Tiga

representing
the business and commercial
interests of games developers

The Department for Culture, Media and Sport (DCMS) - Creative Economy Programme

A response from Tiga - the trade association for the UK games development sector, representing independent and publisher owned studios

30 June 2006

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1. Introduction

1.1. Tiga supports the CEP

The Creative Economies Programme (or "CEP") was announced in 2005 by the DCMS acting in partnership with the DTI, and is designed to address the global competitiveness of 13 'Creative Industries'. By helping these industries address areas of weakness or vulnerability, the government aims to ensure that the UK remains the creative hub of the world. Computer and video games make up one of these 13 industries, and is probably the youngest of all. Tiga therefore supports the initiative and welcomes the CEP. It is submitting this paper to inform the CEP of the areas it feels are worthy of particular focus and support for the games industry. Tiga has made considerable efforts to involve its members in this consultation.

1.2. Potential weaknesses of the CEP

Tiga questions whether a truly credible analysis and plan can emerge for the games sector when all 13 industries are being analysed in parallel. There are some fundamental differences between the creative industries that may result in solutions that are "watered down" to accommodate all sectors. For this reason Tiga has to date advocated analysis on a sector by sector basis[1]. However, it also recognises that, with convergence, a helicopter view of the key issues facing all creatives may reveal some interesting synergies and perhaps lead to a more equitable treatment across the sectors (e.g. treatment of tax incentives in the film industry being applied for generic R&D creation rather than to a specific sector).

1.3. Aim of this submission

In this response, Tiga hopes to assist the work of the CEP by:

- Giving an overview of the current state of the games industry, both in the UK and globally so as to provide some context in which to place the work[2].
- Focussing on those working groups in the CEP that we consider critical for games to input on.
- Providing some recommendations as to the type of actions Tiga would like to see the government act on to support its members and the wider industry. These are effectively its answer to the "fairy godmother" question posed by the CEP.

[1] As expressed in a letter to the Rt Hon Tessa Jowell in March 2006
[2] In September 2005 Tiga also produced an analysis on the global support schemes open to the games industry in 7 territories: UK, France Germany, Singapore, South Korea, Canada and Australia. This has been passed onto the DTI and DCMS. Some of the commentary and proposals are informed by the findings of this report.

We would summarise the key challenges as:

- **Improvement in production and management skills, including retention of skills in the sector,**
- **Stimulating investment and Business Ambition**
- **The creation of new IP in both content creation and technology**

2. Some relevant background

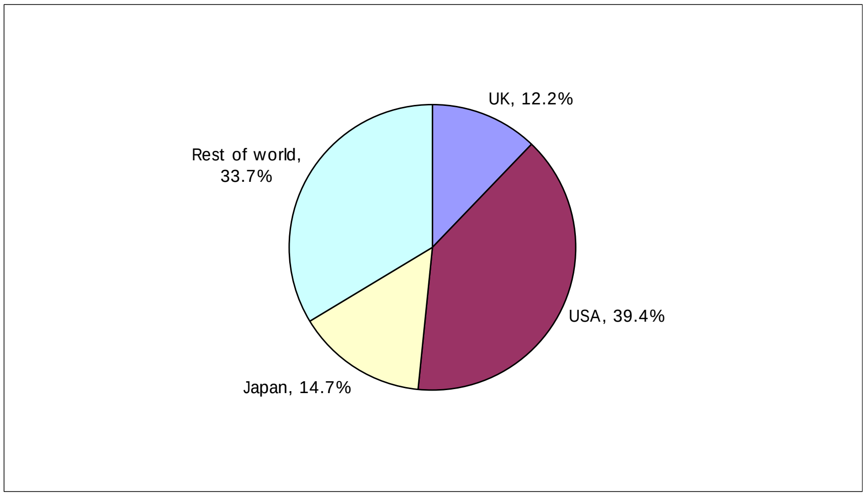
2.1 The UK as one of the major markets for computer games.

The computer games industry originated in the latter 70's and early 80's arguably in 3 territories: The US, Japan and the UK. These three are, not surprisingly, the 3 largest markets[3].

- The US market constitutes more than 30% of the global market. In 2005 this grew in overall size with console and PC going down, and online and handheld going up.
- The Japanese market – around 20% has stagnated over the last decade in line with the general economy. The recent upturn in Japan's fortunes has lead to growth in mobile applications but not in games other than in handhelds. Foreign developed content has rarely been successful in the Japanese market, with the exception of a few: Lara Croft and various titles from UK studio Rare (formerly owned by Nintendo but now acquired by Microsoft in 2003 for $350m).
- The UK market (at about 8%) continues to grow, although market revenues of software sales on the primary gaming platforms were flat year on year in 2005 at £1.2bn[4] in the face of a year of transition to new console technology. UK developers have historically produced games for the global market that have outsold the totality of the UK market by a long way. According to industry veteran, Rod Cousens[5] UK developers were responsible for producing content that represented up to 40% and more of the global market only 10 years ago. Figures he gave at a Tiga seminar last year show that the current proportion of UK produced games sold globally is 15%, but that if the world's best selling game (Grand Theft Auto) is stripped out, that figure can be almost halved.

[3] Where market definition: console, PC, handheld e.g. DS, GBA and PSP, mobile and online
[4] UK interactive entertainment Yearbook 2005
[5] CEO of UK Publishers 'Codemasters'

UK Share of world software sales ($s)



Source: Screen Digest[6]

2.2 The structure of the UK games industry

The UK has a similar value chain to that found in other leading games markets. Games are created for a variety of platforms by development studios which are usually funded by a publishing house during the making of the game. The publishers then market the finished game and take care of distribution to retail. Most games are played at home (consoles or PC's) or on the move (handhelds and mobiles) with a minimal "public" games environment in the form of cybercafés so prominent in East Asia. Online gaming is a new trend that appears to be accelerating quickly however with predictions of a European market growing to be valued at over $200 million by 2008[7].

There is a particularly strong presence of development studios in the UK; many forming clusters in cities such as Dundee, Guilford, Brighton, Derby, Cambridge and London (see UK games map at annex 1). In contrast, there are relatively few UK owned publishers for the size of the domestic market, the two key ones being Codemasters and SCi/Eidos. This leaves studios to source publishing contracts from overseas companies; mainly in the US and Japan. Although several of these have some presence in England (to take advantage of the retail market and the talent found there) often developers find the decision-makers are still based in the overseas HQ and therefore have to invest time in travelling to secure content deals.

UK studios are beginning to work with overseas partners for specialist services for example outsourcing work for Q&A and localisation. This is to reduce overheads and bottom line costs; essential for developers to retain a

[6] ELSPA Yearbook - 2006
[7] Screen Digest

competitive edge in light of the strong value of the UK pound. Suppliers in Eastern Europe, India and East Asia feature strongly amongst the mix.

Indeed territories such as Canada and South Korea are challenging the UK for the third spot in production stakes. South Korea has put a huge effort into developing its games sector with a target for the sector employing 38,000 by 2010-11. Canada has a menu of relocation, employment and R&D tax credits unmatched anywhere in the world that has already had a major impact in the European industry (1000 relocated to Quebec from France in the last 6 months of 2005).

2.3 UK developers

Developers are often said to be at the heart of the computer games industry and the UK was always renown for having the most vibrant and productive sector in Europe. Studios cover all types of development from PC, consoles, handheld, on-line and mobile. On-line is also developing (e.g. the work of Real Time Worlds in Dundee, Scotland).

However, the developer landscape has changed significantly in the last few years as publishers have sought to buy studios to in-source and control the development process and, of course, the valuable IP that goes with it. Recent examples of UK acquisitions by overseas publishers include Sports Interactive[8] and Creative Assembly by Sega; Rare and Lionhead by Microsoft; and Juice by THQ. This consolidation[9] has resulted in a huge reduction in numbers of studios; when Tiga was launched in 2001 there were estimated to be 300+ development studios. By the end of 2004 this was estimated to have consolidated to 160. Figures fortunately show that employment was down by only 6% in development which doesn't match the studio decline but given the project growth figures for the industry this doesn't bode well for the UK.

Strengths and weaknesses of UK industry:

Strengths	**Weaknesses**
• The passion and creativity of the development teams. • Long established, globally respected, experienced teams. • The UK has a good retail market and presence of EU Headquarters of many publishers. • Established network and support structures for industry e.g. trade association	• High cost of British pound makes it impossible to compete with overseas territories • Lack of investment funds available to UK games • Small publishing base for UK: dominated by US and Japanese publishers • Unfavourable business climate compared to support offered by other governments

[8] Creators of Football Manager franchise
[9] In 2002, 270 UK development studios were operating. In 2005, there were 120 – over a 50% reduction

	• Perception of computer games is low – not considered as culturally legitimate
Opportunities	**Threats**
• Potential of on-line gaming • Chance to market games beyond traditional enthusiast markets e.g. interactive TV, educational appliances, casual games • Partnering with emerging markets to reduce cost base and create stake in future of overseas markets.	• Growing sophistication of overseas markets as competitors • Rising cost of development budgets • Risk of brain/talent drain to other countries (economic and lifestyle advantages) • Independent sector bought out and IP left in ownership of overseas companies with little incentive to innovate.

2.4 The publishers' perspective

The UK is still the place of choice for most non-UK publishers to set up their European HQ's. Several of these have established a strong development base here too, owning in-house development studios with UK staff: EA, Sony, Rockstar and Sega amongst them. Some of these in-house facilities are a result of acquisition as publishers seek to localise existing IP, secure or create new IP, secure technology. Only a few of these however are equipped to commission content from independent studios. To gain commissions from other US publishers requires contact with US based departments: Activision, Take 2 and Midway amongst them.

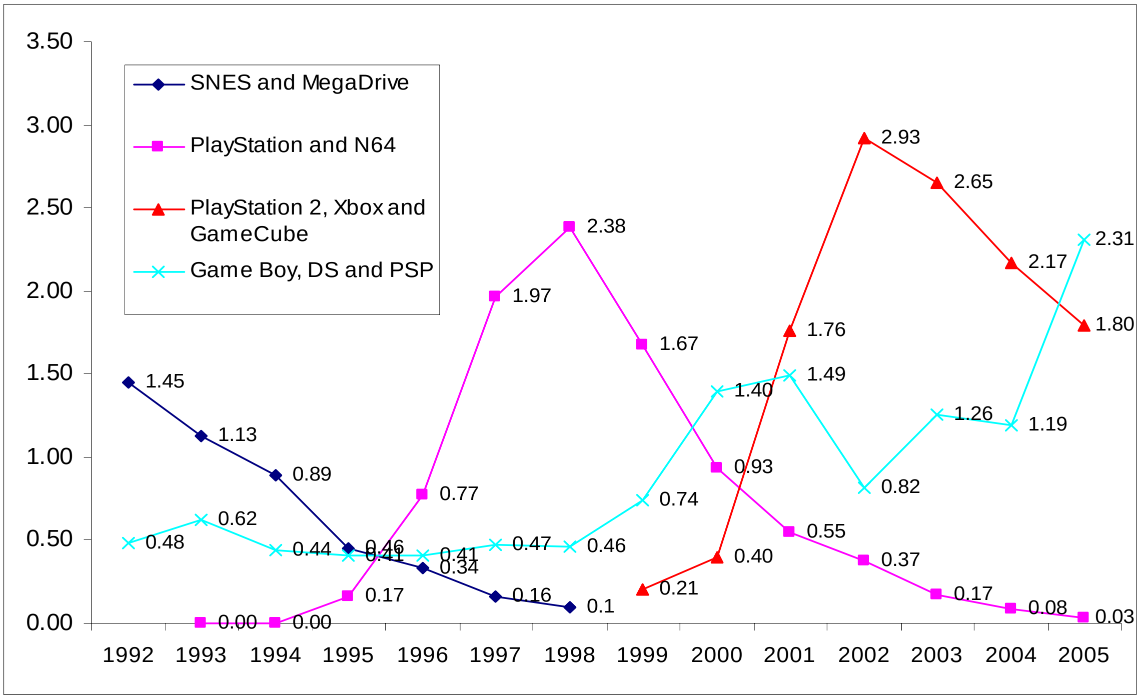
Recent signs however that publishers are beginning to consider other countries as homes for their corporate HQ are appearing. EA has moved to Switzerland and Take 2 is likely to follow suit.

2.5 Producing a game - financing and market conditions

Sales patterns for computer games are very cyclical, responding to the introduction of new hardware every half decade. In the UK, Sony's Playstation leads the console space clocking 70% of sales. Microsoft's Xbox follows, with Nintendo's GameCube coming in third place. Nintendo has, however, dominated the hand-held space. PC's are the most stable format in the UK and accounted for around 25% of unit sales in 2005[10].

Cyclical UK volume sales of hardware platforms

[10] ELSPA Yearbook - 2006



Source: ChartTrack[11]

Production of games for the next generation of consoles is once more requiring a doubling of the size of teams needed to build the content, an issue further exacerbated by the need to bring content to market faster than the traditional 2 year period. The current console transition, the advent of PSP and DS handheld platforms, an emerging market in online games, plus other factors has created a sellers' (developers') market in 2006. However evidence from previous cycles suggests that by the end of 2007 and 2008 the going will once more get tough for both publishers and developers. A further consolidation is predicted by most analysts and commentators.

Unlike the TV and Film industries where co-productions and outside financing are common practice, content is mostly 100% funded by games publishers. There are only small beginnings of outside finance - EIS has been used by Noble's Fund4Games in a handful of cases and VCT structures have not proved attractive to outside investors. There have been small investments by banks and other funding bodies which are more to do with off-balance sheet accounting practices than taking risks to produce new IP.

As mentioned above, there has been some inward investment through the acquisition of studios. These are largely those who have, for various reasons, hung onto IP from a previous period where this was easier and/or cheaper to do so (e.g. dotcom era)[12]. It is difficult to see, however, where new IP will come from in the future to attract this type of outside investor. So that the investment coming into the UK for projects has been on an

[11] ELSPA yearbook 2006
[12] e.g. Sports Interactive, Swordfish, and Lionhead

extremely competitive footing exacerbated by poor exchange rates with the dollar.

2.6 Skills

More information is given in section 3.1 on this subject. The snapshot for the industry in 2006 however is that the UK has world renowned creative development talent able to design and conceive games, with some acknowledged failings e.g. hitting schedules on time and quality control.

Some players are reporting skills shortages[13]. This, and the need for larger teams, has lead to an explosion in the search and use of outsourcers and offshore sub contractors, with India, Vietnam and China figuring heavily.

2.7 Intellectual Property

More information is given in section 3.2 on this subject. Trends within publishers suggest that fewer titles, together with ‘safe’ IP purchased from other media or extensions of existing franchises, is the course many are charting. This has the effect of reducing the benefit to be gained by the UK industry’s reputation of cutting edge innovation and means most studios are left to exist on a “work for hire” model. There are fewer opportunities for developers to create and hang onto new IP – the key enduring value for most such organisations. UK developers have had to compete by undercutting US developers in their own market due to there being few ways to access the indigenous UK and European market.

As we have seen in other media, these short term ‘safe’ strategies may threaten the appeal of the industry.

[13] E.g. Codemasters

3. Specific issues facing the UK games industry as applicable to the questions raised by the CEP working groups.

`3.1 Education and skills

There is no shame in admitting that the strength of the UK games industry is largely a result of hobbyist and the endeavours of young "bedroom coders". It seems amazing now that our leading companies are still headed up by people who effectively self-trained using magazine articles to guide them on the mechanics of the earliest games machines. Since that time however, the platforms used for the principle markets in games development and the rapidly evolving software packages have, to a great extent, driven the agenda for skills in the industry. These have (apart from the new breed of games HE courses) been the main driver of training in the industry that has been conducted in-house, through commercially sponsored seminars, and workshops.

Tiga believes that the skills and know-how in the games industry are not only fundamental to its competitiveness in the console and PC markets but will be increasingly used to deliver other forms of content than pure entertainment e.g. defence, educational and medical applications which form the so-called 'serious games' sector. These skills and techniques can effectively become the next medium to deliver all types of content through the technology that will sit under the screen in the living room and office alike.

Some commendable work has already been undertaken in this area by DTI, DfES and Skillset. The latter has set up an accreditation process for undergraduate degree courses (four have just passed); is piloting a business development scheme; running a QA apprenticeship and has set up an employee induction scheme. However, it is widely felt that more can be done here. There appears to be a cultural disconnect with the engagement of industry with Skillset. The reasons for this are likely to be too complex to debate in this paper but communications are clearly a problem and the cultural differences between the organisations need recognising (e.g. copious emails and website consultations will not work). There is potential for value add however and opportunity for this to work well on a regional basis if the approach and commitment are properly invested in.

A number of issues still urgently need to be confronted:

- *Career paths are limited and too uncertain*. There is some anecdotal evidence that the industry loses significant numbers of skilled people due to the uncertainties of working in the sector, and because there is no provision for the enhancement of skills. Virtually all 'training' effort in the industry is used to keep up with the competitive evolution of proprietary systems of Sony, Microsoft, and Nintendo, along with software packages. Little goes into refreshing and upgrading skills in production management, business skills and design, all of which are fundamental to competitiveness.

- *Competition from other countries.* One strength of UK development is its long history of involvement and track record in the evolution of the industry since the ‘80’s. At present things look rosy. Anywhere that can supply skills (in particular design skills) is in demand as a result of the new console round and the proliferation of devices and platforms for games needing developers to create them. However, Tiga believes that there is a strong risk that this advantage will be eroded in the medium to long term due to skills being learned in other emerging territories. Some are even supported with significant direct state intervention, South Korea and Canada being key examples. Strategic training initiatives are being announced for these countries to work with inward investors in order to attract companies to establish themselves in these territories. At present, the perception of UK development skills is that they are high on creativity but low on quality of production and execution (e.g. meeting deadlines).

Tiga recommended actions:

- *Establishment of a prestigious flagship training organisation.* We believe there needs to be a concerted effort to establish a flagship training organisation on a par with the National Film School or BBC for the Video and Computer Games industry. Not only would this be the place that all seeking a career in the industry would aspire to go to, but it would act as the focus of knowledge transfer, best practice, innovation and a catalyst for the interaction of the industry with creatives from other creative industries.
- *Skills refreshment.* Skills need to be refreshed especially in a fast moving technological industry such as this and there is a need for short courses designed to refresh and enhance skills, whilst appreciating that there is little fat for companies to spend cash and time on training. Perhaps these courses could also gain from the prestige of the flagship organisation (above) and could cater for the needs of inward investors (a great incentive for provoking overseas interest in the UK industry) as well as indigenous developers.

3.2 Competition and intellectual property

We believe that the most relevant question asked by this particular CEP working group is:

“How can Britain retain its international position in the creative industries? What actions by government or NDPBs will reinforce the competitive strength of UK creative industries?”

The UK has been privileged to have earned a reputation as number 3 in the world ranking for computer games development. Seen globally as the "gateway to Europe" this is a position we should fiercely protect. There are clear signs however that this ranking is being threatened. Territories such as France, Canada and South Korea are posing stiff competition; aided by favourable lower cost bases in some cases, but more worryingly by serious state aids and support (e.g. France has developed specific funds to encourage the generation of new IP). Tiga has published a report[14] that compares the environment in the key games territories and shows exactly why companies have made the decision to leave certain countries to establish in others offering a more favourable fiscal environment.

Other causes of this market beginning to fail were recognised way back in 2002 when the DTI commissioned its "Competitiveness Study[15]". This identified a problem with the UK market which was caused by a lack of proper investment and an insufficient domestic publishing market. That same study warned that the UK could become an 'assembly line' for games where developers had restricted creative control of games and were forced to make games on an as-required, work-for-hire basis. Four to five years on, this has been proved right and now even the 'assembly line' model is threatened. Work for hire is proving to be less or not profitable because:

- pressure on budgets (UK companies forced to compete with lower cost territories; larger teams needed per game that have to be supported between projects, faster turn around time required for game completion etc)
- fiscal environment and exchange rates less favourable to the UK (lack of appropriate tax credits for R&D and strong British Pound)
- the diminishing likelihood of developers agreeing a contract whereby they earn royalties on successful games.

Current government initiatives (led by UKTI) are trying to help UK developers consider the value of working with overseas companies to help reduce development costs and this may lead to a change in the focus of UK expertise. Companies may find themselves specialising in managing the process of games creation with much of the "legwork" outsourced to service providers. There may be potential to approach this transformation more strategically and assist companies develop an important stake in emerging markets and nascent overseas games companies.

Trends within publishers suggest that fewer titles, together with 'safe' IP purchased from other media or extensions of existing franchises, is the favoured strategy. This has the effect of reducing the benefit to be gained by the UK industry's reputation of cutting edge innovation and means most studios are left to exist on a "work for hire" model. There are fewer opportunities for developers to create and hang onto new IP – the key enduring value for most such organisations. UK developers have had to

[14] Tiga Comparative study - 2006
[15] "From exuberant youth to sustainable maturity" – DTI/Spectrum October 2002

compete by undercutting US developers in their own market due to there being few ways to access the indigenous UK and European market.

There has been inward investment in the sector but this is mostly to acquire IP that companies own and for which there is diminishing opportunity to create. Between 2000-2004 the number of studios in the UK diminished by 40% to around 160. The cupboard is beginning to look bare! Indeed the importance of new IP has been acknowledged at all levels of the industry. In 2005 the head of development studios of Sony Europe (now worldwide) who is based in London called for the UK to match government investment in games development to that found in other territories. A fund for the development of new IP was one suggestion.

Tiga recommended actions:

- *Support creation of new IP.* Tiga believes there is a need to look at how new IP (and hence value) can be created. There is no easy answer to this because with every console round the risk factor increases, and that in a sector that is probably more hit driven (and therefore risky) than any other creative industry. The exciting thing about games is that it provides the key to the interactive medium of the future. This should deliver a more varied menu of content in information, education and entertainment. Resources should be committed to bring content creators from other sectors to work with the industry on new IP concepts.
- *Technology IP.* The industry also produces technology IP, although a large part of the industry is driven by proprietary platforms and non-disclosure agreements at present. If UK companies could be enabled to produce technology to enable efficiencies in the production process and reduce barriers to entry then this would be greatly beneficial. Criterion 'Renderware' began to provide a solution to the cost of entering the games production sector for creators, so that companies with no technology of their own were able to become developers, only for it to be acquired by EA in 2004 sending shockwaves of caution and reassessment of the model. Tiga has recently created a middleware grouping and intends to look at potential funding for this from Europe if the new technology funds at DTI which seem to be heading at 'transverse' measures are not suitable.
- *Apply appropriate tax credits for R&D.* R&D tax credits are available to games developers and some progress has been made with the authorities to recognise and help interpret the parameters as they apply to games companies. However, much more could be achieved with this. Indeed Tiga has done a considerable amount of work on this (including a meeting with the Chancellor in January 2004). There is a perception that the current R&D definitions are not suited to the needs of the computer games industry. Although the debates within Frascati and Oslo manual frameworks have addressed broadening the definitions and scope of R&D it appears that the UK government is

opposed on principle. A solution to make the R&D tax credits a significant promoter of innovation in games needs to be pursued.

3.3 Access to finance and business support

3.3.1 Finance: public and private

As mentioned in the introduction to this paper, investment in the games sector is extremely limited. Unlike the TV and film industries where co-productions and outside financing are common practice, content is mostly 100% funded by games publishers. There are only small beginnings of outside finance - EIS has been used by Noble's Fund4Games in a handful of cases and VCT structures have not proved attractive to outside investors. There have been small investments by banks and other funding bodies which are more to do with off balance sheet accounting practices than taking risks to produce new IP.

Indeed effective access to finance has yet to come into the sector from the promised RDA gap too. The only real example was in 2004 when the Yorkshire Forward 'Games Republic' regional support network produced a system for funding prototype development of new games IP. This was set up to help developers deliver costly prototypes which many publishers are now asking for. This was only seen as a partial success due to the cost of a prototype being closer to £250-400K, but this model could be built on.

Financing schemes and potential investors such as those that invest in the film and TV industries see no benefit in doing so when the risk is less for other media and tax credits available. Finance from outside the industry is unlikely to come to the independent development sector in any form or guise unless the developer can address the double imperative of acquiring funds for R&D for new IP and the cost of producing prototypes. The government should consider action through measures available to other industries such as production tax credits, R&D tax credits, and adaptation and prioritisation of regional venture capital trusts.

Investment interest appears low from public financiers too. There is a popular conception that the City doesn't "get" the games industry although this perhaps is no longer entirely true. Unfortunately the majority of the 15 or so companies that have listed to raise money only four remain and half of those are suffering from poor trading performances. It would probably be fair to say that there is little experience or built up knowledge within the sector to adequately exploit and succeed in managing public markets?

3.3.2 Business Skills.

It is almost too obvious to state that, as with many other creative industries, the games industry has evolved from people who are passionate about their sector and who, in their youth, often shunned the commercialism implied by learning business skills. Consequently many games companies are today run by people who have only ever worked in the games industry, perhaps often for just one or two organisations and whom have never trained as managers or in business development skills. However, this has not stopped a good proportion achieving success so that the model is seen to work even if the probability of such success should be a lot lower than that of failure.

The industry needs mentors, but it needs mentors who understand the industry and who are credible to those within it. It also needs to feel that it is understood. The industry gets continuous flack from being labelled as the perpetrators of excessively violent content when the reality is that the vast majority of games are not and indeed reach across in increasingly diverse range of other content e.g. education. This unrepresentative labelling has probably been experienced by other media in a similar way and doesn't assist the industry reach out to opportunities outside its own niche.

The industry is continually chasing its tail and has become overburdened with immediate concerns, leaving little time to plan and act on mid or longer term strategic issues. Cash is always in short supply and so allocating any of this to training appears superficially unattractive given the immediate term focus of current business planning. The CCB[16] for example has gone a long way to addressing this problem by the structure of its courses and its subsidised costs – more of this is needed and the word needs to be spread.

The conferences the sector attends and does spend money on tend to be short on inspiration and quality and high on commercial returns for the organisers and sponsors.

Often the first point of contact a creative SME will have with business skills is through a Business Link or similar body. These do not have a good reputation – a constant reaction is that they don't talk the same language, and often their lack of passion shows up their lack of understanding and the paucity of what they can deliver.

A number of 'media' networks have sprung up since the late 90's, dotted unevenly around the regions. These indeed at the time provided useful networking forums out of which many alliances were made and good information shared, but there is a feeling the creative industries are networked out with constant demands for interrogation and consultation from non business people and little to show for the time spent.

Tiga recommended actions:

[16] Centre for Creative Business – London Business School

- *Create a Centre of Excellence.* Providing the formula that will help change these dynamics is not an easy task. However, creating a Centre of Excellence for skills enhancement could be one way of achieving this. The Centre would include teaching of business skills and require industry credibility. A possible tactic might be to fund and open a games division at the Film School. This has a proven reputation and some of the same business and production skills are very much applicable there.
- *Rationalise fragmented business support agencies.* The proliferation of agencies dealing with business skills needs to be rationalised and stabilised. The experience of our members is that business support is often light-weight, fragmented and delivered by people with little or irrelevant business experience. The picture is further complicated by the overlap between a myriad of government departments, regional representation, trade associations and other agencies, all competing and vying in different ways for the attention of companies who have business to get on with. Note also our comments under Infrastructure in section 3.4 of this response.
- *Invest in data gathering.* There is no consistent benchmark data from which to work. This is dangerous and can lead to mediocrity and confusion in policy making and in the application of grants and funds. See also our comments under Evidence and Analysis in section 3.7 of this report.

3.4 Infrastructure

The games industry is almost unique among the creative industries in that to date there is no major concentration of development studios in London or the South East. Some studios are based there but the strongest clusters appear in Scotland (Dundee and Edinburgh), Yorkshire and the North East, in the North West around Manchester and Liverpool, and in the Midlands (Derby and Leamington).

The industry has sprung up in the areas of choice of the founders of these companies devoid of government intervention of any kind. Indeed the industry could be said to have existed in its own virtual world until a few years ago when it was ‘discovered’ by government and other agencies!

The computer games industry is constantly subject to major changes. There is no other creative industry that is subject to the cruel and relentless effects of new generations of hardware platforms every 5-6 years. Old orders fast become eradicated. The strength of the industry is partly based on its historical evolution as a global innovator (as explained in the introduction to this response) but this is also its Achilles heel. The old order needs replacing which is perhaps not as easy as creating from new as some of the challengers to the UK's position are now doing e.g. Canada and South Korea.

The industry needs to evolve a discourse. Government and industry together need to have an understanding and agreement of where we are historically and what, under the confines of current political thinking, can be done. This process has yet to show its teeth. It can be said that little action has been taken on the back of the warnings and danger signs the report flagged up.

Indeed the lack of this discourse means that the so-called infrastructure around the industry is confused and in many ways ineffective, and compounded by the state of permanent change in government and its structures.

Tiga recommended actions:

- *Address the fragmentation of support.* For an industry for which the major challenge is globalisation and consolidation, the process of regional devolution of business support does not make sense. In November 2005 the DTI hosted a day long discussion attended by both DTI and DCMS Ministers to try to tackle the confusion in the regions dealing with the games industry. The attendance of representatives was as uneven as the policies adopted regionally or not adopted by the regions. There needs to be a determination to carry this strategy through and bring some sense to this great duplication and wastage of efforts. Issues include:
    - Some of the structures set up regionally have confused economic development on a local basis with the work say of trade associations where national and global representation is necessary.
    - Members of Tiga are unable to understand why one region is supported and another not e.g. East of England and North West (nothing, and almost nothing) vs. Yorkshire (a lot) and North East. The lack of an agreed action plan and strategy for the sector means that measures are applied unevenly.

3.5 Technology

The remit of this group in many ways seems the most coherent in the questions it is asking of our particular industry.

The games industry has undoubtedly been assisted by the ongoing successful and competitive roll out of broadband technology in the UK. This will really show in the next-generation of platforms as on-line gaming and downloading of content from the internet take off. Exploiting the potential of these new technologies however is a different story. If broadband roll-out has assisted communications, there is a sense in which we use the latest technology but do not evolve it. The games industry is not connected to the R&D world, except for in the making of games.

There is a feeling that traditional science and technology based concepts of R&D are outmoded and that the processes in games development that lead to innovation (at great risk) are not appreciated nor understood by policy makers at the DTI and Treasury. Consequently the one area in which the UK could address the growing imbalance between government support for this industry in the UK and other territories who now challenge the UK's third position in the development stakes, is seen as a missed opportunity.

Technology is a major driver of the sector, but most of it is proprietary. Some training is provided by the platforms and software providers but there is too little knowledge transfer due to NDA culture.

As the technology becomes more sophisticated there is a need for 'tools' and middleware to reduce the effort required to develop content and to make the processes more efficient, but there is a cultural resistance to this among many successful developers who believe their own tools and engines give them a competitive advantage. Tiga is undertaking the creation of a KTN to enable collaborative efforts in this direction.

Online distribution is a major key to the future. The UK industry needs assistance to develop this along lines of other territories (e.g. Singapore and South Korea) for the purposes of becoming a player in the new online games environments rapidly evolving in Asia and the US.

In the mobile arena there is some evidence that mobile distribution is being hampered by networks which are reluctant to let go of the easy pickings of current revenue streams.

User generated content is a fundamental aspect to the culture of the games industry which has long had a tradition of 'modding' and now 'machinima' .

Tiga recommended actions:

- *Support for online games development.* There is obvious gap in the repertoire of the UK games industry in online games (in both play and distribution). The potential for growth here is enormous and the UK will miss out on this sector if some concerted efforts are not made in this direction, and soon. Government can help as for example the Singaporean government has by creating testing platforms and portals for the exploitation of content. This could be done on a regional basis with a University perhaps developing and offering such services and know-how. Also of great use would be a consideration of funding research into the opportunities and obstacles of digital distribution.
- *R&D Tax credits.* Tiga calls once more on the government (DTI and Treasury) to look at the definitions and application of the R&D Tax Credit regime as it applies to games development. Its tendency to want to hide behind the world order in terms of applicability and definitions is not tenable within the context of its own radicalism over

most of its policies and debates on the revision of definitions have been debated in these global forums.

3.6 Evidence and analysis.

The lack of evidence and analysis for this sector has been alluded to in different sections of this response. Having such credible information is fundamental to any coherent strategy for a sector. The lack of such information is a charter for confusion and duplication among support agencies.

Although some progress was made in the last round of amending the definitions used the industry is still not properly recognised in the SIC codes to the extent that it should be for the purposes of collecting information.

Tiga recommended actions:

- *Fund analysis of sector.* Tiga believes the government should set aside funds to publish, on a regular basis, year by year analysis of the employment and performance of the sector. This might be conducted by Skillset but the industry is unlikely to respond to methodology currently employed (see comments above).
- *SIC codes.* Tiga calls on the government to prioritise giving the games industry proper recognition under the SIC codes.

4. Conclusions

As always with these subjects, there are a million and one things that could be said to further substantiate and assist the CEP with its programme. Tiga has tried in this response to set out a fairly focussed and high-level overview of some of the relevant issues and suggest some actions that might help address our concerns.

For further input and assistance please do contact:

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Attachment 1
Map showing UK companies working in computer games industry.