

Sponsored by:

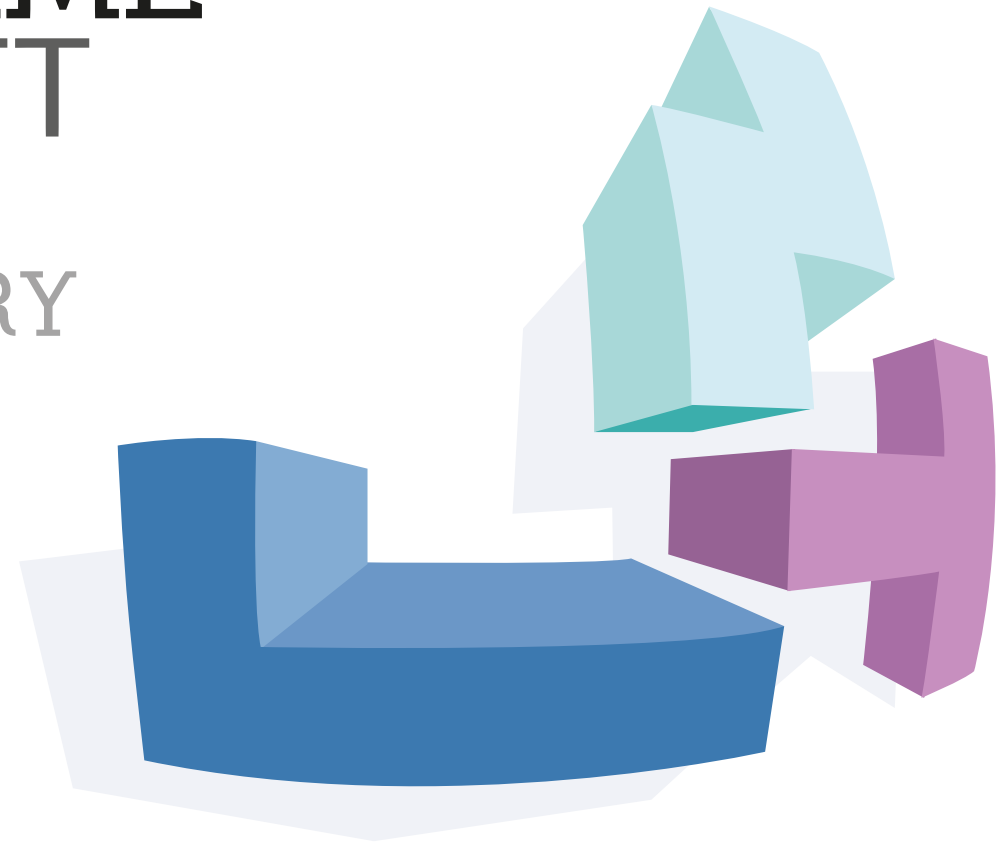


With the support of:



# WHITE PAPER ON VIDEO GAME DEVELOPMENT IN SPAIN

## EXECUTIVE SUMMARY



Spanish Association for the Game and Entertainment Software Development and Publishing Industry

## EXECUTIVE SUMMARY

The Spanish video game industry is becoming established as one of the most dynamic in the digital content field, positioning itself as the driving force for the digital economy. It is an industry with excellent business opportunities and extensive job creation prospects as it is taking shape as a young, innovative industry with a global vision. The continuing growth in the world market is making it one of the best opportunities for industry in this country.

Over the last few years, the creation of new online sales channels has made it possible to expand the potential market for the Spanish video game industry, making it a global one. This makes the development of new online sales channels the great opportunity for growth in the sector.

The emerging countries are playing an outstanding role in the globalisation of video games. Markets like Russia and China are seeing double-digit annual growth rates, representing a major opportunity for the Spanish industry. This opportunity can only be taken if the necessary reforms, actions and investments are made to make it easier to enter those markets. Investor support for the international expansion of our industry will undoubtedly contribute to the growth of the Spanish industry in the medium term.

### World Market

At world level, the video game sector is the technology industry with the best growth projects. In 2012, the world video game market reached 66,300 million dollars. The sector is forecast to grow at an annual rate of 6.7% in the period 2012-2016, reaching 86,100 million dollars in 2016. The most important world region by turnover is Asia/Pacific, with an estimate for 2013 of 25,100 million dollars, followed by North America, with 22,800 million dollars, EMEA with 19,500 million dollars and Latin America with 3,000 million dollars.

The growth of the world video game market will be led by online distribution models. Although console video games will continue to dominate the market over the next few years, their share will gradually reduce in favour of new forms of distribution, such as MMOs and games for mobile phones and tablets. There is no doubt that the rapid emergence of the Internet as a video game distribution tool has completely altered the value chain in the sector and in the business models traditionally implemented to sell them. The gradual transition to online games is causing a reorganisation of the functions carried out by the different agents making up the value chain, encouraging the appearance of various channels for interaction with the user, providing a closer relationship between the users and the creators of video games. In addition, the use of the Internet as a video game distribution platform is also facilitating the appearance of new agents (online app store managers, localisers, community managers, etc.), encouraging the growth of the market.

Figure 1. Development of global turnover in the video game market (millions of dollars).



2016	86.100
2015	80.500
2014	75.200
2013	70.400
2012	66.300

Source: Newzoo

### New business models

The appearance of multiple channels for interaction with users via the Internet has also encouraged the development of new business models as alternatives to the traditional pay to play. Users can pay not just for playing but also for accessing new content and additional functions, combining a free part of the playing experience with payment for an enhanced experience. As in the other sectors linked to the digital economy, advertising is also one of the main sources of revenue, on which various new business models are based. Innovation involving the Internet is going on permanently, with new trends to improve the experience provided to the user constantly appearing. Among these trends we might highlight immersive gaming; cloud gaming; the rise of secondary screens as complements to the main game screens, providing more functions; or the appearance of new cross-sector business models, such as serious games and gamification.

### Spanish Market

The figures for the Spanish market corroborate the very positive growth projections for the world video game market. In 2012, the world video game market reached 1,900 million euros, a 17% increase on 2011. In fact, the market in Spain is growing faster than in the European Union countries as a whole. Internet-linked distribution models (MMO video games, video games via social networks, casual video games on websites and video games for mobile devices) represented 38% of the market.

But the Spanish market is growing not only in terms of turnover. Other indicators, such as the number of players, the time spent playing, or the percentage of players who pay to play and do not limit their playing to free games, notably increased between 2011 and 2012.

▼ Figure 2. Summary of the Spanish video game market indicators

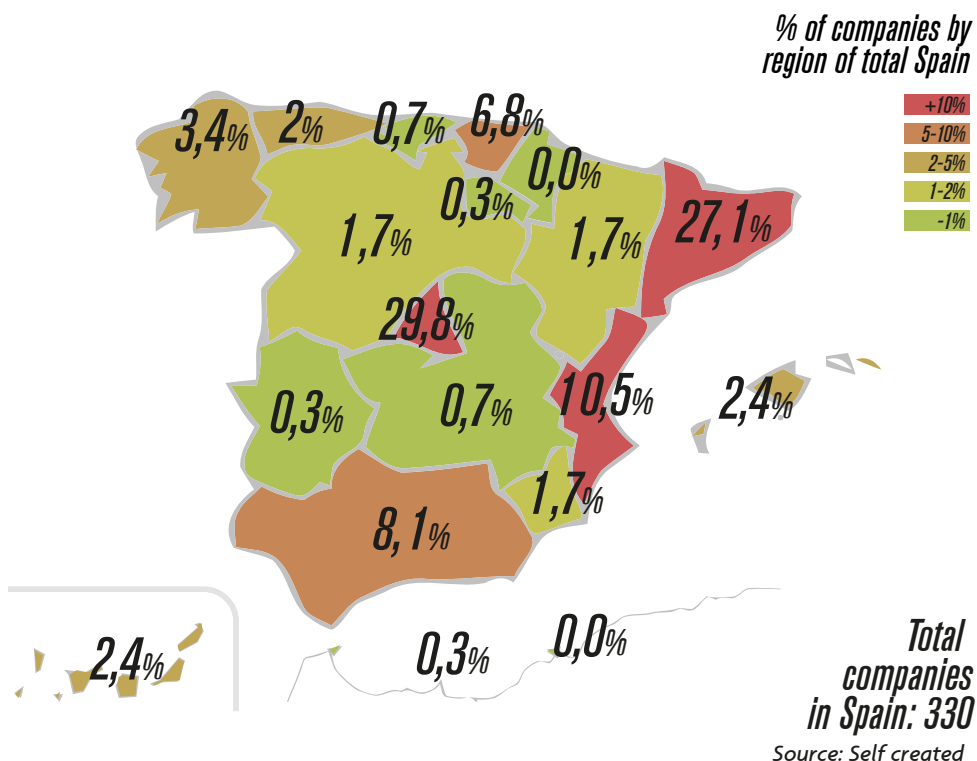
	INCOME GENERATED	NUMBER OF PLAYERS	NUMBER OF PAYING USERS	HOURS PER WEEK
PC SCREEN	913M	15.8M	6.4M	117M
TV SCREEN	503M	11.6M	6.6M	23.8M
MOBILE PHONE SCREEN	133M	12M	4M	27.5M
FLOATING SCREEN	321M	7.9M	4.5M	22.9M

Source: Newzoo

### Composition of the Spanish industry

This market expansion at both Spanish and world level has a direct effect on the Spanish industry. In 2013, this consisted of 330 companies. The Madrid and Catalonia regions account for 67.4% of the total number of companies in the sector. 86.6% of the companies in the sector have fewer than 25 employees.

**Figure 3. Territorial distribution of video game companies**

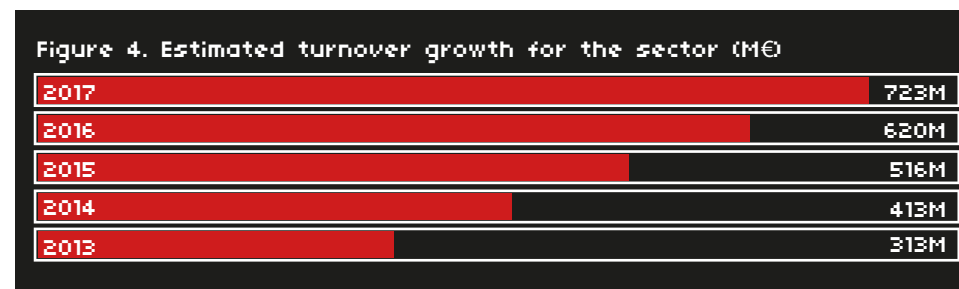


The dynamism of the sector is clear if you analyse the distribution of businesses by the time the companies have been in the market. Taking the foundation date of the business as a reference, no less than 68% of the total are less than 5 years old. Another figure to be stressed is the shareholding composition of the video game businesses. 97% of the capital is Spanish, while only 3% is in the hands of foreign partners. Taking both indicators into account (youth of the sector and origin of the capital) we can state that local enterprise is playing a decisive role in configuring the sector.

Concerning the main activity of the businesses, 79% are involved in developing and creating their own video games. There is a very considerable percentage of businesses developing video games for other companies (55%), while almost one in three firms does video game publishing work.

### Turnover of the Spanish industry

The Spanish video game industry turned over 313.7 million euros in 2013, a figure that makes the sector one of the principal digital content industries in the country. The gross added value generated by the sector amounts to 200.8 million euros, representing 0.02% of national GDP. It is estimated that, down to 2017, the sector's sales will grow at an annual compound rate of 23.7%, which means that, in that financial year, turnover will reach 723.6 million.



*Source: Self created*

The turnover of the video game industry basically comes from the online distribution of content in the various models (78%). The remaining 22% comes from the sale of video games on physical media. The video game download model is the one achieving the highest turnover (28%), even above video game distribution on physical media.

The Spanish video game industry has a strong export component, as 56% of turnover comes from outside the country. The main market international market for the Spanish industry is Europe, representing 24.3% of sales, followed by North America, with 19.3%. Further behind are Latin America, with 8.1%, and Asia-Pacific and the Middle East, with 3.2% and 0.9% respectively.

### Employment in the sector

In 2013, Spanish video game companies provided direct employment for 2,630 people. If we also consider indirect employment, the figure for employees linked to the sector stands at 4,292 professionals. In a general environment where jobs are being destroyed, in 2013, the video game sector has managed to increase its number of employees by 29%, making it one of the few productive sectors that has managed to generate new jobs.

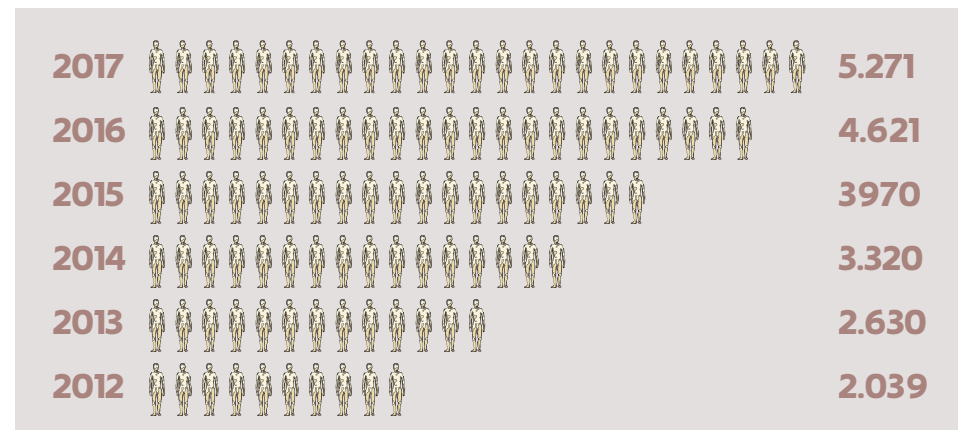
An important feature of the jobs generated by the sector is their high rate of stability, as 65% of contracts are permanent ones.

The professionals in the sector largely have medium-level or higher education (90%). It is therefore a sector that generates quality jobs, taken by professionals with high-level technical qualifications. Another element to be highlighted is the youth of its workforces. 45% of employees are aged under 30, which indicates the industry's strong commitment to employing young people.

The last outstanding indicator in relation to employment is the productivity achieved by each employee in the sector. This reaches €76,350, which places the sector at the average level for the European ICT sector.

Positive development is forecast for the video game sector over the next few years. While in 2013 the sector managed to increase its number of employees by 29%, it is expected that this growing trend will be maintained until 2017, with a compound annual rate (CAGR 2012-2017) of 21.2%.

**Figure 5. Forecast development of employment in the sector (number of employees and year-on-year growth)**



Source: Self created

### Training

The highly qualified nature of the industry's personnel means the existence of quality training is essential so that current and future professionals can maintain the standard of the video games created in this country. Measures promoting the retention and attraction of talent are also required. At the moment, the majority of businesses in the sector (63.6%) are having problems when it comes to finding qualified personnel to hire. As well as showing up important inefficiencies in syllabuses that are not adapted to the technological demands of cutting edge sectors like video games, this shortage can halt the growth of this industry, which is highly dependent on the specialisation of its workers.

### Legal protection for video games

The White Paper for Video Games cannot ignore the forms of legal protection creators have available for developing their work. Although Spanish intellectual property law makes no mention of video games, this does not mean they cannot be considered to be protected by this law; quite the contrary. However there is currently a discussion over the best system for this type of work, which can be considered as software or as another type of distributed work.

A recent judgment by the Court of Justice in Luxembourg (case 355/12, Nintendo vs. Pc Box) could be important at European level if it is concluded that video games are not subject to the system for computer programs but rather to the general Directive 29/2001 for system covering the work as a whole.

The continuous innovation in business models raises new legal challenges with respect to the role the authors, developers and publishers of titles should play and whether authorisation and remuneration is required if they are exploited, generally in online environments.

### Public support for the sector

Many States all over the world have recognised the role of the video game sector as a generator of wealth and jobs. This recognition has taken the form of the definition of various public support strategies in order to encourage the presence of new businesses, the carrying out of innovative activities or the hiring of qualified staff. At world level, there have been outstanding initiatives in Canada, South Korea and the United States, while, in the European environment, the most important schemes are in France, the United Kingdom and, most recently, the Scandinavian countries.

So far, Spain has never had a specific aid plan for the sector and any assistance has come via the various general programmes for R+D+i aid and assistance for cultural industries. However, the plan to promote the digital economy and digital content included in the Digital Agenda for Spain includes a specific programme for aid to the sector, which will begin in 2014.

### Recommendations

There is no doubt that the Spanish video game industry is facing a series of challenges to increase its competitiveness against the industries in other countries where the sector is established and receives considerable incentives from the public authorities. The Spanish industry perceives the need to adopt an Integrated Plan for Support for the Video Game Development Sector, bringing together all the proposals for improvement in a coordinated, complementary initiative.

These measures are necessary to establish adequate density in the sector: that is, enough studios to foster and promote the whole video game development industry in Spain.

### Fiscal support measures and business competitiveness

- 💡 Implementing a system of tax incentives aimed at encouraging the establishment of new business projects and the consolidation of SMEs.
- 💡 Improving the tax treatment of R+D and developing more rational criteria in valuing intangible assets.
- 💡 Financing the creation of prototype video games allowing companies to position themselves and present themselves to possible investors.
- 💡 Creation of public production support programmes through subsidies and finance.
- 💡 Creation of specific programmes to incentivise foreign investment in Spanish development studies
- 💡 Establishing a specialist agency to unify the management and coordination of all these initiatives.

## Measures supporting internationalisation

- Promoting the ICEX Games from Spain brand through greater institutional support.
- Encouraging coproductions by including the video game sector in the treaties, agreements and cultural cooperation pacts maintained by Spain with many countries.
- Approving tax incentives for spending on internationalisation through deductions for profits obtained and reinvested in internationalisation.

## Job creation support measures

- Establishing discounts on Social Security contributions for new jobs for highly qualified professionals aged under 35.
- Reducing income tax for the first two years of contracts for highly qualified employees and freelancers aged under 35.
- Simplifying procedures and creating a fast track for obtaining visas for attracting high-profile talent from other countries.
- Establishing agreements with other countries for temporary professional exchanges.

## Training support measures

- Creating a Lifelong Learning Plan for the video games sector with an effective policy of grants and/or aid for hiring staff at all training stages.
- Direct the training towards promoting capacities for art and design, the technical side of the programming, and knowledge of business management.
- Adapting and unifying the educational programmes of the various bachelor's and master's degrees.

- Strengthening the flow of communication between businesses in the sector and training organisations.
- Establishing a maximum annual discount on Social Security contributions for students on internships and creating a fund of grants backed by public/private funds to finance these jobs.

## Support measures from the private sector

- Promoting the organisation of meeting forums to improve relations between companies in the sector and private investors.
- Creating technology clusters specialising in video games with the support of the Public Administration.
- Introducing initiatives to make use of video game technology in education and transversal industries, such as serious games.

## Promoting synergies with other sectors

- Backing projects in the publishing sphere in which developers can prepare content for electronic publication.
- Financing specific aid for the development of serious games in sectors like health, tourism, smart cities, etc.



WHITE PAPER  
ON VIDEO GAME  
DEVELOPMENT  
SECTOR IN SPAIN

SECTOR IN SPAIN  
DE APROBACIÓN

Sponsored by:



CENTRO UNIVERSITARIO  
DE TECNOLOGÍA Y ARTE DIGITAL

With the support of:



games from  
**SPAIN**



España  
Exportación  
e Inversiones



UNIÓN EUROPEA  
Fondo Europeo de  
Desarrollo Regional (FEDER)  
*Una manera de hacer Europa*

With the support of:



UNUSUAL STUDIOS



With the collaboration of:

