

Insight Economics

■ Public Policy ■ Corporate Strategy

Australian Electronic Game Industry Profile

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Prepared for Game Developers'
Association of Australia



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INDUSTRY PROFILE EXECUTIVE SUMMARY

The Australian electronic game industry now generates revenues of approximately \$110 million per annum and directly employs approximately 1600 people of which 1350 are permanent staff and 250 are contract staff. Both turnover and employment is highly concentrated in the largest eight companies within the industry, with these companies accounting for over 80% of industry activity. Turnover and employment are also concentrated in Victoria and Queensland, which collectively are the location for around 80% of industry activity.

The sector is a high skill and high wage industry with average wages above the national full time earnings average (\$57,000 per annum) for most job classifications within the electronic games industry.

The industry has a high export orientation, with the larger companies within the sector in particular being primarily export focused. All of the largest 10 companies are more than 80% export oriented and most of them are more than 95% export oriented. Overall industry export revenues are estimated to account for over 90% of total industry revenues.

Over 85% of companies within the industry now engage in the development of their own intellectual property assets and half of the companies that don't currently do so plan to in the future. This expectation is in line with a highly growth oriented outlook within the industry. Over 90% of companies expect to grow during the next three years and 70% of companies expect to increase their level of investment in own intellectual property development over the next three years.

The key growth challenges identified by companies are in the areas of attracting skilled staff and in accessing the finance for own intellectual property development.

SECTION 1

Project description

1.1 Project overview

The Game Developers' Association of Australia, with the support of the Queensland and Victorian State Governments, engaged Insight Economics and Quantum Market Research to conduct a National Survey of the Australian Electronic Game Industry. The purpose of this survey was to build a comprehensive profile of the industry and it covered issues such as:

- company size, age, ownership structure and location;
- company revenues and business areas – for instance fee for service development, own IP development, technical service provision to other sectors, etc;
- industry employment characteristics, including job descriptions and wage levels; and
- future prospects for the industry and key strategic challenges.

1.2 Project methodology

Phone surveys were conducted with Electronic Games companies during October 2006 by Quantum Market Research. Results for the survey, which secured a response rate that accounted for around two-thirds of total industry size, were then combined with other available sources of company information to arrive at estimates for overall industry activity. Due to the need to draw upon additional data sources and extrapolate from survey results, the figures presented in this industry profile should be viewed as estimates rather than as definitive.

SECTION 2

Industry profile

2.1 Profile of companies

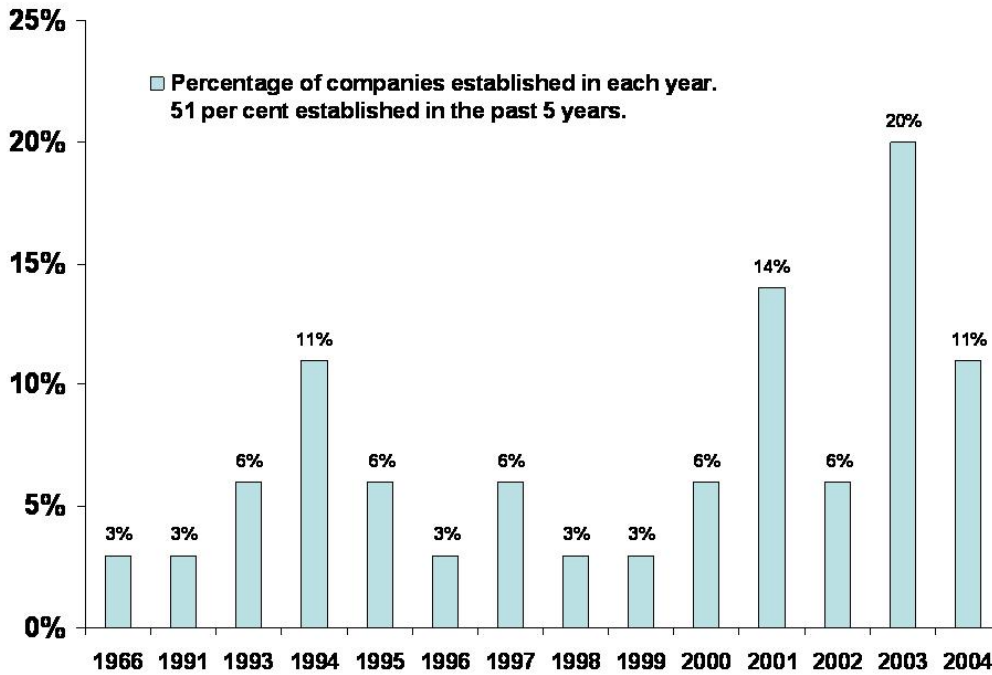
Of the 12 largest companies within the electronic games industry, 5 have their main location in Queensland, 5 in Victoria, 1 in NSW and 1 in the ACT.

Of the small companies within the industry, over half are based in Victoria, almost a quarter are in NSW, with the majority of the remaining companies based in Queensland. South Australia and the ACT are also home to a small number of companies.

In relation to permanent employees, 37% are based in Queensland and 46% are based in Melbourne. The remainder are based in New South Wales, the ACT and South Australia.

Over half of the companies within the electronic games industry are less than five years old while over seventy percent are less than ten years old. Over ten percent of companies have been established within the past two years.

FIGURE 2.1 – COMPANY AGE



Source: Insight Economics analysis of Quantum Market Research survey of games industry

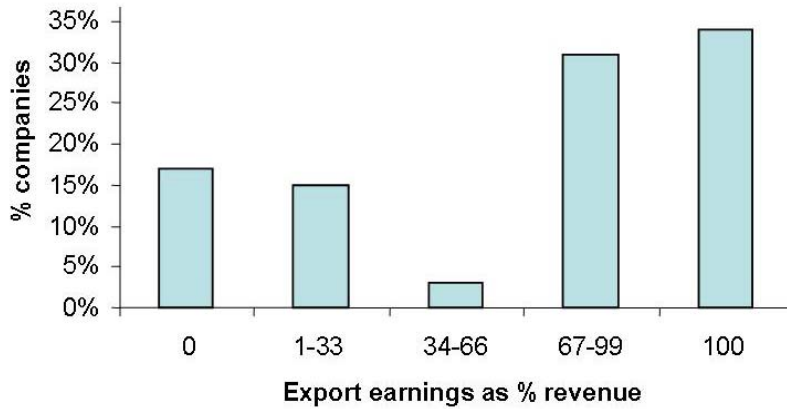
Half of companies are owned by their staff (including company founders who remain active in the business). Around thirty percent are owned by Australian company or investors. Less than 20 percent are owned by an overseas HQ'd company.

2.2 Profile of company activities

The Australian electronic games industry now generates revenues of approximately \$110 million per annum. The largest eight companies within the industry account for approximately 80% of industry revenues. Each of these companies report revenues of more than \$4 million per annum. The largest four companies have revenues exceeding \$10 million per annum. The industry also includes a relatively high number of small companies, with around 40% of companies reporting revenue of less than \$1 million per annum and 57% of companies reporting revenues of less than \$2 million per annum.

The industry has a high export orientation, with the larger companies within the sector in particular being primarily export focused. All of the largest 10 companies are more than 80% export oriented and most of them are more than 95% export oriented. Overall, industry export revenues are estimated to account for over 90% of total industry revenues.

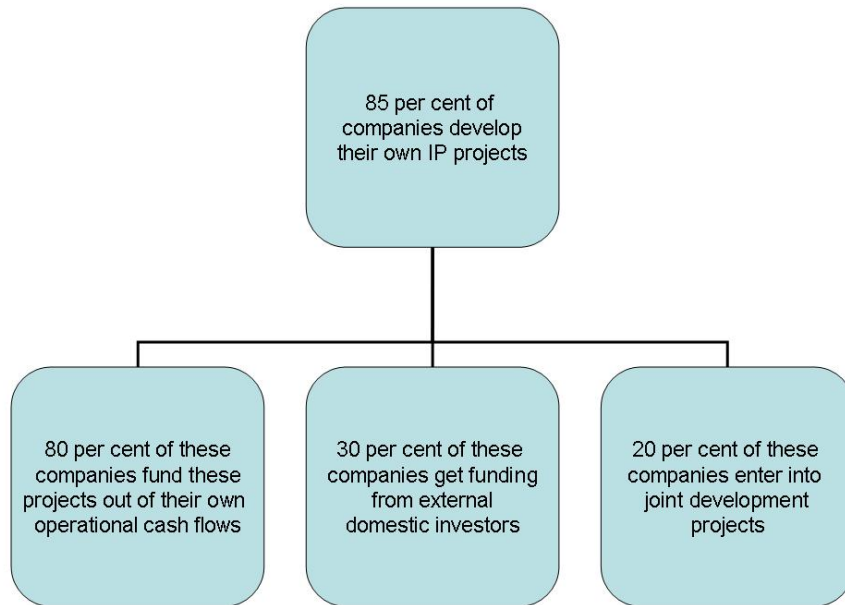
FIGURE 2.2 – EARNINGS COMPOSITION



Source: Insight Economics

Over 85% of companies develop their own IP. Over 80% of these companies fund IP development at least in part from operational cash flows, 30% get at least some funding from external domestic investors while 20% enter into joint development projects with large distributors or studios.

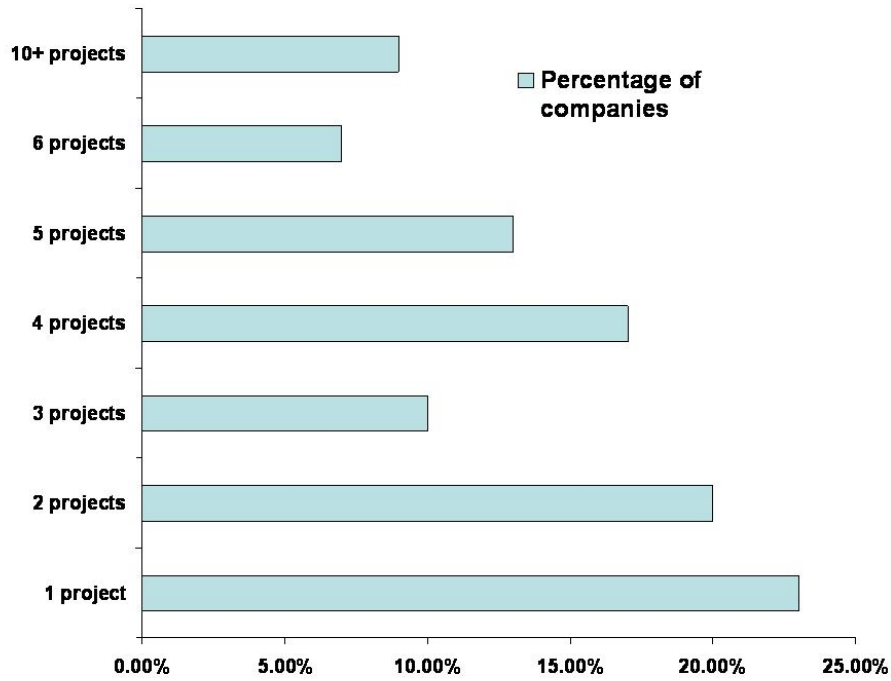
FIGURE 2.3 – IP PROJECT FUNDING



Source: Insight Economics

Over half of companies developing own IP have worked on three or fewer own IP projects over the last 2 years. Only 9% of respondents report having worked on more than 10 own IP projects over past 2 years.

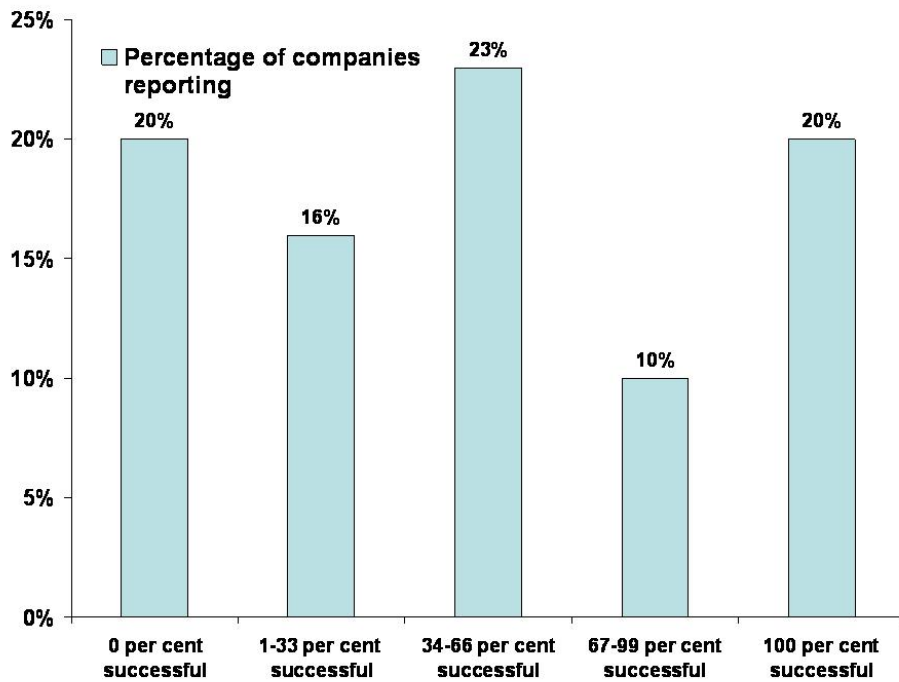
FIGURE 2.4 – NUMBER OF IP PROJECTS DEVELOPED IN THE LAST TWO YEARS



Source: Insight Economics

Of companies that have undertaken own IP projects, 20% report that no projects have progressed from prototype to end market while 20% report that all projects have progressed from prototype to end market.

FIGURE 2.5 – IP PROJECT SUCCESS RATES

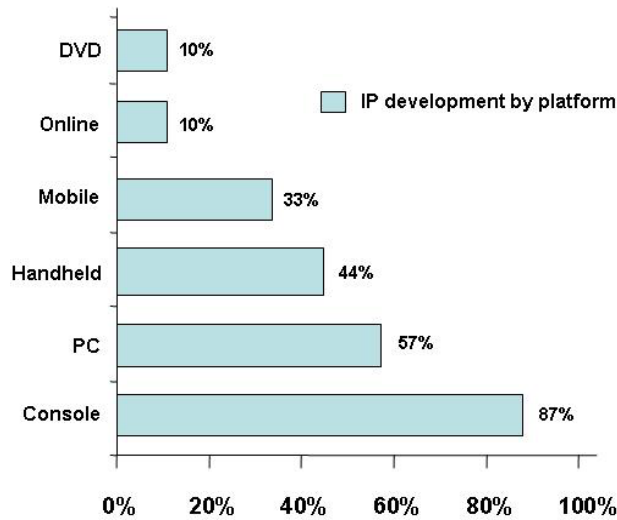


Source: Insight Economics

The most common game genres own IP is developed for are action, sporting and genre defying. The most common game platforms for which own IP is developed are Console (87%), PC (57%), Handheld (44%) and Mobile (33%).

Figure 2.6 shows game platforms for which own IP is developed by broad platform category and percentage of companies that develop IP for the platform.

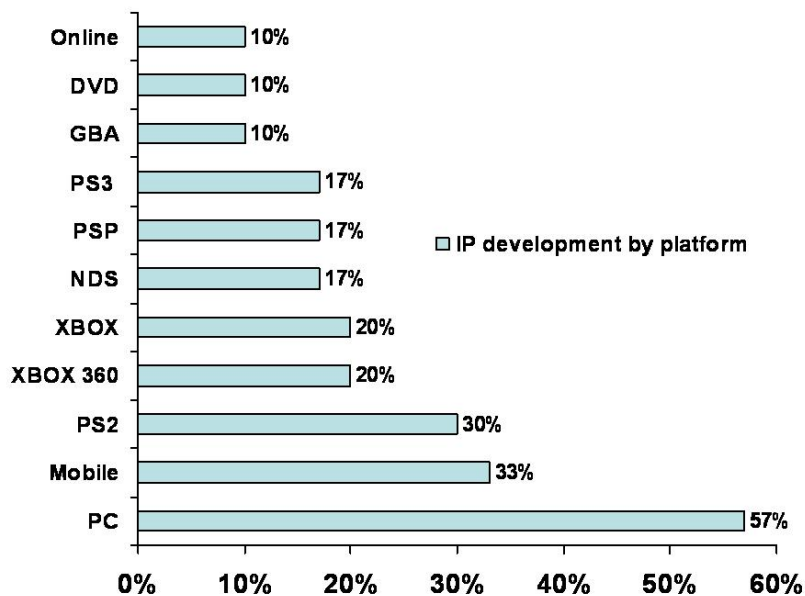
FIGURE 2.6 – GAME PLATFORMS THAT IP IS DEVELOPED FOR BY BROAD CATEGORY



Source: Insight Economics

Figure 2.7 shows game platforms for which own IP is developed by more detailed platform category.

FIGURE 2.7 – GAME PLATFORMS THAT IP IS DEVELOPED FOR BY DETAILED CATEGORY



Source: Insight Economics

In terms of fee for service development projects, the main genres being developed are action, classic arcade, sporting and role playing. In terms of fee for service development projects, main game platforms developed for are Handheld (83%), Console (53%), PC (42%) and Mobile (32%).

2.3 Profile of industry employment

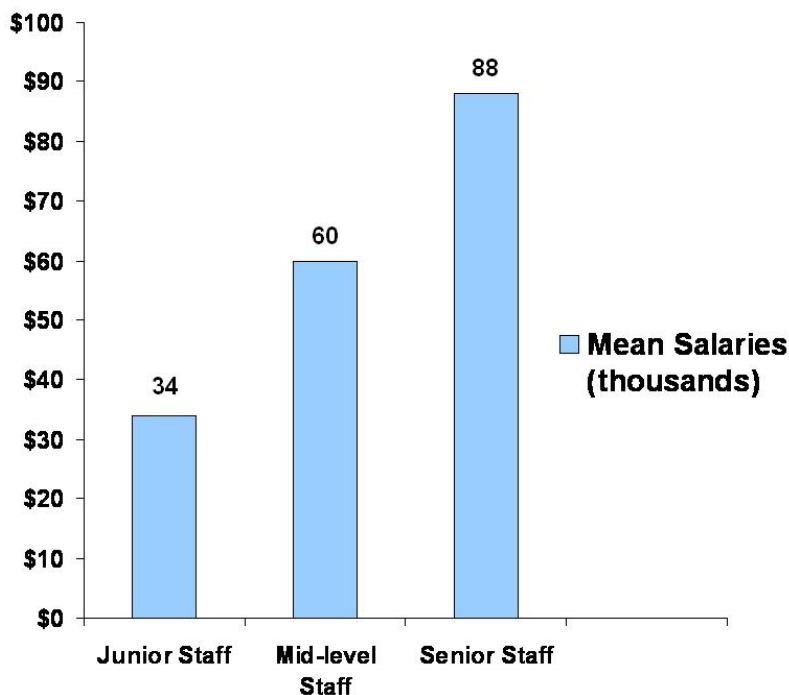
The industry directly employs approximately 1600 people of which 1350 are permanent staff and 250 are contract staff. There are eight companies within the industry that employ more than 50 permanent staff.

The sector is a high skill and high wage industry with average wages above the national full time earnings average (\$57,000 per annum) for most job classifications within the electronic games industry. Over three quarters of companies have staff that undertake design, quality assurance, programming, production and art activities.

Half of companies subcontract out less than 15% of the value of their projects while around a quarter sub-contract out over half of project value. The activities most frequently sub-contracted to a third party are audio (two thirds of companies sub-contract audio) and Art (over 60% sub-contract art). Activities least subcontracted to third parties are Production, Programming, Quality Assurance and Design.

Basic data was collected in relation to salaries within small companies. Figure 2.8 shows mean salaries by seniority level.

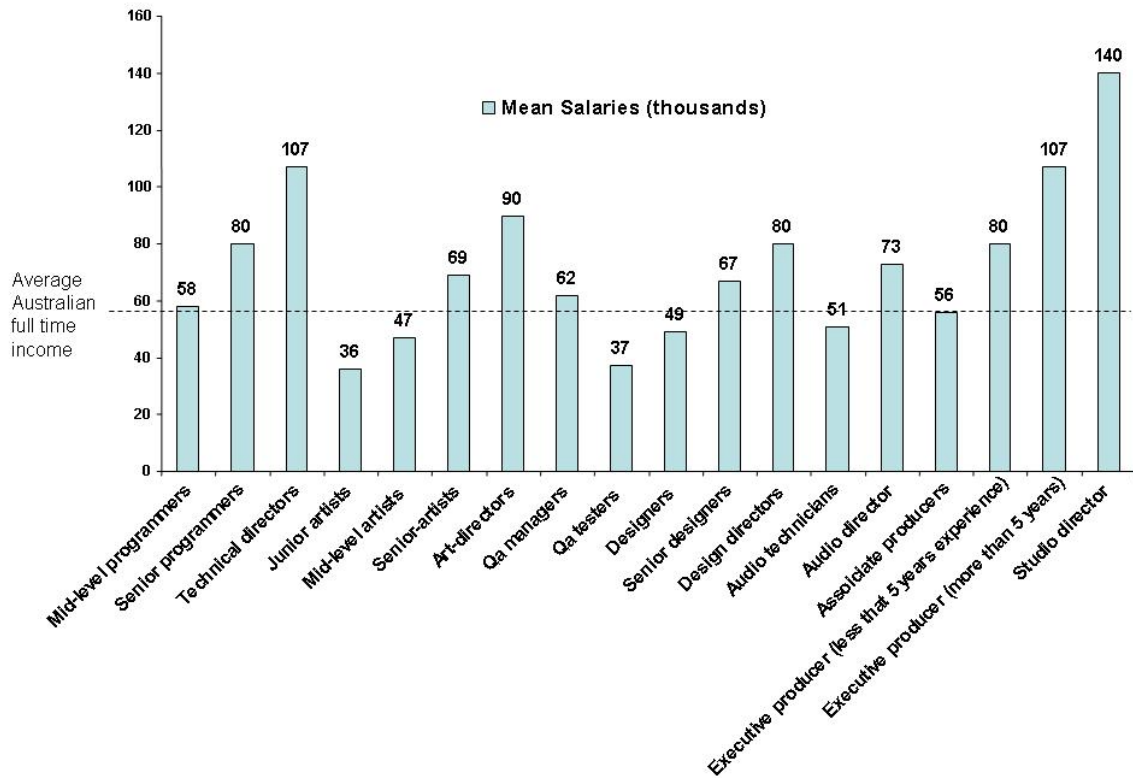
FIGURE 2.8 – MEAN SALARIES IN SMALL COMPANIES



Source: Insight Economics

More detailed salary data, broken down by both task area and seniority. Figure 2.9 shows wages by task and seniority.

FIGURE 2.9 – MEAN SALARIES IN LARGE COMPANIES



Source: Insight Economics

Preferred recruitment channels identified by companies were, in rank order: Direct application (100%), industry websites (78%), networking events (56%) and use of recruitment firms (44%).

SECTION 3

Industry outlook

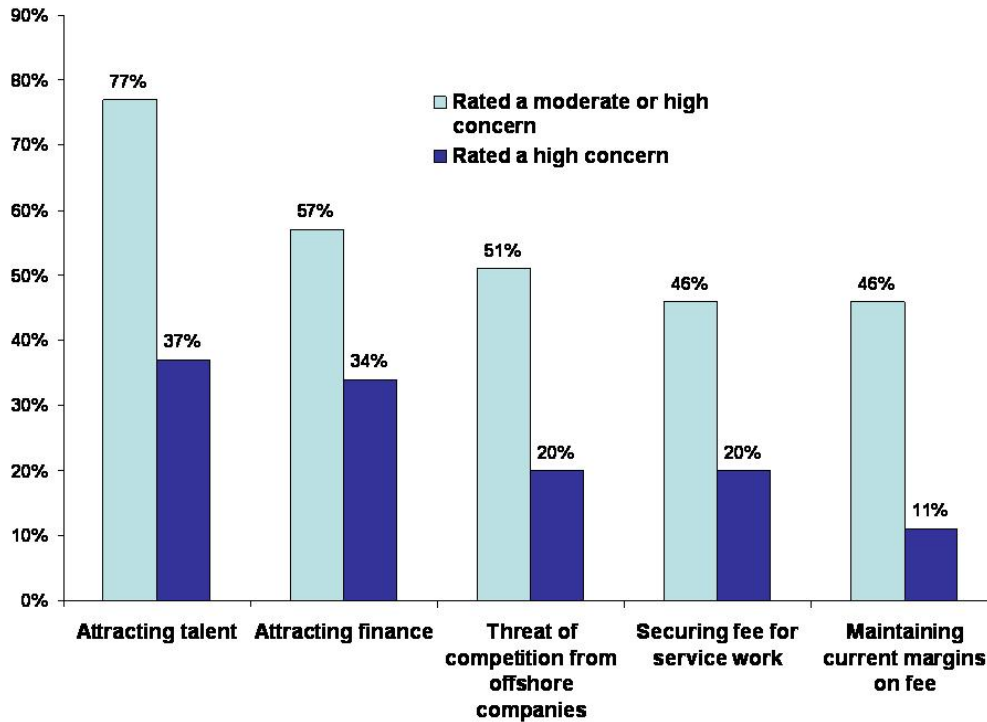
3.1 Industry vision and performance outlook

The electronic game development industry is highly growth oriented in outlook. Over 90% of companies expect to grow during the next three years. Only one company surveyed expects to reduce in size over next three years. Central to this growth outlook is the expectation by over 70% of companies that they will increase their level of investment in own intellectual property development over the next three years. Only two companies surveyed expect to reduce their financial commitment to own intellectual property development over next three years.

3.2 Key challenges facing the industry

Large industry companies were surveyed as to the key challenges they see facing their companies over the next three to five years. Responses (Figure 3.1) indicate that attracting skilled staff is clearly the number one issue companies face in achieving their growth objectives. Another significant concern surrounds their ability to access finance to support own IP development.

FIGURE 3.1 – KEY CONCERNS



Source: Insight Economics

Geographic analysis of key issues

Attracting talent is most commonly rated of concern by Queensland based companies, with all Queensland based respondents rating it to be of either moderate (29%) or high (71%) concern. This compares to 33% of Victorian companies rating attracting talent of moderate concern and 33% rating it as of high concern.

Attracting finance is also more commonly rated to be of high concern by Queensland based companies, with 57% rating it to be of high concern compared to 28% of Victorian companies.

Securing fee for service work, however appears to be a more common concern for Victorian based companies than for companies elsewhere in Australia, with 44% of Victorian companies listing it as being of moderate concern and 22% high concern. This compares to 29% of Queensland companies rating it to be of moderate (none) or high (29%) concern.

Similarly, more Victorian based firms report being moderately (44%) or highly (17%) concerned with maintaining margins on current fee for service work than do Queensland based firms (43% moderately concerned, none highly concerned).

In terms of the threat of competition from offshore, Queensland based firms appear more concerned (43% moderately, 29% highly) than Victorian based firms (28% moderately, 22% highly concerned).