

## Fostering the Business of Games

By Kristina Erickson Hudson

### SEATTLE AREA'S SUPPORT OF THE EMERGING TECHNOLOGY CLUSTER OF VIDEO GAMES

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With challenges came opportunities to be innovative and collaborative. **Although this sector is unique to the Seattle region, this program's blueprint can be applied to other emerging clusters in any region.**

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# fostering the business

## OF GAMES

By Kristina Erickson Hudson

When most people think of video games, they think kids, they think toys. At *enterpriseSeattle*, a public-private economic development partnership charged with the mission of building a competitive, world-class economy in the region, we think business. *enterpriseSeattle*'s primary mission is to grow the jobs and tax base for King County and its 39 cities. It achieves this mission through a customized client services program, that's offered free-of-charge, and executed by its team of business development professionals. There are several business development managers at *enterpriseSeattle*, each with an expertise in a particular business cluster. Interactive Media, or video games, is one of our industries of focus.

Why games? The video game is the first new storytelling medium to emerge since television. It has changed the way we experience entertainment and has changed our lifestyle. Interactive Media is video games which use sights and sounds to create virtual experiences. With creation of advanced animation and 5.1 surround sound, video games are a unique entertainment experience where you become a part of the storytelling and the music – not only are you watching and listening, but you are actively participating.

Additionally, there are big dollars in the video game industry, most of which goes to high salaried positions. According to the 2007 PricewaterhouseCoopers study, the global video game indus-



World Cyber Games brings the global video game industry to Seattle.

try will grow from \$31.6 billion in 2006 to \$48.9 billion in 2011, growing at a 9.1 percent compound annual rate. In the entertainment world, the game industry revenues surpassed film years ago and recently edged out music to be the dominant entertainment medium of today. Like film and other entertainment sectors, the game industry has also been labeled as recession proof. During times of an uncertain economy, this is exactly the industry we want to have in our community.

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## SEATTLE AREA'S SUPPORT OF THE EMERGING TECHNOLOGY CLUSTER OF VIDEO GAMES

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**TABLE 1. Game Definitions**

- 1. Console Games** –These units are plugged into the TV. Purchase a game, plug it in the console, and play. The three major consoles are the Nintendo's Wii, Microsoft's Xbox 360, and Sony's Playstation3.
- 2. PC Games** – The game is purchased, loaded on the PC, and ready to play. Some PC games are also available on the consoles.
- 3. Massive Multi-Player Online Games (MMOs)** – Users download or purchase the software in stores. Most MMOs have subscriptions and players can participate with players from around the world at any time of the day.
- 4. Handheld Games** – These are the portable game devices like Nintendo's DS and Gameboy, and Sony's PSP
- 5. Casual Games** – games played on a computer or mobile phone – that usually can be figured out without having to read the directions. Popular games are Bejeweled, Diner Dash, and Text Twist.
- 6. Serious Games** – These are products that use game technology for education, training, health, and public policy.

## WASHINGTON STATE'S VIDEO GAME ECONOMY

Here in the Puget Sound Area, video games are big business. This cluster is a fast-growing, technology-related industry that has become a large part of our local economy. Video games are commonly perceived as entertainment. This is the commercial and most public side of the industry. However, the technology behind the games is also the foundation that relates to future advancements in health sciences, education, military training, and homeland security.

In 2007, *enterpriseSeattle* commissioned Chris Mefford with Community Attributes, a local economist, to conduct an economic impact study of the local industry. We learned that in 2006, the video game industry brought in over \$4.6 billion in direct revenue to the state of Washington and has been growing at 30 percent a year. Although the study is focused on Washington State as a whole, most of the activity has clustered near the cities of Seattle, Bellevue, Kirkland, and Redmond. The study cites industry analysts as having recognized the Seattle region's strength in console games, as well as its leadership position in one of the newest segments of electronic game niches, casual games. With Nintendo, Microsoft, and RealNetworks in Seattle's backyard along with over 150 companies and more than 15,000 employees in this industry, the Puget Sound region is one of the top game development centers in the world. The full version of the study can be found at [www.enterpriseseattle.org](http://www.enterpriseseattle.org) in the Emerging Industries Category, under Interactive Media.

With Nintendo, Microsoft, and RealNetworks in Seattle's backyard along with over 150 companies and more than 15,000 employees in this industry, the Puget Sound region is one of the top game development centers in the world.

## INDUSTRY BACKGROUND

There are several different types of video games: Console, PC, Handheld, Massive Multiplayer Online Games (MMOs), Casual, and Serious Games (see Table 1 for definitions). One of the newest segments is casual games, which have expanded into new segments of players including women, professionals, and retirees. A surprising demographic statistic is the typical player of casual games: female with an average age of 50. In terms of revenue, PricewaterhouseCoopers predicts MMOs to be the fastest growing segment over the next five years (see Table 2 for global industry revenue).

Similar to film and television, games also have different genres, each appealing to different demographics of

**TABLE 2. Growth of the Industry**

- The global industry of computer and video games will grow from \$31.6 billion in 2006 to \$ 48.9 billion in 2011, growing at a 9.1 percent compound annual rate.
- Console and handheld games will continue to dominate the market, growing at 4.2 percent and reaching \$7.9 billion in 2011.
- Multiplayer online games are the fastest growing segment of the industry whose revenue will grow from \$1.1 billion in 2006 to \$2.7 billion by 2011.
- Cell phone games are predicted to reach \$1 billion in 2007.
- Global entertainment and media industry is in its strongest position since 2000 and will grow at a rate of 7.3 percent to \$1.8 trillion by 2009.
- The Asia Pacific region is reported to be the fastest-growing market over the next five years, led by China, which is forecast to overtake Japan as the region's biggest market by 2008.

Source: PricewaterhouseCoopers 2007

the global audience. Just as there is a wide spectrum of movies, music, and books available to consumers, the video game industry provides a variety of choices for people of all ages. In addition, the video game industry also has a well established and respected rating system to inform the buyers of their purchasing choice (see Table 3 for more information on the rating systems).

**TABLE 3. Rating System for Video Games**

- Computer and video games are rated by the Entertainment Software Ratings Board (ESRB) whose system includes age recommendations and content descriptors.
- Entertainment industry watchdogs such as Senator Joseph Lieberman and the National Institute on Media and the Family, call the ESRB system the best media rating system in existence.
- In 2007, only 15.5 percent of games sold were rated "Mature (M)," as compared to the 84.5 percent of games sold rated "Everyone (E)", "Teen (T)", or "Everyone 10+ (E10+)". [44.9 percent rated "E", 27.9 percent rated "T", and 11.6 percent rated "E10+"].
- The average American video game *player* is 33 years old. The average game *buyer* is 40 years old.
- Industry research shows that 90 percent of games are actually purchased by adults over 18.
- Ninety-one percent of parents report that they monitor the content of the games their children are playing.

Source: The Entertainment Software Association

### THE BEGINNING OF THE WASHINGTON INTERACTIVE MEDIA PROGRAM

With three game-industry anchors in the Seattle-area, Microsoft, Nintendo, and RealNetworks, the climate for entrepreneurial and expanding companies in the region is favorable. The proximity to these major publishers and digital distributors, along with the strong support services available, makes the Seattle-area an ideal place to do business in the interactive media industry. However, just five years earlier, the perception wasn't quite the same.

In October 2003, there were some early signs of local game developers leaving the Seattle area. For instance, Electronic Arts had recently closed their Seattle-area offices and moved resources to their Canadian Headquarters in Vancouver. The question: Why? After months of thorough research and interviews with a handful of leaders in the game industry, a report was written for the state of Washington to raise awareness of the interactive media industry with local government. This garnered the attention of local leaders, and over the next six months, the development of the Interactive Media Industry Task Force began and was comprised of public and private sector participants. It became quite

apparent that some of the key issues were misperceptions about the local industry and a lack of knowledge about the business incentives available. For years this industry had flown under the radar in the eyes of the local business community.

Other regions were beginning to recognize the value of the game development industry and were beginning to put incentive packages in place. It was time to step up and recognize this industry in order to not lose our foothold as a global leader.

By working with C-level executives in the game industry, in cooperation with local and state governments, the Washington Interactive Media Program was developed. The purpose of the program is to promote and grow the interactive media industry in Washington State, thereby increasing its contributions to the economic development of the region. It is dedicated to serving the needs of companies involved in or supporting interactive media software, hardware, video games, handheld devices, personal computers, and the Internet.

### PROGRAM STRATEGY

There are four objectives to this program: to promote the region as a major center for interactive media; to nurture and create opportunities for entrepreneurial and expanding businesses; to develop and recruit talent to Washington; and to educate government about the interactive media business.

Several strategies were laid out to help achieve these objectives. The first was to develop more responsive financial institutions. New platforms and business models are emerging for the interactive media industry. Due to the unique business models of this industry, it was important to maximize every opportunity to educate the financial entities about these opportunities.

The second strategy was to bring a large, existing industry conference to Seattle and/or create a unique Northwest conference or event. Large events draw press and the global game industry. To help increase awareness of the strength of our community, it was important to bring more of these large events to the Seattle area.

Strategy three was to raise public awareness. This involved educating local and state governments and communities about the strength of the industry through press releases, public speaking engagements, and feature articles.

Working with educational institutions on training and re-training was the fourth strategy. As with many technology-based clusters, the workforce is a huge issue. There are simply not enough employees who have the experience to fill the jobs that are open. Connecting industry to education was critical.

The last strategy was to develop the cluster by creating networking opportunities for executives. As there were no local events targeted toward this industry, there were no real opportunities for industry executives to come together to discuss ideas and to develop potential partnerships.

Due to limited staff and resources, it was imperative that local partnerships were developed to work toward accomplishing the objectives of this program

### OBSTACLE 1: FUNDING

As referenced earlier, resources were scarce and the lack of funding was a major obstacle. In 2003, state coffers were low, many budgets were cut, and spending was reduced. Since the Washington State Film Office was already significantly under funded, there was no available budget to dedicate to this new effort. The resource crunch continued. Over the next year, the governor of Washington State listed the Film Office on her list of budget cuts. Then, more so than ever, it was imperative that solid partnerships be developed to maintain the vision of the Interactive Media Program. Today, this program is housed within *enterpriseSeattle* with one dedicated staff member. As resources continue to be limited, partnerships are leveraged among our local business community, local industry associations, and government leadership in order to achieve the goals of the program.

### OBSTACLE 2: INDUSTRY BIAS AND LACK OF KNOWLEDGE

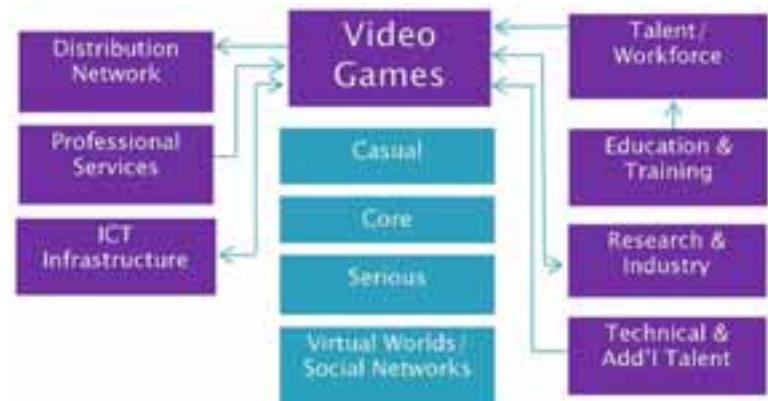
Since this was the first economic development program in the country specifically targeted toward the video game industry, community leaders had several questions and issues which soon came to light. The following needed to be addressed prior to moving forward with the program as these questions became obstacles in the minds of those who did not yet understand the industry. Who and what is our local industry? Aren't games just toys? What about violence and video games? All legitimate questions, all with surprising answers to those who asked.

### Who and What Is Our Local Industry?

Looking back at the history of interactive media in the state of Washington, our local industry has early roots in games from two of Washington State's biggest companies. Microsoft's first game, Olympic Decathlon, was released in 1981 for the Apple II computer. And Boeing's contribution began in 1976 with its flight simulators for pilot training and aeronautic engineering applications.

Over the next decade, companies like Nintendo of America, RealNetworks, Amazon, and McCaw Cellular became a part of the local industry. Unbeknownst to many, by the mid-90s, the Seattle-area already had major corporations pioneering game-related technology, digital media distribution, e-commerce, and wireless technologies. However, it is more than the major companies that make this industry. Nearly all other independent companies in the video game industry have founders or execu-

FIGURE 1.



This diagram shows how the video game industry reaches across other industry sectors.

tives with direct roots with one of the three anchor companies – Microsoft, Nintendo, and RealNetworks. Paired with a workforce experienced in digital distribution and wireless technologies, the talent pool and expertise in the region are deep, which in turn promotes entrepreneurial activity. Support for start-up businesses was needed to assist with financing, workforce development, marketing, and community education.



Lt. Governor Brad Owens of Washington State, and Jongwoo Park, President of Samsung Electronics, open the World Cyber Games in Seattle, Washington.

The video game industry also includes many connections between other industry and economic sectors. As digital content converges, we see crossover in the fields of wireless, film, and music. Also, the industry significantly affects telecommunication hubs and finance entities with digital distribution and significant amounts of online transactions. To provide a clearer picture, an overview of this concept in Figure 1 includes publishers, manufacturing, distributors, financing, servers, networks, telecommunication companies, publishers, research, and more.



For three days, delegates from 70 countries compete for gold medals and the chance to be 2007 World Cyber Games Grand Champion.

Lastly, this industry produces high-paying, family wage jobs, both technical and creative. From programmers to graphic artists, engineers to actors, game designers to musicians, the video game industry is truly the amalgamation of arts and technology and absolutely part of the creative class that every region is striving to develop.

### More Than Toys: Alternative Uses for Games

Interactive media technology is the foundation for future advancements in health sciences, education, military training, and homeland security. This is more than the intellectual property of entertainment, and it has far-reaching applications to other industries.

In health sciences, interactive media is used to train surgeons for robotic surgery and to train ER doctors for responses in high stress environments. Scientific American reports that patients can get relief from pain or overcome their phobias by immersing themselves in computer-generated worlds. Burn patients use virtual reality and video game technology to navigate through "Snow World," specifically designed to ease their pain. Now we are seeing games like "Fold-It" from the University of Washington, which is a playful way to build proteins that could someday be the cure for the diseases that affect our world.



Team USA wins gold and becomes the 2007 World Cyber Games Grand Champions.

For education, it has been proven that children learn better through experience. Using interactive media, children can learn more effectively through virtual environments. Moreover, this technology can bring a world of experience to the student at the click of a mouse. A study, by the Institute of Education at London University, which claims that video games have a positive impact on children, sees games as culturally relevant as music, film or literature.

The US military uses interactive media in training for its men and women in combat. Because of this, they have the ability to reduce mortality rates as the soldiers have had virtual experience with similar situations. The Department of Defense continues to be a huge investor in this technology.

Homeland security is another way that interactive media can be used as a training ground. Every state continues to work with the federal government to quickly coordinate agencies, people, and procedures to prepare for possible homeland security issues. Costs could be significantly reduced if this training was done in a virtual environment rather than on the streets.

### Video Games for Everyone

An issue that continues to be brought to light by media and politicians is the perception that violence is in every video game. It is imperative that factual information was readily available to those who had pre-existing and potentially negative biases to the industry.

Breaking down video game sales in 2006 by genre, the top genres are action games bringing in 27.5 percent of all sales followed by sport games with 17 percent and racing games with 10.8 percent. Early on, the industry saw the need for a rating system and developed it with the idea that parents are responsible for the products that their children under 18-years of age purchase. The Entertainment Software Rating Board (ESRB) is the rating system for video games that was initiated by the game industry itself, very similar to the movie rating system. Of all the titles purchased in 2007, the 85 percent of games sold were either rated "Everyone," "Everyone +10," or "Teen".

### SUCCESSES

#### Company Growth

Research from local educational institutions, industry organizations, and the economic impact study indicates that the number of interactive media companies has grown dramatically from 37 in 2003 to well over 150 in the region. This is tremendous growth over the last five years, and many of the new companies benefited from the program's industry expertise and one-on-one client work.

Like most businesses, this industry is relationship driven. Our industry expertise showed the clients that we know and understand their business needs. Through

Lastly, this industry produces high-paying, family wage jobs, both technical and creative. From programmers to graphic artists, engineers to actors, game designers to musicians, the video game industry is truly the amalgamation of arts and technology and absolutely part of the creative class that every region is striving to develop.



Winners of Warcraft III: The Frozen Throne - Norway, China, and Korea.

the Washington Interactive Media Program, we fostered the industry's growth by listening and responding to the most pressing issues of workforce, global promotion, industry advocacy, and financing. As we continued to deliver quality work, we began to earn the industry's respect as a leader in this field. This is when the doors were opened for the referral of new business leads.

Almost all of the leads are generated directly from the industry advising us of the latest business activity. Whether it is an international company that is looking for a US presence, or a new group of entrepreneurs who are spinning off to start their own endeavor, an industry-insider referral is the best vote of confidence. This is where the one-on-one client work begins, ensuring that all clients, big or small, have the information they need to make the best business decisions. From the education of our favorable tax structure and incentives, to available office space, to industry connections, we try to keep our clients focused on their business, while we work as their 'silent business partner.'

Over the last couple of years, we have grown and attracted many new game companies to the Seattle area. A typical client starts with 1-2 employees and grows to 30-60 employees in the next couple of years. Five-year growth rates for these companies are typically 100-150 employees with revenues of over \$2 million.

### Financing

Creating responsive financial institutions and entities is an ongoing mission. To start, we partnered with existing organizations to create specific opportunities for digital and interactive media to present at their annual investment forums. We also educated local venture capitalists (VCs) through one-on-one meetings about the unique business model of interactive media. Today, there are a number of local VCs and angels investing in the space of video games, and we anticipate this to increase

over time as this business model becomes more and more accepted.

### Marketing and Public Relations

External public relations is difficult when you don't have a budget. The Washington Interactive Media Program and industry task force worked very hard to recruit several events to the Seattle area over the last five years. Costs were relatively low as we targeted new and existing events looking for a host city and a venue. To aid in this effort, key partnerships were created with the Seattle and King County Convention and Visitors Bureau and the Seattle Sports Commission. By 2008, we brought in four annual video game industry events to the Seattle-area and three international events with participants from over 70 countries. With these events came the global media, and this allowed us to further leverage the opportunity to promote the region as a global center for game development.



Team France wins gold in Counter Strike competition.

tax incentives available, educational and workforce resources, and links to industry support organizations. The pages were designed to be a single point of reference for interactive media businesses looking to locate in our region.

Public awareness also came in the form of news articles, interviews, and speeches. Articles about the business of the video game industry have appeared in various publications including: the Puget Sound Business Journal, Chinese Game Developer Magazine, Washington CEO, LA Times, and more. This is yet another opportunity for us to educate the audience not only about the industry, but also our expertise.

### Workforce

The workforce is a huge issue in all technology sectors. However in the video game industry, there are not many people with 20+ years of experience as it is still considered an emerging sector. As schools are the suppliers to our local workforce, spending time with educational institutions on training and re-training is crucial. By sitting on a number of advisory boards, the program's task force works hard to make sure that our educational institutions are in line with industry needs.

The University of Washington's Computer Science Department is among the nation's elite computer science departments. Another world recognized school is locat-

ed in the city of Redmond. DigiPen is a four-year private college that offers the world's first accredited bachelors and Master of Science degrees in computer game development. In addition, this region has strong community college and technical programs which offer a broad range of programming and game development training as well. Support is crucial for these programs to ensure that they are adequately funded and recognized by leaders and our local communities.

### Networking Opportunities for Executives

Very often the video game industry is so focused on their own deliverables that they rarely have time to exchange ideas and learn from each other. By partnering with existing organizations, we were able to organize panel discussions and roundtables for the local companies on topics that mattered to them. The most recent example of this was held in conjunction with the 2007 World Cyber Games (WCG) held at Seattle's Qwest Field in October 2007.

We created a business-to-business event that took place during WCG. This event was an opportunity for the industry to share the results of the economic impact study and to educate the local and national community about the region's strength in this sector. Moreover, it provided the opportunity for local industry leadership to network and gain promotional opportunities to a global audience.

### CONCLUSION

Our past, present, and future are the three Interactive Media anchors in this region. Our industry draws heavily on their presence: Microsoft, RealNetworks, and Nintendo, all of which have established worldwide markets. Through the innovative nature of this industry and our 'anchor tenants,' we will continue to have opportunities to support and grow this business. Through the Washington Interactive Media Program, we have been able to strategically support all four pillars of economic development in relation to this industry: financing, education, marketing, and government. Although the cluster of video games is unique to our region, the structure of this program can be applied to any emerging industry in any region. Lack of resources is supplemented by strong partnerships.

In just five short years, significant results have been achieved through this innovative, economic development program. Since the program's inception in 2003, our local industry has grown from 37 companies to well over 150. Today we have four annual industry events that draw the global industry to Seattle. Through these events and the press received, the Seattle region is now a known center for game development. We are proud to have the largest concentration of video game developers in the United States, and we will continue our leadership role in developing the high tech cluster of interactive media. 

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