



Emerging **Horizons**

The evolving landscape
of the Games Industry



Welcome

The video games industry remains one of, if not the, biggest entertainment industries in the world, captivating millions upon millions of players with interactive experiences that cannot be replicated by any other medium.

New businesses emerge on a weekly basis, each bringing something fresh to the table. That these startups even exist proves that investors remain aware of the potential that the video games business holds, and are keen to fund the right team with the right idea and the right entrepreneurial ambition – the potential hit-makers of tomorrow, often helmed by veteran talent.

It's not just investors that continue to show interest in the video games space; the convergence between games and other sectors increases, whether it's game-making technology being used in fields such as healthcare, architecture and automotive design, or major players in film and TV seeking hit gaming IP they can bring to an even wider audience.

In terms of the games themselves, 2024 starts on a high following a 2023 line-up that saw some record-breaking and hugely popular titles flying off the shelves. With the AAA dev cycle requiring longer lead times between such blockbusters, the time is ripe for a rally of indie studios with access to smarter and more powerful development tools and engines to release great games that truly shine.

Of course, the industry still faces its challenges. Yet, despite news that some developers and publishers are streamlining their operations, focusing on their core strengths as part of what many analysts deem to be a market correction rather than crisis, the sector keeps its eye on the horizon and the opportunities that await.

It may be a tough time for the games industry in some ways, but there are still green shoots out there. Those will take a while to grow, of course, but they will grow, as will the business of video games.



Elaine Dowman
Head of Games and Creative
Industries, Barclays



Finding funding in 2024

With so many promising games in the works around the world, investors are having to be more selective when it comes to funding new studios, but the right teams with ambition, innovation and an entrepreneurial spirit can still secure the capital they need.



As engagement in video games has dramatically increased over the past few years, so too has investors' interest in the sector, funding countless new studios and projects alongside established players. While the amount of capital available may be a little different this year, there are still opportunities for developers in need of finance.

"Despite the current obscurity I'm optimistic for our industry," says Spike Laurie, partner at Hiro Capital. "No one would doubt that interactive is the future of all entertainment and I have immense respect for determination and talent it takes to make games.

"I've been hearing a phrase lately that apparently started circulating at Pocket Gamer this year: 'Survive until 2025'. It's pithy."

Laurie describes the current state of the industry as "a deep correctional phase of an economic cycle" and "not so much weaning ourselves off of cheap and abundant money, rather than going cold turkey." When it comes to finding funding, however, London Venture Partners principal Harry Hamer says the biggest hurdle studio founders face is "investor fear and apathy."

"Most VCs tend to follow patterns, which makes sense as investors are paid to ride the latest trends, but it can also lead to herd behaviour and self-fulfilling prophecies," he explains. "Unfortunately in this climate, VCs feel less pressured to deploy and move at speed, due to the risk of companies not being able to raise Series A rounds and above, preferring to take their time in evaluating companies. The more you can do to break through and convince them to take a risk on you, the better. It's better to be Marmite than mellow."

Laurie adds that he's seeing "more structure across investment rounds" with strategic investors and funds still "still reluctant to mark down their existing investments."

"This leads to more subtle ways to improve the economics, and stronger anti-dilution, liquidation preferences and warrant mechanics are being introduced to deals that are happening," he says.

"New startups are being asked to do more with less, and as such valuations have come down significantly for those raising money, although many US funds are still offering premium valuations for the investments they are doing."

Laurie expects funding will continue to be a big challenge for studios in 2024 – "especially those that had only been part funded, or who had raised on the dream of the web3 boom" – and that investor belts may be somewhat tightened.

“I’m no macroeconomist, but I think consumer spend will continue to come down,” he continues. As we start to ‘de-globalise’ the cost to the consumer can only increase.”

“When you couple this with the huge number of new titles being released this year, the effect we’ve seen of mega blockbuster games, and the ‘live service-ication’ (is that a word?) of existing titles, consumers are being asked to make definitive decisions on the content they play. Discoverability of new content becomes more challenging.”

Hamer reflects on various discussions he had with studio founders and VCs back in 2022, where most expected investor sentiment might turn in 2023, although this did not come to pass. As such, he expects later stage investors will remain cautious in 2024.



“Interest rate drops will help in some regard, but many funds are still experiencing pain from down rounds and studio closures, and collective caution has become self-fulfilling as investors worry about the risk of not being able to raise further rounds. In the absence of ‘traction’, a rather nebulous catch-all, investors would prefer to sit on the sidelines,” he says. “In contrast, the seed stage remains fairly active with later stage funds feeling that they can get better value (and take more bets) with these smaller companies.”

He notes that there is “usually a lag” between downturns and contractions in the public market and the private markets, meaning it will likely still take a few more months for this to filter through.

“At the same time, there is still a lot of dry powder left to be deployed within gaming, and looking at the broader industry, I believe that some publishers have cut too aggressively into their pipelines, and therefore might have to return to the market to meet future earnings targets over the next few years.”

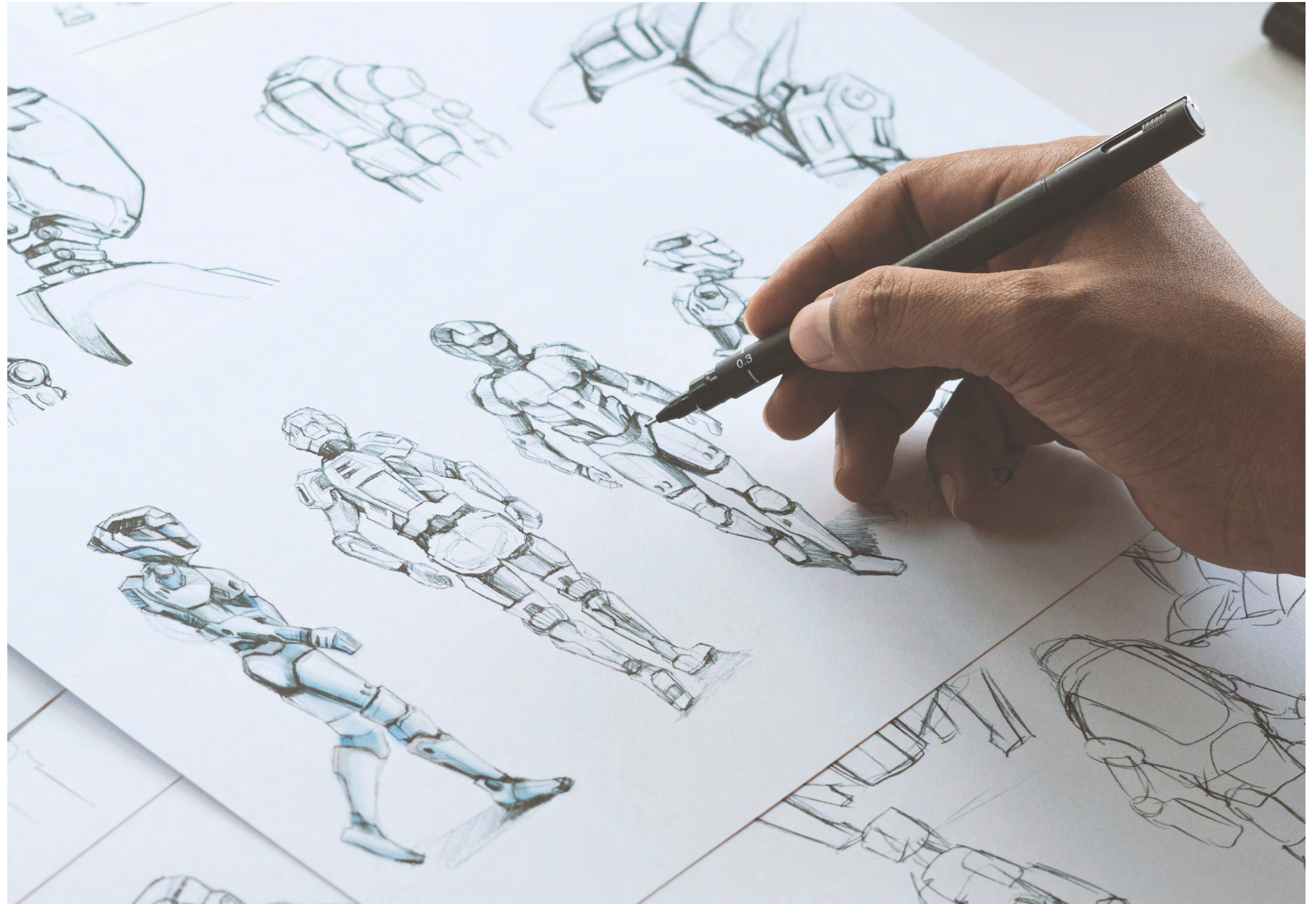
Laurie observes that, as an investor, Hiro Capital has been “spoilt for new game studios to invest in” over the past few years, but that the tide may well be going out. But if new and smaller studios can demonstrate not only that they have a winning game on their hands but also the knowhow to sustain the business required to grow it, there will always be someone willing to invest.

“One of the mistakes many investors have made over the last few years was conflating the talent for creating game content and the entrepreneurial talent for building a company,” he concludes. “It turns out that Venn diagram is much rarer than many had anticipated. So my challenge to founders looking to raise money today is, how can you demonstrate you can do both? How can you demonstrate you don’t just know how to make a game, but know how to run a studio, build a great team, build a community around your idea and validate it early into the development process?”

£196 million – more than was spent on all other culture items combined, while books and magazines, up 17% to £13.9 million.

The second largest revenue driver was 'film, TV and soundtracks' at \$54.8 million. While this encompasses a plethora of products, it was no doubt boosted by some very large cinematic and home releases.

As more and more consumers continue to engage with games as viewers, watching content created for YouTube or supporting livestreamers on Twitch, streaming and game video content brought in an additional £47.4 million, although this was 4.8% down year-on-year.



The M&A landscape in 2024

Having seen some record-breaking purchases in recent years followed by a slowdown of major acquisition, what can we expect from the games industry in the M&A space over the next 12 months? Analysts explain why the big buys may be back on the menu.

In 2022, there were over 300 merger and acquisition deals in the games sector, including Take-Two's \$12.7 billion takeover of Zynga (which was the biggest buy in industry history, until Microsoft announced its \$68.7 billion bid to purchase Activision Blizzard just a week later). Last year, there were 163 M&A deals.

Nick Parker, founder and CEO of Parker Consulting, observes that while this may seem to reveal a collapse in buyer interest, it's still higher than the 150 M&A deals per year prior to COVID, and the second half of the year showed "some potential seeds of recovery."

"The last quarter provided 26% of the annual deals but only 4% of the whole year M&A value indicating the impact of earlier year high outliers and a return to more realistic valuations," he explains. "I expect this momentum to continue in 2024 as further consolidation by the traditional listed publishers continues as targets lose value, becoming cheaper post the COVID investment boom. This should result in an increase in small to mid-size deals.

Niko Partners' director of research and insights Daniel Ahmad adds that macroeconomic headwinds, strategy shifts among major companies, and weaker performance in new technology sectors also impacted deal-making in 2023.

"In our 2024 predictions, we anticipate a recovery in video game related M&A this year," he says. "We believe this will be primarily driven by increased consolidation across the industry with regulatory changes, business adjustments and lower valuations of gaming assets being the main factors."

These factors include regulatory changes in China (which will drive Chinese-based companies to acquire other businesses overseas), underperforming tech and games companies selling off gaming-related assets. Niko Partners expects at least one deal of over \$2.5 billion this year, which would make it one of the ten biggest games M&A deals of all time.

Ahmad adds that the economic uncertainty that still lingers around the globe, combined with those underperforming new technology sectors, will likely have an impact on the valuation of games companies.

"Companies may be valued lower than previous years," he says. "Investors may also be more risk averse due to underperforming assets within Web3, VR/AR. Cloud Gaming and other new technology areas that have yet to fully take off. On the other hand, we expect investments in AI technology to increase."

“In my mind, however distressing redundancies and layoffs are, the reduction in resources is a necessary correction in the industry,” he explains. “Part of this is due to the short sightedness of management in assuming the positive impact of COVID would endure (not just in the games industry) but also studio salaries have grown to eye-watering levels as expanding companies have been chasing a finite pool of talent as well as macro inflation impacting all overheads.

“Now the industry has a more competitive recruitment resource, keeping a lid on overall headcount costs could combat the headache of some of this inflation...The result on M&A is potentially a more realistic valuation of targets that could increase demand for studios in the future. There’s a bigger picture though – trying to improve buyer interest in the whole games sector rather than in just a few studios.”

Ahmad says that while larger companies selling off assets, will lead to smaller acquisitions, some independent companies that have recently implemented layoffs may become more attractive to buyers.

“Companies that have the capital to invest will look to acquire these assets as well as the increasing pool of talent on the market. While this will also have an impact on the number and value of M&A deals in 2024, there will also be more opportunities for consolidation.”

Overall, Parker predicts we will see more M&A deals than we did in 2023.



The human element of growing the games industry in 2024

Recruitment experts discuss the current challenges in the games jobs market, the need to retain the proven talent that has become available over the past year, and the ongoing importance of working with universities to bring future stars into the fold.



Players show no signs of diminishing the time and money they spend on games, so the industry needs a steady stream of talent to produce and maintain future titles, as well as to retain the proven developers that have created so many hits over the years.

This has been a constant challenge for the industry, all the more so in the face of the current downsizing at some companies. While this may cause apprehension among job seekers, Liz Prince – business manager of recruitment specialist Amiquus – is keen to point out there are still opportunities for both newcomers and the number of skilled applicants that are now available to hire.

“There are many studios which have multiple vacancies to fill in order to complete projects and

continue to grow their businesses,” she observes.

Kim Parker-Adcock, former managing director of recruitment agency One Player Mission (which sadly closed doors in January after 26 years), adds: “The recruitment space is flooded with candidates, all of them employable and talented, and not many clients hiring. Our landscape has imploded – albeit over an 18-month period, but the real impact has been felt in a mere three months. In the past, this resulted in a false belief that the right person is out there for the vacancy a client might have and companies can become complacent.”

Parker-Adcock cites other challenges recruiters face, such as competition with studios’ internal teams and non-games agencies entering the space, while Prince points to the ongoing skills shortages in certain areas, most notably programming. TIGA research shows that 33% of UK studios say skills shortages are the biggest obstacle their business faces in 2024.*

Meanwhile, the industry is still working to address

imbalances in its workforce, particularly when it comes to gender. This year’s GDC State of the Game Industry Report shows 23% of game developers are women, although this drops to 5% when looking at developers in senior roles or with more than 20 years of experience.**

“As an industry, we’re not doing enough to convince women that a career in games is for them; and those who join are not sticking around,” says Prince. “The latter point must lead us to conclude that better family leave policies need to be put in place, alongside flexible working opportunities for those with caring responsibilities.”

She adds that, while the industry is currently seeking experienced professionals to fill its roles, it’s also crucial to support the future talent emerging from universities. “We understand that it’s a big commitment to take on less experienced staff and nurture them – but if we, as an industry, are going to avoid these issues around skills shortages, we need to start better investing in our future talent pipeline.”

The expectations of the workforce are also changing. Prince observes that studios who are hiring may need to offer assurances of company stability and career progression opportunities to applicants, while lockdown opened the eyes of many to the benefits of remote working.

“If they do decide to look for new career opportunities, they are certainly less keen to relocate, given the current economic climate, mortgage interest rates, etc. So, while some studios are now keen to have their teams back in the workplace, if they are looking to attract key talent, they may need to reconsider flexible, hybrid and remote working policies to do that.”

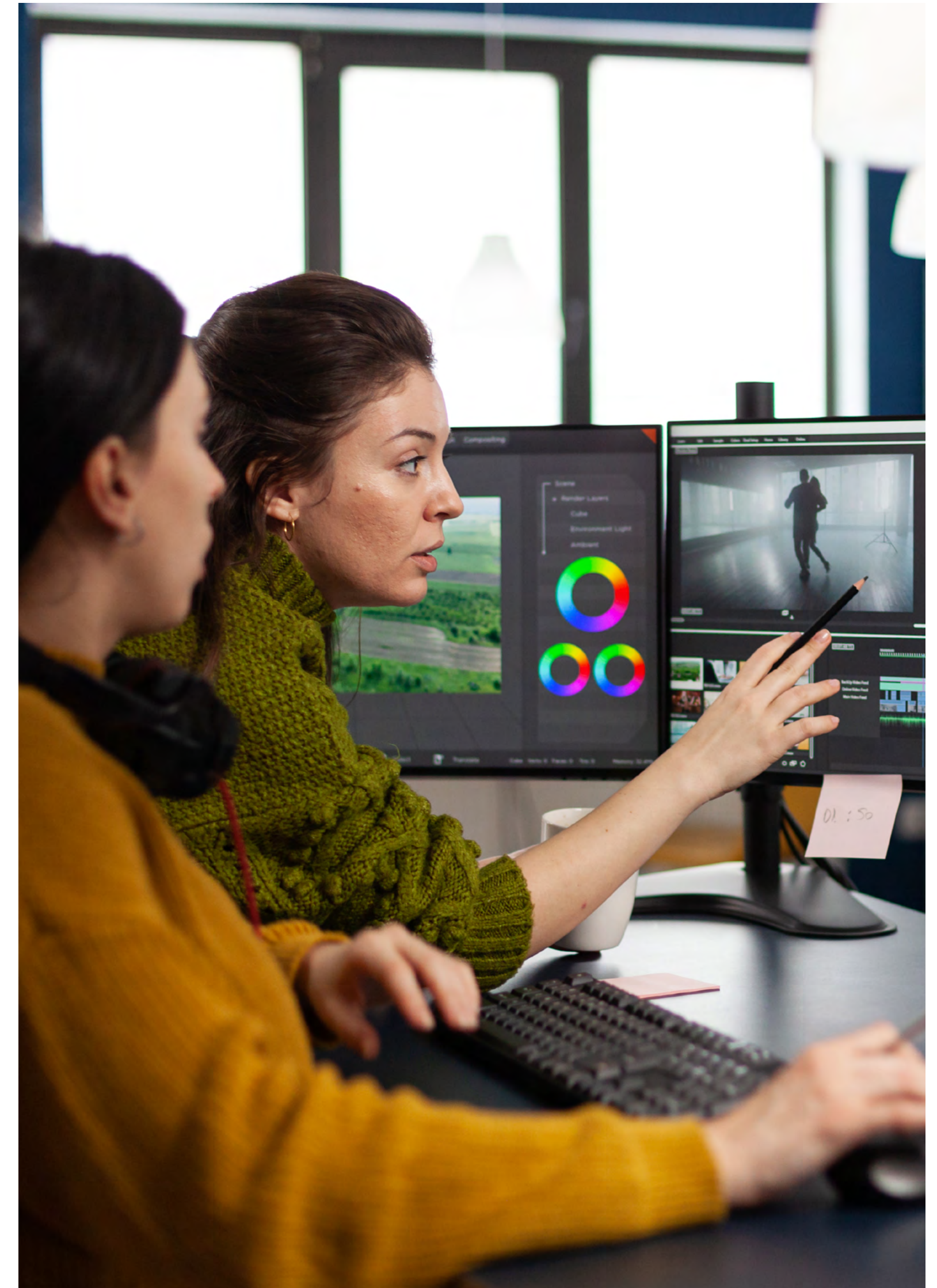
Parker-Adcock concludes that, while the redundancies are slowing and we’re seeing some investment coming back into the industry, the challenges are not over.

“With so many games being released, so many mouths eating from the same pie, the slices aren’t big enough to sustain them,” she says. “Even if they could get funding to battle through, they don’t know how much they’ll need it, and therefore how much, and if they will be capable of a return on that investment.

“The industry works on two-year cycles... The exciting thing is all the new investment we’re seeing, and the studios emerging from redundant co-workers.”

*Tiga research:
<https://tiga.org/news/cautious-optimism-but-challenges-remain-for-uk-games-studios>

**GDC State of the Games Industry Report:
<https://reg.gdconf.com/state-of-game-industry-2024>



How games are impacting other forms of entertainment

Both the technology and IP found within video games have gone beyond interactive entertainment, creating hits on the silver screen or evolving industries completely unrelated to video games. Experts discuss how this shift came about.



It's well established that video games have grown dramatically in terms of their acceptance as a cultural touchstone for generations of people. What is perhaps less well known is how many connections there are between games development and seemingly separate industries – and not just within entertainment.

"Everyone in the games industry understands the power of games to educate, inform, entertain and influence its audience," says Sam Collins, chief commercial officer of trade body Ukie. "Other entertainment sectors, and more widely, are beginning to see this power."

Perhaps the most obvious way this can be seen is the rise of gaming IP in other forms of entertainment, from The Last of Us TV show to The Super Mario Bros Movie and beyond. Collins notes there has been a "fundamental change" in the balance of power over the past decade when it comes to games IP.

"Previously, book publishers were able to sell their IP to games makers, sports companies would be paid for product endorsements in games, music labels would find it lucrative to license their artists content to developers," he explains. "The IP owner would see value in working with games companies, enabling them to reach a potentially new audience, and they were paid for the privilege."

"This is still a consideration for games companies today, but the negotiation is very different. Now it is the film studios, FMCG sector and music artists who want to be in games to raise their credibility and audience reach. Beyond this, there is now a clamour for games IP to be turned into TV shows, merchandise and to be featured on products."

The data backs this up: £124 million was spent in the UK on video game movies, TV and soundtracks in 2023 – a record high thanks to the success of Sonic The Hedgehog 2 and Uncharted in cinemas.*** No doubt the Mario movie may push this even higher, and the appetite for games-based entertainment extends to the home as well with over one billion hours of video game adaptations watched on Netflix between January and June last year.

"In a full 180-degree shift, it is the storytellers from the games industry who are now producing books, comics and high budget films," Collins continues. "But this is just the start. Opportunities are now there for games IP to impact fashion, theatre and music as they look to take inspiration from games."

Jason Kingsley, co-founder and CEO of Rebellion – which operates in not just games development and publishing, but also book and comics publishing and TV and film production – says games makers now have new chances to bring their creations to a wider audience through film and TV.

“[This] has a positive feedback effect on the base IP, as long as you continue to own and control it,” he says. “[Film and TV audiences] love ready-made stories and characters and as we’re all aware, starting from a blank canvas is much harder than building on the work someone else has done and making it work for your medium.”

Rebellion co-founder and CTO Chris Kingsley adds that there are risks in such projects, and developers should always be careful about how their work is being used by others. “It can be done well, and often is, or it can be handled badly and devalue your property. You are the guardian of your IP and no-one else knows it as well as you do, so establish early on the core essence of your IP – what really matters to you – and stick to your guns.

“It’s essential to have a good legal agreement that protects you as much as possible should things not work out. There are many promises made in the TV



and film world, but signing a licencing deal is just the first step in a long process. The reality is many IPs are licensed for TV and film but only a tiny minority ever make it to the screen and even then the process can take many years, even decades.”

It’s not just video games IP that is making waves in other sectors; the technology behind games is also being widely used in industries such as automotive, medicine, financial services, aerospace, real estate, and, yes, film and TV production. Famously, game engines like Unreal have been used to produce effects for high-profile projects such as The Mandalorian, but Collins notes that controllers and input devices, VR and AR headsets, and other games-centric technology have also been used by other businesses.

Jason Kingsley adds: “Games and linear narrative are fundamentally different, but share some similarities. Unreal, for example, is a brilliant tech that can be used for both art forms, but it’s used very differently. Virtual production, which I’ve had personal experience of in our short film ‘Percival’, is an exciting frontier but we

all have a lot to learn in the filming process. It was a collision of technology and film making, in a good way.

“Games hardware and game engine technology have improved massively over the years so that what we can now render in real-time would have been unachievable even on the top hardware a decade or so ago – game technology has now reached a point that is it a viable alternative method to create linear entertainment.”

Collins points to UKIE’s recent Spillover report, which quantified the overall output of games technology used in non-games sectors, reported as £1.3 billion.^{****}

This contributed an impressive £760 million to UK GDP and supported over 9,900 jobs.

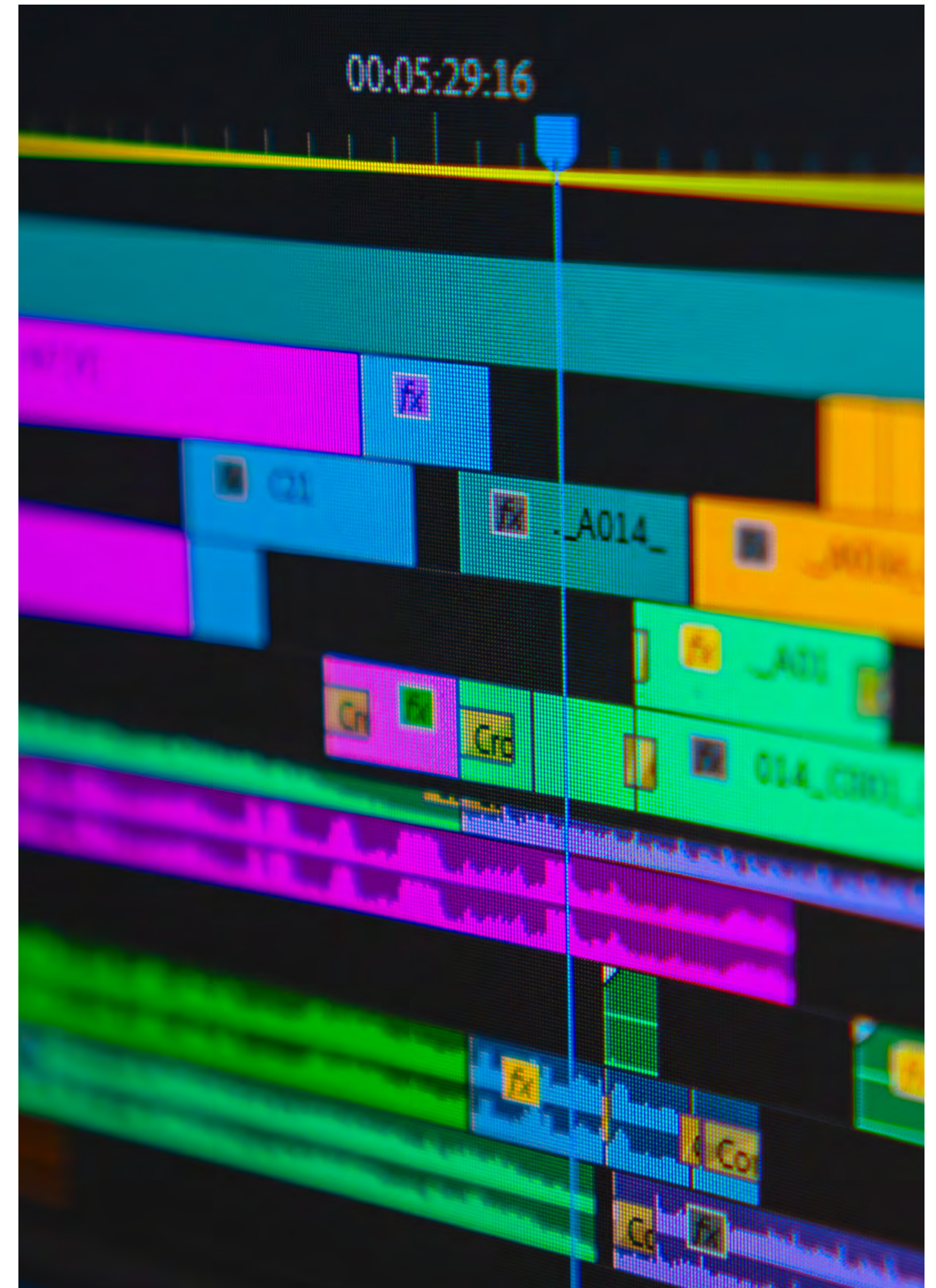
As to why non-games industries are making more use of games tech, Collins attributes it to two reasons: firstly, the consumer engagement levels that games firms have already achieved, and secondly, out of necessity.

“The film and TV sector could not function during lockdown,” he says by way of example. “Content could not be created, and production stopped. Under these restrictions the use of games technology, particularly the middleware providers like Epic Unreal and Unity came to the fore. Productions could be made using tools developed for and by the games industry. Of course, not only were these games technologies brilliant but they were cheap. Virtual production is now ubiquitous in TV and film and it is here to stay.”

He concludes: “There is a plethora of opportunities for games business all across the economy. Naturally, forward thinking companies in these sectors have identified this and are now investing in their own teams of skilled individuals and are competing with games companies for emerging and experienced talent. Our challenge is now whether we can keep evolving and driving games technology forward.”

***Ukie 2023 Video Game Industry Valuation:
<https://ukie.org.uk/news/2024/04/2023VideoGameIndustryValuation>

**** Ukie Spillover Report :
<https://ukie.org.uk/news/2023/11/spillover-technology-from-video-games-worth-1-3-billion-in-2021>



The ongoing evolution of AI

As more companies explore the opportunities afforded by generative AI, we speak to developers about how these tools could revolutionise the way video games are made.



Artificial intelligence is not new to video games. Not even close.

As head of Ubisoft La Forge China (La Forge being the AAA publisher's R&D group) Alexis Rolland observes, AI has always been an integral part of video games – the prime example being non-player characters and 'bots.' The rise of machine learning offers opportunities to make these entities smarter, more 'aware', he says, while the improvement of generative AI provides "tremendous opportunities for assisting creators and developers."

"Text and code generation, programming assistance, image generation and speech synthesis are already mature," he notes. "These AIs have the potential to considerably accelerate workflows, creative iteration and alleviate some mundane tasks allowing teams to focus on the more creative aspects of their work. And, while this is still nascent, integrating generative

AIs directly into games has the potential to provide players with extremely powerful tools to create their own User Generated Content, or even to give birth to new gameplay mechanics and games genres that would offer more emerging experiences, with endless possibilities of content generated at runtime."

Hilary Mason already had years of experience building AI products before co-founding of narrative games startup Hidden Door, which is exploring the use of AI with its titles. In her previous roles, the technology would be used to make an existing business more efficient first, before then using it to create something truly new.

"AI in games is very much in this phase – most of what we're seeing in the industry today is around using the technical capabilities to reduce the cost of content or get to the same kind of games we were already making, faster," she says. "But that's just the first phase; the next phase is when we can create experiences that weren't possible before."

Mason's examples of how games could use AI going forward include enabling players to have more of an impact on the story, changing the game world based on their actions. Meanwhile, industry veteran Philip Oliver – co-founder of Panivox, the company behind interactive story creation platform RichCast – offers even more examples: improved character animations, dynamically adapted music, larger unique game worlds, realistic NPC behaviour, faster tests for bugs and errors, and even analysis of player behaviour to help recommend personalised content.

But, he says, there will always be a need for humans to be at the helm of how AI is used. "It doesn't replace skilled professionals; rather, it enables them to accomplish 2-3 times more work efficiently. AI functions as an assistant; it cannot work independently. Skilled professionals delegate manageable tasks to it and meticulously review and edit the outcomes."

Aaron Jacobson, CEO of RoboSquad Revolution developer Zollpa Games, agrees. His studio uses AI for troubleshooting and QA testing, as well as a "a kind of

secretary” for organising notes and team tasks.

“While AI can speed up development in a lot of areas, we are hesitant to use it for creative processes and asset generation,” he says. “Human creativity is what makes games great and fun to play, and we want that to stay central to our development.

“AI-generated creative assets aren’t that good. It can be great for preliminary visuals like concept art, but we tend to leave assets that actually end up in the game to our human artists.”

Mason adds that AI systems magnify biases, create mediocre content, and are not easily controllable. “This creates a bunch of risks from poor to harmful output, unpredictable content, boring stuff, and training data leakage. This is also on top of the legal and regulatory risks of building models on data from the internet without necessarily having the right to use that data.”

The discussion around the use of generative AI in games development arguably kicked off in 2023, but it’s expected to ramp up in 2024 and we may even start to see the fruits of its output.

“We expect the influence of AI in game development to continue growing in the coming years, especially for indie studios,” says Jacobson. “As more small teams discover the value of using AI to speed up monotonous parts of the development process, they will implement it heavily. Most indie studios simply don’t have the budget for a full QA team, so for things like bug identification and fixing, AI can be especially vital.

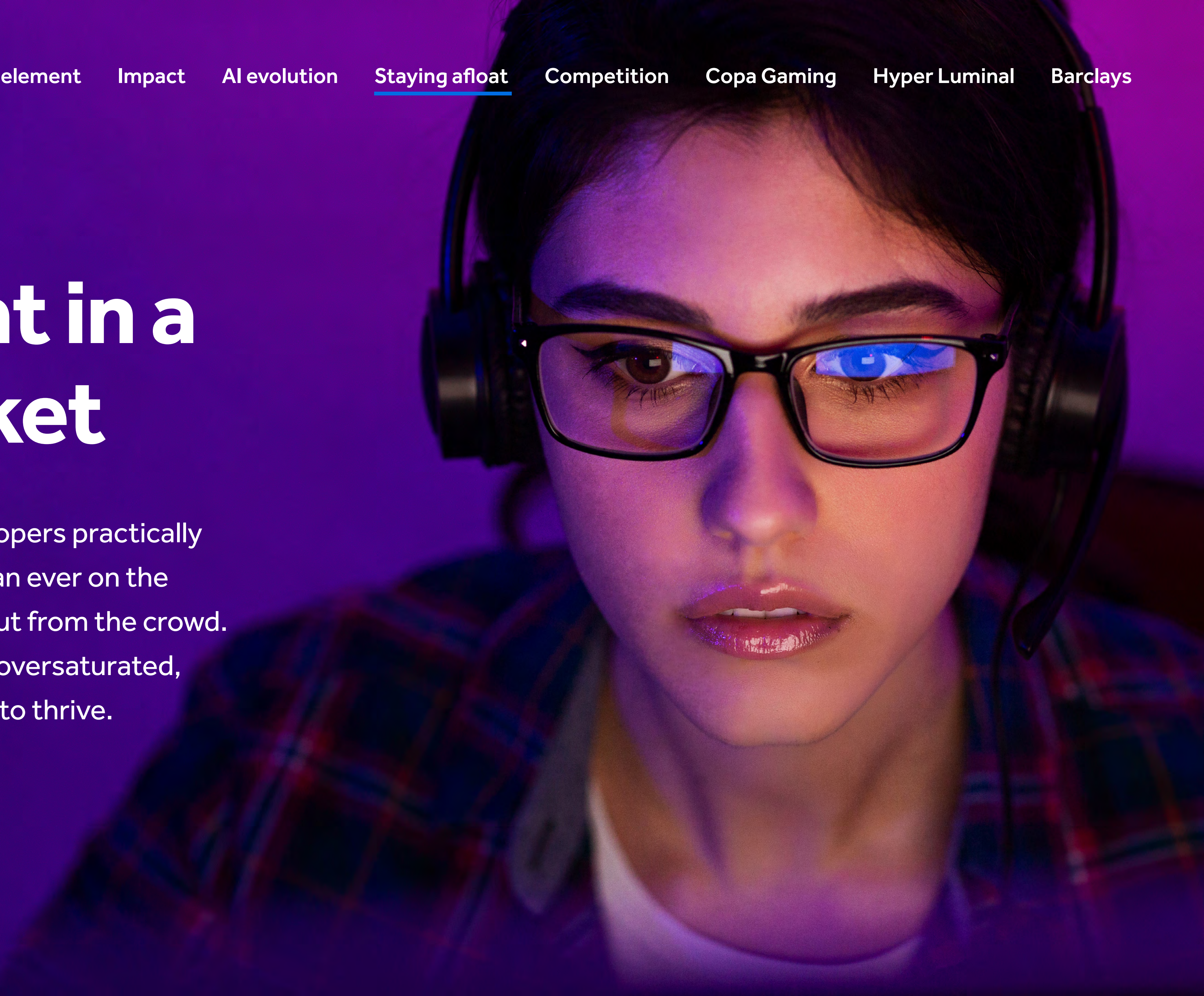
“One exciting frontier we’re exploring is using AI to evaluate player interactions with landscapes, identifying consistent features between popular in-game maps. We’re starting to delve into ways to generate new maps based on that data, resulting in something similar to procedural generation, but with less developer input. We’re looking forward to seeing where that goes, and discovering even more scalable solutions with the help of AI.”

Rolland concludes: “Generative AI will continue to represent a solid opportunity for studios of all sizes, but smaller game development studios in particular should gain a greater production capacity to level up their games. We might also see the birth of the very first games directly integrating generative AI as new features and gameplay mechanics.

“On the research side, while text, code, speech and images are already mature and production ready, we expect video and 3D to reach good quality levels, while generation of 3D motion (in particular from text) will likely take more time to gain maturity, both because of the complexity of the problem but also because of the scarcity of the data.”

Staying afloat in a flooded market

With the barriers to entry for new developers practically non-existent, there are more games than ever on the market – but it's still possible to stand out from the crowd. We look at whether the games scene is oversaturated, and the opportunities for game makers to thrive.



It's an increasingly common observation that there are, perhaps, too many video games. Thanks to the rise of indie and one-person developers, the option of self-publishing, and the democratisation of game development itself, there are more new games released each year.

If you just look at PC alone, leading marketplace Steam added just a few hundred titles to its catalogue per year for its first decade. Since 2017, this has never been lower than 5,000 and since 2021, it has exceeded 10,000, to the point where there are 80,000 games available today.

Mike Rose, founder of indie publisher No More Robots, tells us the current awareness of just how

many games are being released is a combination of three things: players having less money to spend on games, AAA titles dominating platforms they previously didn't (such as Steam), and that more higher quality games are launching (leaving players spoilt for choice).

"This makes it pretty tricky for smaller outfits to survive, let alone AAA," he observes. "Steam is definitely a lot trickier now. Mobile was always impossible, unless you have all the money in the world. Console really depends on whether you can play the various systems correctly. Right now, I wouldn't want to be a new publisher popping up – I really have no idea how we would survive currently without our wide-ranging back catalogue."

However, Sam Naji founder of analyst firm SJN Insights notes that UK market data for 2023 shows that player demand for new games "has not been suppressed by the increased number of titles."

According to combined figures from retail tracker GfK and digital sales monitor GSD, 38 million games were sold in the UK last year, showing year-on-year growth of 2.6% – and that's excluding a handful of publishers that do not share digital data.*****

"Spending since 2022 has been on the increase again after a two-year correction when sales exploded due to the COVID lockdowns in 2019/2020," Naji adds. "That elasticity on the demand side has not yet peaked. The demand for full priced games does not even account for increased spending on DLC, subscriptions and video game hardware."

He also adds that gamers continue to buy discounted games during sales promotions. "A huge library of content does not imply a diminished interest to consume more or new," Naji says.

Rose does not expect the number of games released each year to decrease, especially on Steam, adding: "This year is going to be just as hard, if not harder, so developers and publishers need to prepare for that."

However, there are still opportunities for games to achieve impressive levels of success, despite the plethora of other titles available. Earlier this year, for example, we saw Pocketpair's Palworld shift 12 million copies on Steam in just a couple of weeks, quickly reaching 15 million. Arrowhead Studios' Helldivers 2 is also reported to have racked up millions within its first weeks, and at UK retail increased its total sales in its second and third weeks – a rare feat. Even if you can't recreate this level of initial sales, Rose says that long-term planning can still see titles thrive.

"You need to go into your launch with the assumption that you won't sell much, but that eventually your game will do decently if you play your cards correctly," he advises. "If you put all your eggs into the launch, it's a very risky game. But planning for a smaller launch, with continued updates and content that will pull more people in over time, is currently the best strategy in my eyes."

Meanwhile, Naji points to the success of Palworld as proof that it can be impossible to predict whether a new developer or publisher has a hit on their hands before they even release the game.

"Did anyone anticipate the huge numbers for Palworld? I didn't," he says. "On the flip side how many games did we expect would sell but fell flat on their face when released? Countless.

"Ultimately it boils down to how good the game is and how forgiving gamers are in overlooking the bugs. In some cases, it comes down to FOMO. Most of the time, the quantity of games in the market has nothing to do on whether a publisher strikes gold."

***** Ukie Spillover Report :
<https://www.gamesindustry.biz/uk-pc-and-console-sales-grew-26-in-2023-uk-annual-report-1>



The never-ending competition for attention

Video games don't just compete with each other for players' time – they also go up against TV, film, music, social media and other forms of entertainment. With such a deluge of options for people wanting to relax, we look at how games companies can improve their chances of grabbing their audience's attention.



Time is finite. There are only so many hours in the day, and very few of them can be dedicated to leisure. When people are able to find room for entertainment, they have never had so much to choose from, whether it's via their TV, their smart device or a dedicated games machine.

Despite the stiff competition video games face from the likes of video-on-demand streaming services and countless social media apps, Midia Research's VP of data for strategy director Karol Severin believes games are "actually some of the best positioned across entertainment formats to compete for time and attention."

The main advantage, he says, is that games are interactive in nature, enabling players not only to enjoy themselves but also to express themselves and socialise in digital environments.

"This psychological need is growing stronger, the larger the share of our lives we spend in digital environments," he says. The only other place where people can socialise and self-express in digital is social media.

"Non-interactive entertainment formats such as video and games are going to act as content partners increasingly participating in the rise of games worlds and social media platforms (giving consumers additional things to do there, beyond playing or posting)."

Newzoo's lead games analyst Tom Wijman adds that games have evolved into a model that particularly lends itself to the competition for attention: live services.

"Live service games share one common characteristic: they compete for time first, not revenues," he explains. "A live service game becomes successful if it provides enough content to keep its players on board for a longer period, potentially indefinitely. This is a distinct departure from the premium model, where it matters much less how much time a player may spend with the game, as the content is paid for upfront.

"The challenge then becomes that these live services compete with each other, but also every other form of entertainment people consume during their leisure time."

Wijman notes that video games do suffer one disadvantage when compared to other forms of entertainment: they require active participation, unlike music and video which can be enjoyed passively. "When people want to relax, putting on a show or scrolling through a social media feed is the 'easier' option. Some games have found ways to work with that (like idle games) but that isn't really an option for most game companies."

Severin agrees the need to hold consumers' full attention can be a disadvantage: "In times of saturated attention economy, multitasking is on the rise and consumers often try to pile multiple activities on top of each other. Playing video games is not well suited for this dynamic."

Wijman discusses other challenges, such as discoverability in the face of the sheer number of games available and the rising costs of developments. Meanwhile, Severin notes that third-party publishers faces difficulties in balancing their efforts when pushing games that capture people's time without taking attention away from other titles in their own portfolios.

"As more games become dependent on time spent, it creates an inevitable conflict of interest/ competitive friction between games that the publishers promote," he explains. "This is because

if publishers are working to grow time spent on one game, it will likely have to come at the cost of time spent on another game (because most time is already allocated, rather than free to capture).

"This wasn't as much of an issue in the era of unit-sales based games industry when marketing campaigns could be staggered and a campaign's main goal was to sell the game once, rather than sustain and grow engagement with a game over time."

Despite the challenges, even non-endemic companies see video games as a promising way to connect with their audience. Streaming giant Netflix, perhaps one of the biggest competitors for consumers' attention when it comes to leisure time, has been investing heavily in its games offering with dozens of mobile titles made available to its subscribers at no additional cost. Whether players are trying retro-style Stranger Things tie-ins or mobile remasters of classic Grand Theft Auto games, they're still engaging with Netflix's service when playing.

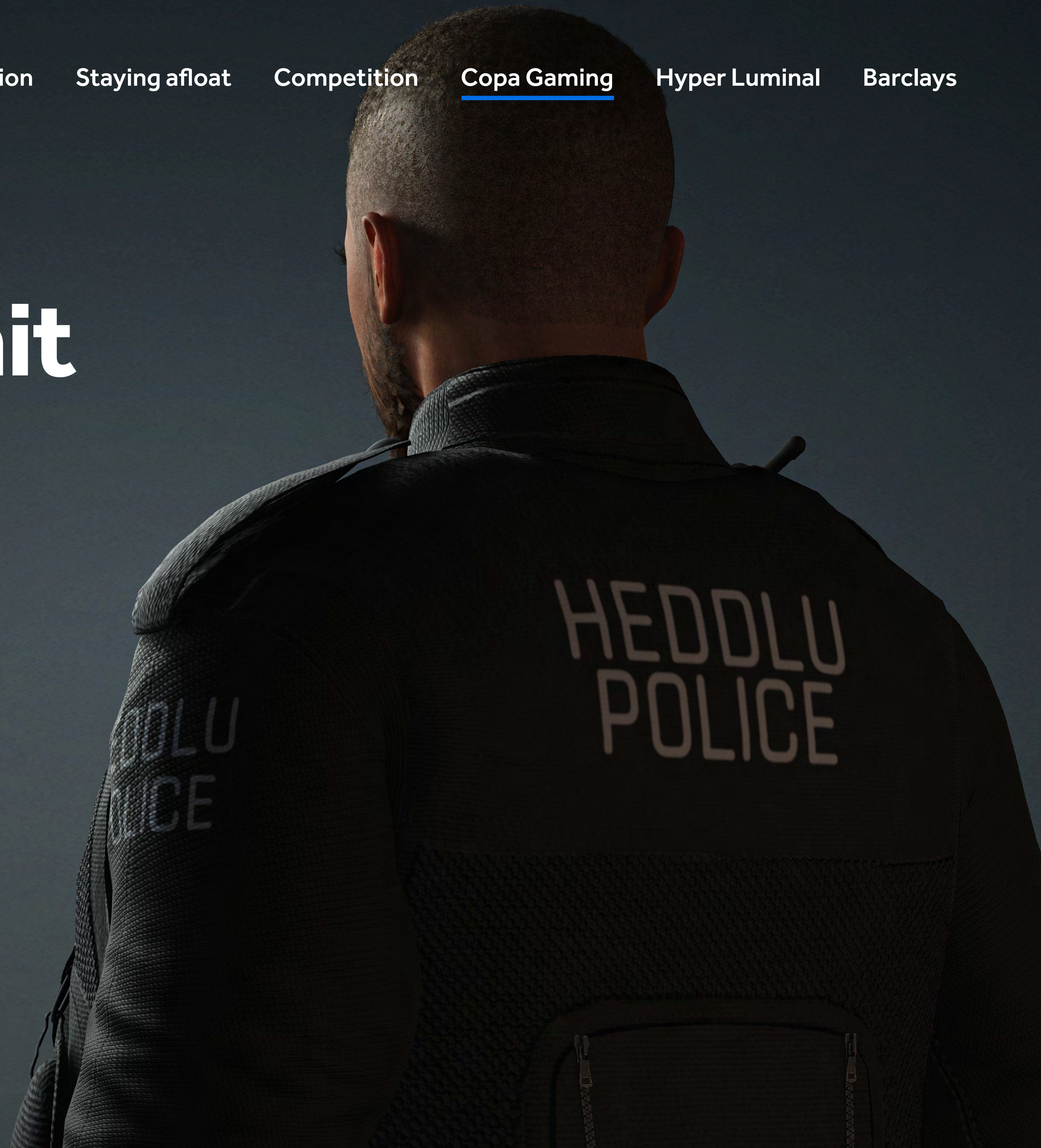
Wijman concludes on an optimistic note, with perhaps the greatest advantage games have in the competition for attention.

"Games can speak to people's need for escapism like no other form of entertainment," he says. They speak to people's competitiveness, particularly in online multiplayer games, and can put players at the heart of the story."

Copa Gaming's journey to the summit of its potential

Case study

Film and TV production company Copa Cymru is two years into its first project as a game developer. We spoke to director Osian Williams about the challenges of entering the industry, the transferrable skills from film and TV, and the team's mission to create uniquely Welsh video games. grabbing their audience's attention.



Plenty of video game companies, particularly in the AAA space, have attempted to create their own film and TV divisions. It's considerably rarer to see the opposite occur.

But in 2022, Welsh film and TV production company Copa Cymru did just that, establishing Copa Gaming and beginning work on procedurally generated detective game The Department. Osian Williams is producer, animator and co-director for this new business and said the venture was conceived after the pandemic halted production on Copa's other projects.

"Once COVID hit, our work stopped overnight," he explains. "So this came from the need for us to diversify the business and use some of the skillset we had acquired by doing animation work for Copa Cymru clients.

"We kinda saw the way the world was going – and selfishly, I just really love video games. It's such a brilliant medium to get stuck into, especially for creative people. It offers no cap on the limits we usually face with TV and film, like availability of crew, sets, and stuff like that."

In addition to its unusual origins, Copa Gaming has something else it believes will help it stand out from the crowd: its games will be, to quote Williams, "uniquely Welsh."

"I'm not talking about Daffodil Simulator 2024 or anything like that," he laughs. "It's being able to provide Welsh stories and backgrounds to our games and worlds without feeling like we're shoving it down people's throats. We feel like the interest is there, but we just need to own it rather than trying to sell it. It's something that's important to us and we feel that there's a lot of untold stories from Wales."

The Department, for example, is a police game set in Wales and the cases players face will be similar to the

social and economical situations found in certain areas of the country, such as the South Wales Valleys, where Williams grew up.

"It's not always dragons and stuff like that," he adds. "It's stuff we grew up with, and things we know from Wales today."

Crucially, Copa Gaming intends to make all its games available in the Welsh language as well as English.

"We know that might not be the most commercially sound approach, but it's something that's really important to us," says Williams. "We're a really small team with limited resources, so being able to say that we want to provide Welsh language experiences as well as English, we establish a small but loyal fanbase straight from the get-go with people who want to see more Welsh-language content."

Having worked at Copa Cymru for ten years, Williams is keen to bring over his knowledge and skills from the TV and film industries, as are other members of the team that have made the shift into interactive

entertainment. And Williams posits that much of these skills are more transferrable than you think.

“A video game is basically a film that you get to control – that’s what’s so beautiful about them, I think. That’s super attractive to us as filmmakers. It is a huge learning curve, don’t get me wrong – there’s a lot of skill sets that are like a brick wall for us, because game development is super hard. But what we can bring over is our cinematic feel to everything, our shot composition in our sequences, our writing, our voice acting talent.

“There’s a lot you can bring over. They are so closely related and yet so different at the same time, and it’s really difficult to define that.”

That said, learning the nitty gritty of game development has been challenging. ‘Copa’ is actually the Welsh word for ‘summit’, which is appropriate given the uphill climb Williams and his team have

faced learning out to make video games. Fortunately, their quest to learn has actually helped strengthen the studio in an unexpected way.

While searching online to learn more about games development, Williams discovered the YouTube channel of Matt Aspland, who specialises in Unreal Engine tutorials. The pair got talking, and Williams offered Aspland a role at the studio as its lead developer.

“He’s opened loads of door for us because he’s such a talented developer,” says Williams. “And he’s got a lot of patience with us coming in from TV, asking the equivalent of ‘how do you turn a camera on?’”

Aspland has even assisted the team with creating a new source of revenue for the startup studio, creating and selling assets for other developers on the Unreal Engine marketplace, which can be promoted to the 77,000-plus subscribers of his YouTube channel.

Funding, Williams says, is one of the biggest challenges for any new games business in the current industry. “We’re trying to make ourselves more visible and we’re networking. We’re lucky enough to be going to GDC as an exhibitor this year, with The Department playable for the first time – which is very frightening, but no one’s going to know who you are until you get out there and be a part of the industry. That will and has led us to conversations about funding.

“Being seen leads you to meeting the people you need to meet. We’re really grateful to have support from Creative Wales, who are helping us to go out to GDC, and we’ve had a lot of help from Elaine who heads up the Games & Creative Industries team at Barclays. It’s wonderful having people like her in our corner.”

In fact, the support available from the games industry has been the best part of the journey so far for Williams. Copa Gaming took part in the IndieLabs Accelerator, and is still in touch with the other studios in its cohort – they even collaborate and assist each other with their various projects.

“You get that in film and TV, but certainly not as much as what we’ve experienced in game development,” says Williams. “So in terms of those brick walls and steep learning curves, it’s about identifying the right people for your team and understanding you’re not alone. We can just message someone we were on Indie Labs with and they’ll help us fix any problems.”

He concludes: “We just need to get stuck into the industry and that’s what we’re trying to do this year.”



Connor Simmons, Matt Aspland, Osian Williams



Hyper Luminal Games' decade-long mission to build a sustainable studio

Case study

The founders of this Dundee developer tell us how focusing on work-for-hire has enabled the team to take more risks with their original IP.



Dundee's renowned Abertay University has produced many acclaimed developers and studios, but one of particular interest is the ten-year-old Hyper Luminal Games. Founded by CEO Stuart Martin and creative director Rob Madden, the pair decided to build on the work they had done together while studying their Masters at university.

While the pair have been essentially operating the studio since 2014, it was not until 2018 that they produced their first game: wacky multiplayer outing Big Crown Showdown. For the first four years, the team was focused on building the studio and taking on work-for-hire projects for other companies.

Martin tells us the priority was to establish cash flow for Hyper Luminal and cement it as a sustainable business.

"Games are risky and they take many years to make, and they also need a lot of hard work and skill to develop," he says. "We'd just finished university, we were poor students, and we didn't have any investment. The business is completely bootstrapped. So we got some work, we focused on our work-for-hire services and we used that to grow the team, continuing to develop our own skills as developers. And eventually we built up our confidence as developers to build and release our own title for the first time."

The games Hyper Luminal has supported include hits such as Viewfinder, A Little To The Left, Planet of Lana, and Hellboy: Web of Wyrld. The team is particularly proud of Venture Valley, an educational title made with The Singleton Foundation designed to teach people financial literacy and the fundamentals of entrepreneurship.

And Hyper Luminal continues to offer various services, with Martin describing them as the "bread and butter" for the studio and essential for supporting the company's 85-person team.

Madden adds: "It also lets us take some risks with the IP, lets us try fun things that maybe we wouldn't have been able to do if we were completely dependent on them. If we had to chase market trends and things like that – we don't tend to think about that when we're making our own stuff because we have the security of the services."

Chairman Sean Tracey adds: "There's a litany of studios that just tried to build their game and either ran out of cash or ran out of runway. Our approach is more strategic in terms of diversifying our income. Of course we want to release smash hit games that become incredibly popular, but we also have to be realistic in terms of managing the business, the cash flow and our responsibilities to the team."

Even Big Crown Showdown helped establish the developer's work-for-hire reputation. Martin explains that, while it did meet commercial expectations, its development allowed the team to learn about console porting and online multiplayer, which have become "two key pillars" of the services Hyper Luminal offers. Madden adds that handling QA on that title in-house enabled Hyper Luminal to build its QA department, which is now one of the studio's largest and most successful divisions.

"Big Crown Showdown didn't perform outright as a product, but it paved the road for what we needed to do as a studio, so we see it as a massive success from that point of view," Martin says.

Hyper Luminal's next game is the hotly anticipated cozy puzzle adventure Pine Hearts, which is to be published by the studio's new in-house label, Little Nook. It will also demonstrate the studio's focus on

making accessible games, having developed its own tools to allow players of different physical abilities to use other inputs, such as the Xbox Adaptive Controller. Madden says that while the team is very proud of how Pine Hearts is turning out, it's hard to predict how well it will perform because the market is "so topsy-turvy at the moment."

"You've got massive games not selling anything and then you've got smash hit indie releases selling 25 million copies, so it's hard to get a sense of where it's going to land in the market but as long as we get it in front of the right people, the market that wants it is going to buy it and enjoy it and that will mark the beginning of that community."

Tracey concludes by also commenting on the challenges that lie ahead in 2024.

"The wider games industry is going through a challenging period, you can't shy away from that, and there's always a trickle-down effect – it's going to work its way down from the larger studios and start affecting the smaller ones," he says. "That said, we've got to look after our own business and our own team, and we've started the year very positively.

"We put major investment into the studio throughout 2023, which gives us even more independence. We're mindful of the environment that we're operating in, but we're excited about what lies ahead."



Rob Madden, Stuart Martin, Sean Tracey

How Barclays can help

Barclays has a dedicated Games and Creative Team and we're playing our part in helping the industry to grow from the grass root up, inspiring innovation and creativity.



Industry experts

Our network of industry experts, dedicated to supporting our journey of continual learning along with the video games industry, enables us to support clients at all levels in this fast-evolving sector.

Full range of support

We provide a range of financial products and services, along with insights designed to meet the needs of games businesses to help them succeed and grow. As well as day-to-day banking services, our clients have access to a support network of professionals with expertise in areas such as accounting and tax credits.

Our specialist teams provide support for a range of business needs, including cashflow management, acquisition finance and flexible commercial mortgages for business premises.

Committed to the UK games industry

Being pro-active in the video games sector is important to us and we're proud to host and sponsor major industry events. We work with our industry partners, such as Ukie, Game Republic and Creative UK, to deliver Scale up programmes, Demo Days and regional events that spotlight some of the amazingly talented UK games businesses.

Barclays Eagle Labs

[Eagle Labs](#) is a startup ecosystem that incubates, inspires and educates ambitious founders and startups to help them scale. Our nationwide network of flexible working spaces combines with incubator and accelerator programmes, events, virtual membership and online resources to support innovation and build networks.

Case Studies

[Find out how](#) Barclays is supporting Games businesses from across the UK.



Get in touch

To discuss games and creative opportunities in more detail, please get in touch with Elaine or the Games team.

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