

*The Business Of Video Games*  
A Collective Collaborative Among Government, Industry, and Academia

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April, 2008

A discussion initiated by BC's Video Game Industry

The same conditions that launched BC's Video Game Development Industry now threatened it. Mergers and acquisitions shift ownership and control to parent companies outside of the province, which has a direct impact on BC's economy. Business decisions specific to recruitment and cost effectiveness, and benefits of long tail profit streams now reside outside of BC – as does the tax revenue from the benefits.

# The Business Model

- Foreign or out of province Publisher/ Distributor control projects, hires BC development studio.
- Publishers retain 9/10ths of revenue, profits are taxed out of province.
- Imbalanced competition, larger studios leverage retail for shelf space.
- Investor participation through stock purchases, typically from out of province investors.

- Digital Distribution drives increase of smaller, more efficient BC owned Studios, & Publishers/Distributors.
- BC owned IP and/or wholly owned license generates revenue and long tail profit, that stays in the province.
- “Created in BC” Game products compete at user satisfaction level.
- Incubation Fund provides business/talent development and vehicle to motivate in-province investor participation

Old Model

New Model

### Old Model of Business

The Publisher/Distributor controls the IP, the license, controls which studios to hire to create the game, controls the evaluation process,; pays the studio for the work. Then proceeds to market and distribute the game, keeping all profits generated from the sale of the game.

### The New Model

Digital distribution has provided an opportunity for smaller, more efficient boutique style studios with publishing and distribution arms. BC is at the forefront of this style of firm, and is home to Canada’s first console game publisher distributor.

Wholly owned companies owned and operated in our province, and/or ownership of IP and/or product licenses that reside in our province provide jobs in our province, along with profits generated from long tail license deals. These profits are taxed in our province, to the benefit of our communities.

Projects completed by BC Studios promote and enhance the “Created in BC” label and reinforce our identity as a games hub.

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A perpetual fund, seeded with initial investment from the provincial and federal governments, with ongoing support from industry, provides an investment vehicle to transition entrepreneur companies into mid-sized companies and into mature companies. The fund resides outside of the government portfolio and earns interest on a principle sum. The interest earned is carved off to fund projects, leaving the principle whole. Wholly owned companies owned and operated in our province, and/or ownership of IP and/or product licenses that reside in our province provide jobs in our province, along with profits generated from long tail license deals. These profits are taxed in our province, to the benefit of our communities. Projects completed by BC Studios promote and enhance the “Created in BC” label and reinforce our identity as a games hub.

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## Conservative Estimates

- Worldwide = \$48.9 billion by 2011  
compound annual growth rate = 9.1% over five yrs
  
- Opportunities for British Columbia
  - Increase of high quality skilled professionals
  - Increase in entrepreneurship
  - Increase of high quality technology companies
  - Increase in contribution to GDP and tax revenue

BC's Video Game Development Industry generated between \$1.2 and \$2 Billion (global revenues of \$25 Billion.) Long range conservative growth of 9.2% average per annum by 2010, places BC at the epicenter of the global games market place.

The shift to digital platform affects all sectors in all countries - GLOBALLY. Not since the industrial revolution has an innovation had this impact. History shows the impact the steam engine on the transportation industry revolutionized the global economy.

The "engine" driving our economy is Video Game Development:

- attracting high quality skilled professionals,
- achieving double digit percentage growth rate, and,
- potential for tax revenues from double digit profits measured in the billions of dollars.

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The diagram consists of a light blue rectangular box at the top. Inside this box, the text "Talent Development" is on the left and "Academia" is on the right. A double-headed horizontal arrow connects the two text elements. Below this box is a horizontal bar with a blue segment on the right and an orange segment on the left. The main content area below the bar contains three bullet points, each preceded by a blue square icon.

- ▣ Collaborate on curriculum development
- ▣ Develop opportunities for professionals in residence programs
- ▣ Support working/learning studios

***Collaborate on curriculum development:***

Industry input into curriculum content and development of blended disciplines and degrees, resulting in a merge of business, technical, aesthetics arts, science and independent thinking skills. This initiative would provide a foundation for other industries with needs for “The blended professional.”

***Develop Professionals in Classroom:***

“Entrepreneur in residence” is based on a teaching model, where students in their final year of education are exposed to the realities and expectations in the day-to-day business environment, resulting in “studio ready- work ready” graduates.

During the one semester or one year term, the Game professional will scope graduate to hire, and/or mentor graduate with creation of a business within BC.

***Support working/learning studios:***

Work/teach studios are partnerships where academia delivers theory and work/teach studio provides hands-on-training in a real world environment taking on real business world clients.

Blending co-op and paid internships that would provide students with 6 to 8 months of full time work within one company and provide the company with a future employee.

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The diagram consists of a light blue rectangular box at the top. Inside this box, the text "Talent Attraction" is on the left and "Immigration" is on the right. A double-lined arrow points from "Talent Attraction" to "Immigration". Below this box is a horizontal bar with a blue segment on the right and an orange segment on the left. The main content area below the bar contains two bullet points.

- Discussions regarding immigration fast-track programs of skilled professionals are in progress with provincial and federal agencies.
- The role of government in discussions between Academia + Industry regarding international summer co-op exchange programs.

When skilled leadership and skilled professionals are in short supply domestic migration and international immigration becomes valuable tools. The Video Game Development Industry has initiated a collaborative between industry, provincial, and federal immigration and border services departments.

The role of government in discussions between Academia and Industry is to facilitate short term and/or summer co-op or intern programs from domestic and international Universities with BC's Game Development Studios.

The international part of the program would require discussions on a visa program to facilitate the entry into Canada.

The diagram consists of a light blue rectangular box at the top containing the text "Business Development" on the left and "Investment" on the right, connected by a double-lined arrow pointing from left to right. Below this box is a horizontal bar with a blue segment on the right and an orange segment on the left. Underneath the bar is a white rectangular area containing three bullet points, each preceded by a small blue square icon.

- Investment for an incubation fund
- Evaluate an investor incentive
- Maintain the SR &ED tax credit program

***Investment for incubation fund:***

British Columbia is well positioned to develop a new business attraction strategy to encourage, build and strengthen entrepreneur, midlevel, and mature businesses, encourage establishment of smaller regional hubs, attract domestic and regional investors and continue attraction of the high quality skilled professionals needed to fuel growth.

Provide seed investment for a perpetual incubation fund, carving off a significant amount of interest to invest and support professional development, IP development, and license ownership. The benefits of this support build the province's industry and increases contributions to tax revenue and increases value of GDP.

***Evaluate investor incentive:***

Encourage investment from "Angels" within the province and the country with an investor incentive to shape the entrepreneur companies into mid-level developers, publishers and distributors, and, on to mature companies that spawn more entrepreneurs.

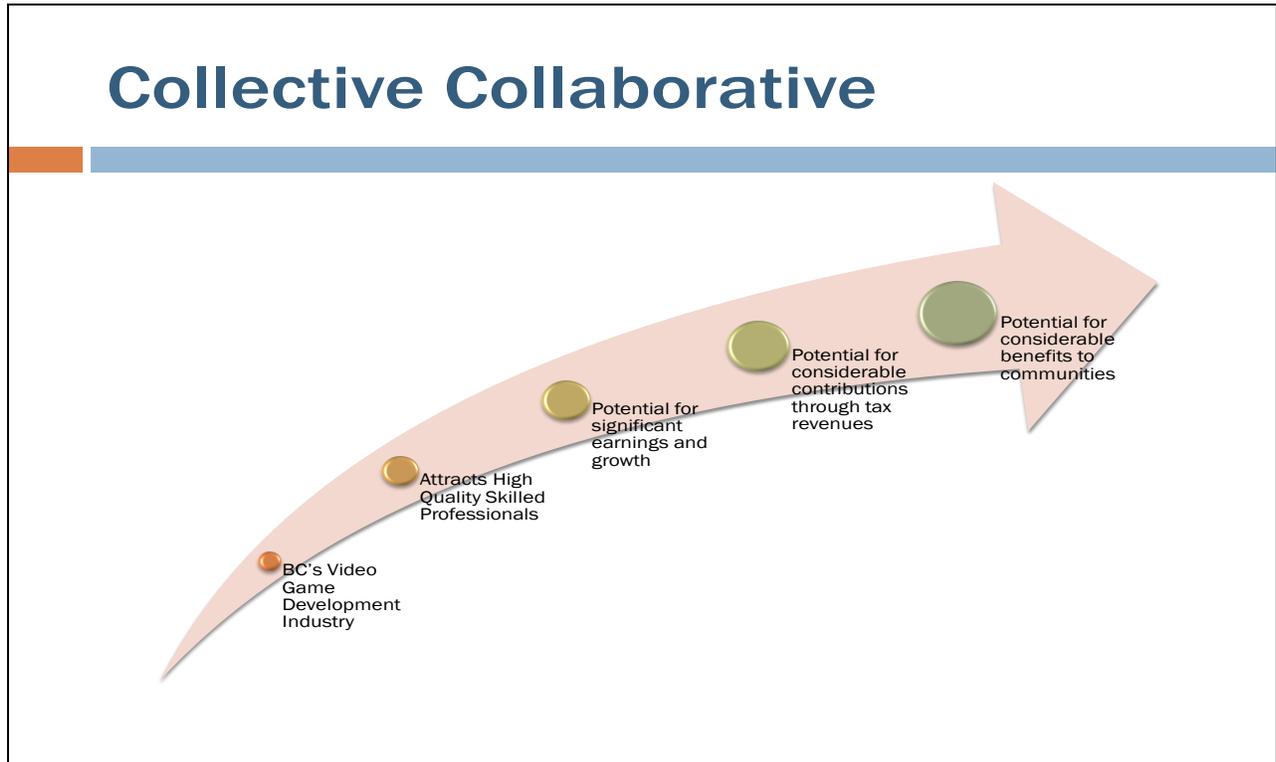
***Maintain SR & ED tax credit program:***

Evaluate tax credits based on ability to support long-term business growth by building employee force with the SR & ED\* (Scientific Research {New and Applied}, and Experimental Development) tax credit co-supported by the Provincial and Federal Governments.

***\*<http://www.cra-arc.gc.ca/sred/>***

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The rise of the Canadian dollar, recent acquisition and merger activities and the new national business of cannibalizing provinces with ever increasing tax credits and business subsidies have leaders in BC's Game industry evaluating the cost of doing business in BC compared with the cost with doing business elsewhere.

A collective, collaborative effort among provincial and federal governments, and, industry and academia is needed to grow BC's Game Development Industry to provide the tax revenue that enhances the future of our communities.