

Evaluating a Video Game Cluster in Rhode Island

Prepared by:

STRATEGYANALYTICS

In association with:

**Perimeter
Partners**

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STRATEGYANALYTICS



Who We Are

STRATEGYANALYTICS

- Boston headquartered global provider of technology-based research and consulting services.
- Practice area in digital media and entertainment with specific focus in the video gaming industry.



- Founded by Jason Della Rocca, past Executive Director of the International Game Developers Association (IGDA).
- Perimeter Partners works with state governments and countries to assess video game cluster opportunities.



Issues Addressed ..

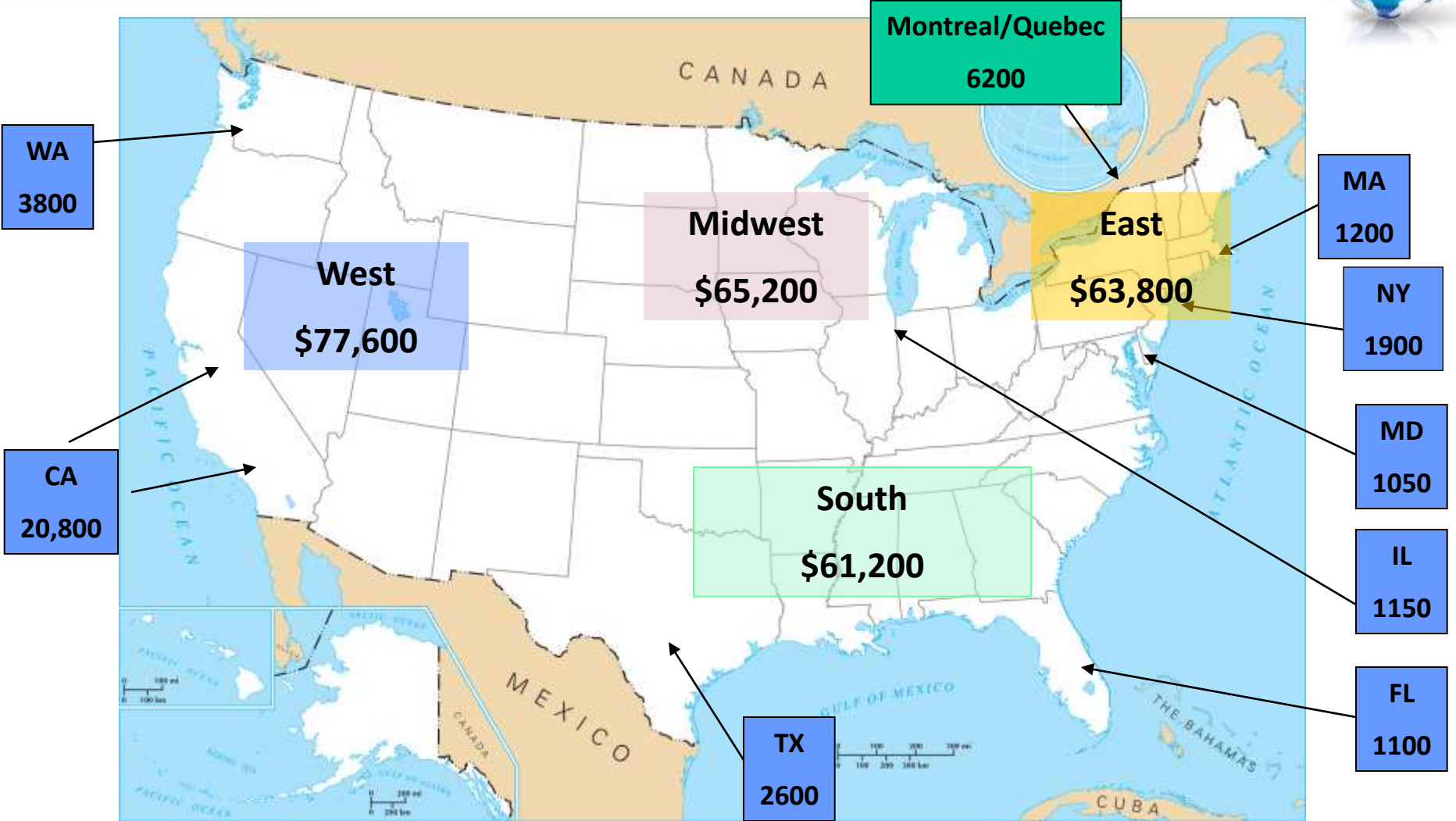
- What is a video game cluster?
- How large are other North American video game clusters?
- Why should RI consider developing a video game cluster?
- What resources does RI have to support a video game cluster?
- What is the anticipated economic impact on RI?
- How have other states developed similar clusters?
- What are some of the critical success factors?
- What risks are associated with this cluster initiative?
- How are these risks mitigated?



What is a video game cluster?

- A cluster is a geographic concentration of related businesses, suppliers and associated institutions in a particular sector which has 3 major benefits according to Michael Porter, including:
 - An increase in productivity
 - Greater innovation
 - Stimulation of new business
- A cluster exists where:
 - There is a critical mass of sector-specific resources & competencies
 - The critical mass provides a key position in economic activity
 - There is a sustainable competitive advantage versus other locations.
- Targeted economic development activity for game clusters began in the mid-90's in countries, such as Canada and Australia
 - In the past few years aggressive cluster development efforts have been initiated by national, state, and city based economic development agencies.

Major North American Video Game Clusters Employment & Average Regional Salaries



Sources: Employment Data – Entertainment Software Association, Salary Data via Game Developer Magazine, April 2010.

RIEDC Board Presentation, June 14, 2010

Why Should RI Consider Developing a Video Game Cluster?



Several reasons, including:

- Job creation/stimulation
- High growth industry
- Leverage RI's core academic assets
- Retain knowledge workers and creative talent in RI
- Higher overall average incomes
- RI has inherent critical resources – academic, industry, proximity to other markets to leverage for a video game cluster



What Resources Does RI Have to Support a Video Game Cluster?

- Academic
 - RISD – critical, highly renowned talent pool used by game developers
 - Brown – Ivy League institution with top Computer Science and
 - Center for Visualization & Graphics under NSF grant
 - URI – Excellent states school with high caliber computer science students.
 - Others, including CCRI, Providence College, & U.S. Naval War College
- Existing Game Industry Presence
 - Hasbro
 - G-tech
- Proximity to other markets
 - Boston
 - New York



What Is The Economic Impact on RI?

Employment Source	Direct Employment At Steady State In Rhode Island	Indirect Employment	Total Direct + Indirect
Anchor Gaming Tenant (38 Studios) Total Employees	458	1113	1571
Average Salary (000) \$	72.5	54.5	59.7
Total Value (millions \$)	33.2	60.7	93.9

- Total value is a function of both direct and indirect wages only.
- Modeled using US Bureau of Economic Analysis (BEA) RIMS II Model using multiplier
- Potential to expand with an incremental 200 jobs (above the 458) with value of \$41 million



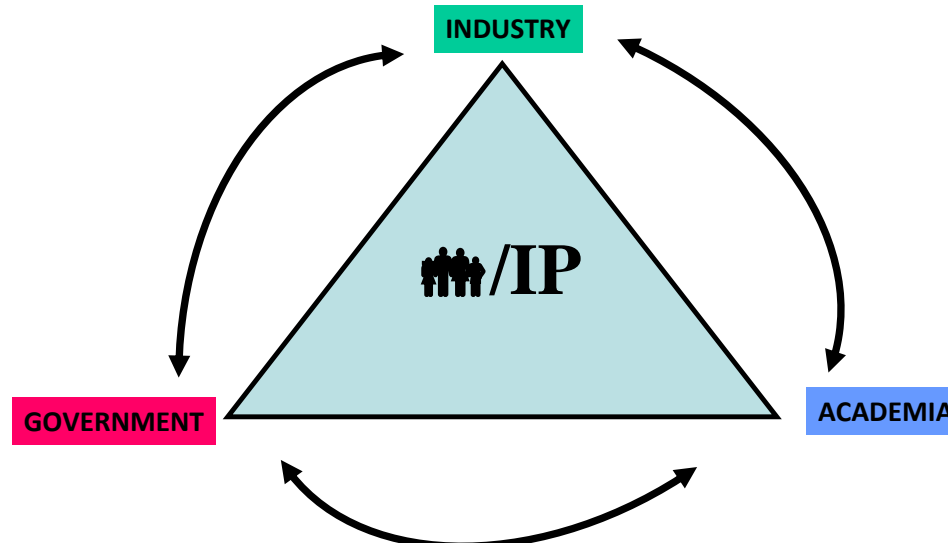
A Look at 3 Clusters ...

- **Boston**
 - Grew out of incubation with MIT Media Labs, availability of capital
 - Spawned new game developers as a result of academic base/talent
 - Little government stimulus or involvement until more recently
 - Now, Harmonix (Guitar Hero), Turbine (Lord of the Rings), others reside in Boston
- **Montreal**
 - Ubisoft was anchor tenant in mid-90s
 - Recruited to area as result of language and tax credit of 37.5% on labor costs
 - Blockbuster hits from Ubisoft attracted EA's attention
 - Currently Ubisoft has 2000 headcount under one roof in Montreal
 - Government and industry are aggressive in promoting the video game cluster
- **Austin**
 - Early legendary game developer, Richard Garriott, grew up in Austin and found Origin Systems, later acquired by EA
 - Nearly all game developers in Austin have roots in Origin/EA
 - 5% game development tax break
 - Strong academic tie-ins for technical and creative support
 - Home to Digital Media Council – fosters academic/government/industry collaboration



Critical Success Factors

- Strong collaboration between industry, academia, and government to foster sustainable momentum
- Proactive, aggressive, and holistic strategy to recruit game developers to region, i.e. they need to be invited
- Developing an incubation model in addition to securing an anchor tenant
- Leverage tax credits, other incentives to entice newcomers
- Leverage intellectual and creative capital assets of RI





Risks & Mitigating Factors ..

- Three categories of risks associated with:
 - Game industry generally
 - Cluster Development/Success
 - 38 Studios
- Game industry risk factors
 - Changing business/monetization models, e.g. “freemium” model
 - Several newcomers into MMO space, e.g. Trion
 - Sequels to *existing* brands gain traction, e.g. World of Warcraft, Lineage, etc.
- Cluster Development
 - Requires more than an “anchor” tenant
 - Strong clusters in MA and NY could work both for *and* against RI
 - Requires long term commitment and extensive collaboration between industry, academia, and government
- 38 Studios
 - Pre-revenue company
 - No established brand recognition



Mitigating Risk Factors ...

- Game Industry
 - Game industry does have cycles, but,
 - 38 Studios is focused an area of the game market that we forecast to have sustainable double digit growth over the next five plus years
 - New game entrants are further validation of gamer demand in the space
- Cluster development
 - RI benefits from observing other cluster strengths/weakness
 - While MA and NY have larger game clusters, RI can offer an attractive package to entice additional game studios to the region given its strong academic and pro-business posture
 - As with other clusters, an anchor tenant will likely spawn new game related businesses
- 38 Studios
 - Critical success factors include strong management, first rate technical and creative talent, and a strong distribution partner – 38 Studios has all of these *in place*
 - 38 Studios has flexibility to address market changes in areas of monetization models, competition given its development stage.