developers are typically specialists who are highly knowledgeable and trained in their areas- professions useful in game design. Any proposed funding model would be best suited to a tiered scheme where developers are not reliant on finding additional funding from elsewhere on commencement for lower levels of the program.

How Export Opportunities for Australian Games Can Be Maximised.

An element from the AIGF that was previously missing was that of a “convention fund.” As with many saleable goods, personal relationships are key, even in the Internet age. Conventions such as Game Connect Asia Pacific, Penny Arcade Expo (AU, Prime & East in the US), BitSummit (Japan), GDC (US), E3 (US) and Gamescom (Germany) are key conventions where Australian developers can attend, grow business opportunities such as local publishing deals and develop export markets.

In Stirfire Studios’ experience, every time we have attended conventions in cities other than Perth, we have found multiple business opportunities. Content managers

from large companies such as Sony, Microsoft and Amazon attend these events and developing personal relationships with people in these roles provides a much more reliable way of securing a content deal, either in terms of an exclusivity with a major vendor, a publishing deal, further funding for product development or simply to have an opportunity to have the developer's product placed on the front page of an online market. Prime placement in an online market is the single most reliable way that a direct download game product has of making sales and is critical for the commercial success of an independently produced game.

The additional benefit that staff attendance at conventions and exhibitions provide is that they help educate the studio's staff about current emerging trends in the industry. Videogames are a product that is often powered by novelty and staying abreast of emerging trends assists us from design and marketing perspectives.

A separate element that was missing from the original AIGF was a dedicated marketing fund. A rough rule in game production is that whatever the cost of the original game, a developer or publisher would want to spend at least the same amount again in marketing (although possibly twice or three times as much is not unheard of). Internationally produced Triple A games often include marketing budgets exceptionally larger than the original production budget of the game. Marketing games can take many forms, from a tie in to conventions as mentioned above, through to organising localisation resources (where the game is translated into the native languages of the target market countries), through to raw advertising in online and non-online mediums.

An interesting artefact of the Victorian funding model is the advent of the games industry-specific co-working space commonly known as "The Arcade." The Arcade provides small-time game developers with space to work in, meet with each other and develop their products outside of the home environment. It also has an exceptional internet connection that most who work from home or smaller offices would not have access to. Such facilities provide a "critical mass" for the communities that surround them; contractors will often find work, specialists in roles will find continual employment and knowledge gets shared.

Within the game production community, job descriptions include programmers, producers, marketers, sound-design, concept artists, animators (both in 2D & 3D), music production and financial controllers. Co-working spaces mean that small companies can share resources and easily outsource elements such as sound design to local specialists.

Other Related Matters:

Here is a breakdown of Stirfire Studios' international sales from our game Freedom Fall by region (taken from sales data from the Steam, Amazon, Android & iTunes Connect Platforms):

US: 43.8%

Western Europe: 33.9%

Oceania: 11.8%

As the reader will see, we are a truly international export operation. We do not depend on normal economic trends for our products to succeed as often we will do well in times of worldwide recession- as users see games as a source of cheap entertainment. Independent studios typically price their products far cheaper than those of the Triple A studios (US\$5-\$20 are our typical operating retail prices for a PC or console release), so this means our products are often more of a convenience purchase to our target markets. As we exclusively use online distribution there are no logistics or freight costs to our business and we experience no barriers to international distribution other than regulatory frameworks of the nations of our potential customers (eg. China's firewall set up or South Africa's ratings anomalies).