Game Development Outsourcing

Game Developers have taken a historically cautious approach towards Outsourcing, but it seems that a tipping point is about to be reached, as more developers are realizing the fruits of reduced costs and accelerated development cycles by going the Outsourcing route. This paper will look to highlight the potential of this fast emerging Outsourcing process.
Global Gaming Industry

The Global Gaming market was estimated to have reached US$47 billion in 2008, and is expected to reach US$57 billion by end of 2009. Of this US$47 billion, nearly US$27 billion was derived from console related sales. Further, the North American market continues to be the most lucrative market as the region reported videogame hardware, software and peripheral sales of US$21.3 billion in 2008, with entertainment software sales comprising $11.7 billion of total figure - a 22.9% jump over the previous year. Though the current global downturn has tempered Q109 revenue, it must not be discounted that sales figures for December 2008 was 19% higher than the same period in 2007, and was in fact the highest monthly sales figure the gaming industry has ever recorded.

Further, despite activity still being focused in North America, the Global Gaming market is expected to expand exponentially in the near-term with casual games on mobile handheld devices and Internet platforms leading the charge and with Asia Pacific emerging as a hotbed.

Several broad platforms comprise the global gaming industry with each segment being comprised of dominant players.

- Game Consoles (Microsoft Xbox, Sony PS 2/3, Nintendo Wii)
- PC (EA Games, Activision, Blizzard, Take 2 Interactive)
- Mobile Games (OS dependent)
- Other Platforms (portables, handhelds, TV games, etc.)

Game Development Outsourcing

When discussing Game Development Outsourcing, the first premise that must be taken into consideration is the “outsourcability” of the process involved. This is due to fact that the various elements within the Game Development cycle often require unique skills, cultural affinity and creativity – all which play major roles for in determining the outsourcability of the process. Gaming Development Outsourcing is inherently different from other types of Outsourcing as it is more dependent on skills and capability than size of the labor pool (game development teams are normally compact and highly cohesive by nature). Further, since it is an entertainment based industry – ‘creative affinity’ with

“When you've worked with so many parties, and everybody has their own understanding of art, pipelines, engineering, everybody has an opinion - and everyone structures their internal teams differently. You have to become an expert, but maybe this is why the outsourcing companies need to drive the evolution to co-production…”

- Daniel Kozlov, Streamline Studios

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1 DFC Intelligence, State of the Game Industry 2008
2 NPD, 2009
the client becomes an even more significant consideration in understanding client objectives and improving the efficiency of the development cycle. A tight, yet fluid relationship between the parent developer and the outsourced content provider is crucial in the Game Development process.

In cases, where a comfortable level of affinity is unavailable, but where talent is abundant, Game Developers may often take a more cautious path when integrating Outsourcing models into the development cycle. In such cases, developers will either ‘build small and scale small’ - ensuring that in-house teams are properly trained and ‘in-sync’ with the development teams in the parent office, or, developers may choose to ‘acquire small and retool.’ In the second example, developers would look to purchase local developers and re-train resources and re-tool existing development infrastructure to ensure compatibility with the parent office. Either scenario is entirely dependent on what opportunities are currently available in the local market, though building from scratch will incur a greater hit on the time component.

Game Developers have taken a cautious approach in Outsourcing, but it seems that a tipping point is about to be reached, as more developers are realizing the fruits of reduced costs and accelerated development cycles by going the Outsourcing route. THQ through its XDG (External Development Group) for example, has already outsourced 40% of its game development assets and expects to increase this figure to 60% for specific games by end of 2009. Another large US Game Developer, Epic Games, has found success in setting up shop in China, by forming Epic Games China (Shanghai). Tasked initially to lower internal developments costs from its North American development centers, Epic Games China now provides localization and Game Development services to other developers and publishers.

“...the costs per man month in China amount to less than US$ 4,000, compared to US$ 8,500 in Europe and Japan, and US$ 9,000 in North America...”

- Jay Wilbur, Epic Games

![Table showing dependence and outsourcability](image-url)

Source: Tholons 2009
The illustration above indicates the various stages in the Game Development cycle and the specific processes which are most feasible to Outsource. Artwork and character animation are most likely to be outsourced in the Production proper, while quality control and bug testing are most apt within the Testing/Debugging stages. Tholons expects the outsourcability and actual engagements for all processes between Pre-Production and Testing to continue to increase as the maturity and technical/creative capacities of providers improve with additional training and greater exposure to modern 3D game development processes (i.e. proprietary game engines, new middleware technologies, more sophisticated testing and debugging tools).

**Small will be Big**

Moreover, the rise of casual games and mobile applications on the mobile (handheld) platform should also usher in new incentives for existing Game Developers, as the mobile platform can be become an alternative (and substantial) medium which can be tapped to augment revenue streams. In cases such as the iPhone and App Store with its massive install base, 14 out of its 20 most downloaded applications are in fact casual games. Taking into account that Apple has recently announced that 1 billion downloads have already been processed through the App Store, in a relatively short period of nine months – and with these portable games ranging from US$5 to US$10 – and we see the tremendous potential for this market. Consider that in 2008, the Wii Play (Wii Platform) was the best selling game for 2008 in the U.S.\(^3\) - selling an estimated 5.3 million copies at roughly US$40 per copy. Looking at the install base, we can see the true potential of the iPhone as a gaming platform.

<table>
<thead>
<tr>
<th>Platform</th>
<th>Year Launched</th>
<th>Install Base as of 2008 (US only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>iPhone</td>
<td>June 2007</td>
<td>19 million (estimate)</td>
</tr>
<tr>
<td>Nintendo Wii</td>
<td>November 2007</td>
<td>19.6 million</td>
</tr>
</tbody>
</table>

*Source: NPD and industry estimates*

Beyond the potential market of casual games, cost and time considerations should also be noted. In most cases, a PC or online casual game can be created by relatively small development teams consisting of 10-20 people, with production time usually not extending beyond six months. Total production/development costs would range below US$400,000 and distribution is most often done through the Internet.

On the other hand, more ‘serious’ game genres such as MMORPG (Massively multiplayer online role-playing game) or FPS (First-person shooter) games often require teams that consist of

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\(^3\) NPD Group, Top Selling Games Annual 2008
hundreds of people, with production time ranging from 2-5 years, and budgets varying from anywhere between US$10 to US$50 million.

**What Processes and Which Locations**

The relative fragmentation found in the Game Development Outsourcing market may actually reflect the potential at hand. There is not a singular dominant region or country in the world that is able to fulfill or corner any significant portion of the demand for outsourced processes. Alternatively, this also highlights the gaps found in existing Game Development delivery centers. The Philippines and India for example, have the available skilled labor pool (from their existing Animation Outsourcing industries) that can be utilized in Game Development processes such as storyboard creation, character modeling, and artwork development. Eastern Europe would be better suited for more complex processes in the development cycle such as cinematic walk-through and motion capture.

![Game Development Life Cycle Diagram](image)

*Source: Tholons 2009*

Following the prevailing thought of “all things Outsourcing” – China is fast emerging as a destination of choices for Game Development. In a recent report by Niko Partners, it was estimated that in 2007 alone, China had 44 million gamers which generated 10,000 game development professionals. Compare this with the Philippines, who in 2008, was estimated to have 3.5 million online gamers – but only registered about 500 game development professionals. Further, one of the earlier stumbling blocks of Game Development Outsourcing in China – the communication difficulties between local development centers and parent country development teams – is fast becoming a moot and forgotten point. Tholons foresees further traction in China for Game Development Outsourcing, fueled by the

"They're looking at how to survive, and in that way our phone hasn't stopped ringing. As the situation unfolded back in September I started to see a peak of calls, and it just continues to rise. ... ...I believe outsourcing is one of the tools in the industry's toolbox that's been utilized all over the place, but now the true value of it is being recognized across the board."

- Alexander Fernandez, CEO, Streamline Studios
increasing deployments of Western game developers and publishers such as Epic, EA Games, Eidos, THQ – and more importantly, with the maturity of local game developers such as The9 and Shanda.

**The Road Ahead**

As with other verticals, the current economic downturn has also induced consolidation and contraction across the Gaming industry. Though this has led to delayed projects and cancellation of several blockbuster game titles, it has also forced many industry players to revisit if not altogether increase one particular business practice – the Outsourcing of Game Development.

In fact, for many developers, going the Outsourcing route may be the difference between riding out this economic storm and closing shop. For many industry players, Outsourcing will serve as the last best option and will force those who had previously been hesitant to reconsider. In the near-term, Outsourcing for Game Developers will be one of the few options that may be able to provide bottom-line relief.

Ultimately, and even as delivery models mature and Outsourcing relationships evolve into tighter co-production relationships between parent developers and outsourced content providers – we should expect the demand from the Gaming industry to remain strong and for Outsourcing to become an even more integral part of the Game Development cycle.

![Outsourcing Table](image)

*Source: Tholons 2009*
Conclusion

Game Development Outsourcing will continue to be one of the potential-rich niches in the Outsourcing spectrum in the near-term. The sustained rise of multiple console and PC platforms, increasing Internet and broadband penetration globally, and the meteoric ascension of casual games in the mobile/handheld platforms will continue to drive robust consumer demand. The Outsourcing of Game Development will play a crucial role in fulfilling this demand as Game Developers will be compelled to retool existing development cycles to not only manage costs, but also to improve efficiency and increase output across all production stages. Below are a few near-term dynamics expected shape the Gaming industry in general and Game Development Outsourcing in particular:

- Asia Pacific will continue to fuel demand for online PC-based games
- Asia Pacific will emerge as a new market for Console-based gaming
- The phenomenal rise of casual games on mobile/handheld platforms such as the iPhone and Nintendo DS will see game developers scrambling to develop more games and shorten development cycles
- Middleware will play a critical role in improving development processes across develop teams/locations
- China will continue to mature as a service delivery location, and has the potential to become the leader in Game Development Outsourcing
About Tholons

Tholons is a Services Globalization and Investment Advisory firm that combines "Best of Breed" consulting experience with deep execution expertise and investment insights to deliver truly effective services to its clients. Tholons offers a detailed understanding of business processes and combines it with practical hands-on expertise in executing the strategy. Tholons draws upon the considerable experience of a hand-picked team, which has successfully formulated and executed globalization strategies to unlock value for Global Fortune 1000 companies. Service providers leverage Tholons expertise to optimize their global delivery model. Tholons advisors engage with government bodies to build compelling strategies for making countries attractive destination for outsourcing.

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