response

Ukie response to DCMS' Sectors Economic Estimates consultation

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ukie

THE ASSOCIATION FOR UK INTERACTIVE ENTERTAINMENT

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1. About Ukie

Ukie (UK Interactive Entertainment) is the trade body for the UK's games and interactive entertainment industry. A not-for-profit, it represents games businesses of all sizes from small start-ups to large multinational developers, publishers and service companies, working across online, mobile apps, consoles, PC, eSports, Virtual Reality and Augmented Reality.

Ukie aims to support, grow and promote member businesses and the wider UK games and interactive entertainment industry by optimising the economic, cultural, political and social environment needed for businesses to thrive.

2. Overview of the UK games sector

The UK games and interactive entertainment industry is an international success story, with the potential to take an ever-larger export share of a global market that will soon be worth more than £70 billion. The UK is already well positioned as a significant player in this field and is currently estimated to be the sixth largest video game market in terms of consumer revenues with an estimated worth of over £4 billion.

Games are now considered mainstream culture, and a significant and expanding industry faster growing globally than Film and TV, with over 1.6 billion people playing games worldwide. The UK games industry blends the best of the UK's technological innovation and creativity, resulting in successful games and technology which are exported around the world and which cross over into other creative sectors. The games industry is playing a leading role in the development of emerging technologies such as artificial intelligence, data analytics and virtual reality which are expected to be high value growth markets in games and also apply to other sectors like health and education.

The games sector is a major generator of IP and a leading example of the UK's growing reputation as a home for creative, high-tech talent. By way of illustration, the globally successful Lego games series and Grand Theft Auto V, the biggest-selling entertainment product of all time (generating $1 billion in global revenues in just three days following its release), are both made in the UK. At the heart of the success of the sector is its constant innovation. Ground-breaking video games, such as the Batman Arkham trilogy, Monument Valley, No Man's Sky and Elite are the brainchildren of UK developers.

The games industry occupies a prominent place in the UK creative and tech sectors with over 2,000 games firms employing over 24,000 people across 12 established and 6 emerging games clusters across the nation. It is a dynamic and fast-evolving industry with 66% of these companies founded after 2010, and many of them are micro or small businesses. They share the ecosystem with large, more established multinationals, as well as scaling medium sized younger businesses.

Games companies generate high-quality, high-productivity jobs with an average GVA per worker in 2014 of £68,250 – approximately £9,000 higher than the third highest industry, sound recording and music publishing. According to Creative Skillset, employment costs account for over 75% of the games development sector's GVA. In labour productivity, the games industry is second only to the television content and broadcast sector. Thanks to the evolution of mobile games, the UK now boasts the highest number of mobile games jobs in the EU, with 5000 full-time employees. This highly skilled workforce is a benefit not only to games companies, but to other sectors of the UK economy that rely on technical and creative talent to drive innovation.

3. How the games sector is currently measured

Games and interactive entertainment products fuse technology and creativity in order to create highly innovative, cultural content that can be exported digitally to millions of global consumers at the click of a button.

Given that games straddle a range of classifications (technology, culture, science, digital and creative), they can be difficult to measure and therefore risk falling through the cracks of certain economic estimate methodologies. This is exemplified by the way that current methods of measurement, using Standard Industrial Classification codes, do not accurately reflect the true size of the UK games industry. It is important to be future proof in metrics and measurements of value, of economic contribution, and of exports, as we move into a new trading environment post referendum. It is critical and evident that there is much more interest from potential overseas investors when a sector is properly represented, valued and measured. This is critical for our future competitiveness in a globalised economy.

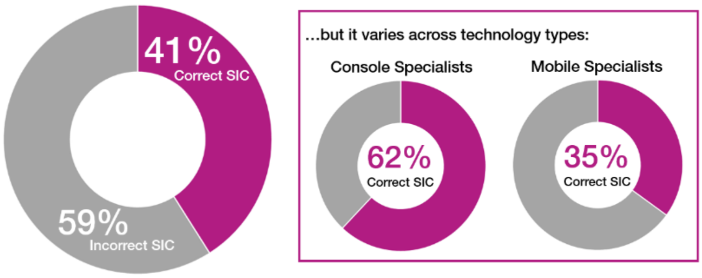
We recognise the inherent difficulties that exist in capturing sector specific data, and that there have been significant improvements to how the wider creative sector has been measured in recent years.

For example, we welcomed this year's figures that showed that the UK's creative industries are now worth a record £84.1 billion to the UK economy, with IT, Software, and Games constituting £36.5 billion of that

The estimates of the games sector specifically, however, continue to face inconsistencies in how data and companies are captured and classified formerly. The most recent DCMS figures show impressive growth in employment, rising from 19,000 in 2013 to 24,000 last year, an increase of 26% in just one year. Yet they also portray a fall in GVA, which reportedly dropped from £599 million to £426 million. Not only does this seem contradictory, but this is at odds with figures in Ukie's November 2015 Blueprint for Growth Report, which estimated the GVA of the industry at £935 million in 2014.

As in previous years, these difficulties stem from the way that the current official SIC system is put together. Our recently launched online UK Games Map demonstrates that there are over 2000 active games and interactive entertainment companies working in the UK today, only 41% of which were included in the SIC codes that government uses to estimate the size of the games industry.

Only 41 % of games companies listed use games industry SIC Codes



The figures released by DCMS earlier this year notes that due to the insufficient level of data from SIC codes "estimates at this level of detail are volatile and dependent on survey data and, as such, should be treated with caution. In particular, single years of data can be misleading." However, surveys can also be misleading unless they are methodologically sound and include a representative sample.

We therefore welcome any review of current DCMS methodology that may improve this.

Ukie's response will therefore focus on two main areas:

- Outlining how the UK's games sector is currently measured, where gaps in this measurement are, and how our new approach to data might supplement existing sources when compiling future DCMS sector estimates
- Questioning where the games industry would fit into the definitions of cultural and digital sectors, both of which would encompass the games sector

4. Current games industry measurement

Currently, the games sector is measured under two SIC codes:

SIC code 58.21/0 "Publishing of computer games":

- Computer games publishing
- On-line computer games publishing

SIC code 62.01/1 "Ready-made interactive leisure and entertainment software development":

- Computer games design
- Computer graphics
- Design and development of game software
- Design and development of interactive media
- Development mobile phone games non customised
- Video games development

We believe that there are the following problems with using these SIC codes to measure the size of the games sector. SIC codes do not measure:

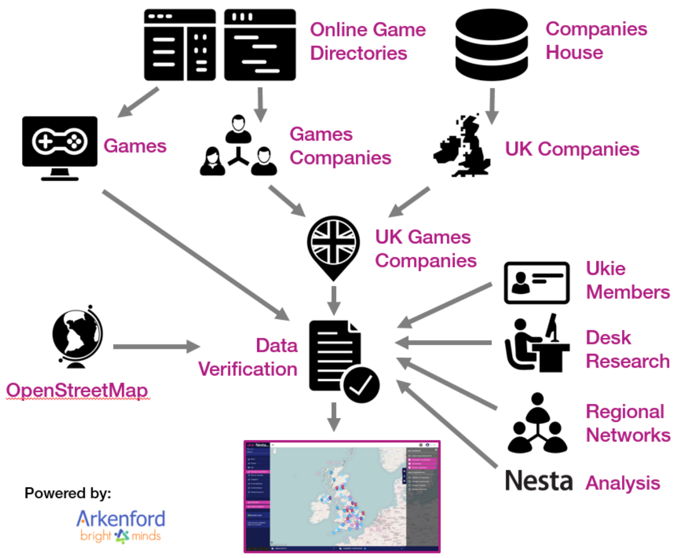
- The majority of the UK games sector - as stated above, our recently launched UK Games Map has revealed that 59% of the games businesses currently operating in the UK are not correctly capture under one of these SIC codes
- The fast growth of digital creative businesses – our recent UK Games Map has shown that 66% of all UK games companies were only founded since 2010.
- New types of games businesses – the games sector evolves fast, creating new types of business such as the fast emerging esports industry that will not be captured.

5. A new way of capturing data

Last month Ukie, in partnership with Nesta, launched the **UK Games Map** - gamesmap.uk - the first interactive, real-time map of the UK games industry. We believe that the 'big data' approach used to produce this map will be of great value to DCMS in estimating the true size of the games industry and the wider creative sector. We would welcome the opportunity to demonstrate and share the methodology used with UK government.

Built in partnership with Nesta, the games map builds on the methodology established in the 2014 Ukie/Nesta report *A Map of The UK Games Industry* to provide an unprecedented complete dataset of the geography of the UK games sector.

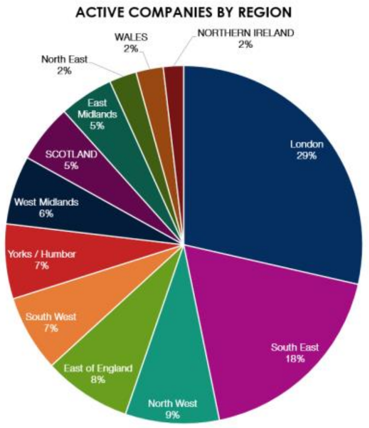
This was achieved by a process that marries automation, rigorous manual validation and industry engagement. For the automation, we use a big data approach to harvest the wealth of information in publicly available games directories and then cross-referencing this against the data held by Companies House, identifying UK based-games companies and gathering a host of useful information about them. This data is then rigorously reviewed and, if necessary, amended before publication on the map.



The company dataset is then further enriched and expanded by games businesses themselves when they register, self-managing their data in the map, linking themselves with the automated feeds or, in the case of new start-ups, submitting their business to be marked on the map. Again, any new data is rigorously reviewed to determine eligibility before being added to the map data.

Ukie supplements the data with its own records, and works with regional games networks to expand local clusters. This technique enables us to more intelligently merge other datasets, such as broadband speeds or local funding conditions, to better understand conditions for cluster growth across the country.

At launch in September 2016, the UK Games Map **mapped 2,472 UK games companies (both active and inactive)**, from Land's End to the highlands of Scotland. Since then we have received hundreds of submissions from games businesses updating their details or adding themselves to the map. These requests have been assessed and where they pass the strict criteria to prove that they are a games company, they have been added to the map which now shows the truly nationwide nature of the UK games sector.



6. Consultation questions

Do you agree:

a. with the principle that the Cultural Sector is defined as those industries with the cultural object at the heart of the industry.

Games very much have the cultural object at the heart of their industry. We therefore believe that games and interactive entertainment should be included as part of the definition of the cultural sector (as well as the creative and digital classifications).

The cultural and artistic contribution that games and interactive entertainment make to the UK is now fully recognised in both policy terms (through the cultural basis for the video games tax relief) and through the work of cultural institutions such as The Arts Council (who supported Somerset House's recent Now Play This exhibition, as part of the London Games Festival) and the British Council.

Today games are part of a broader national and international cultural conversation. Indeed, some games have gone beyond being cultural artefacts, becoming platforms and communities where new cultural content is created. They can reflect the world around us in unique ways, and they tackle profoundly important issues in enriching ways. They are also creative works through which the cultural influences of the creator or developer is expressed. Games can enrich the arts, teach the arts, and can be considered works of art in their own right.

The utilisation of games technology as a medium within the traditional artistic community is an emerging trend, though one that is limited by funding difficulties. Recent examples of this include the work of Dimitry Morozov, a Russian artist who built a small robot using the Arduino platform – this measured pollution on the streets of Moscow, translating these data into artworks.[1] In the UK, Extant have also leveraged such physical game technologies, utilising haptic devices to guide audience members through an immersive installation based on the satirical novel *Flatland*, in total darkness.[2]

Games themselves can also reflect other cultural works, a factor which can be seen in the UK-made *Monument Valley*. A globally successful, multi award-winning optical-illusion based puzzle game, the visual style of the game has been compared to the work of M.C. Escher, as well as being highly praised for its own artistic worth. The success of the game was reflected back into popular culture when a specially-adapted version of the game was featured as a plot point in the US series *House of Cards*. This indicates the way in which games can both reflect broader artistic traditions, and can themselves then be used in other creative projects.

b. with the proposal to base the definition of the Cultural Sector on 4-digit SICs?

As outlined above games fall under two SIC codes, the four-digit 58.21, which covers the publishing of games and the five-digit 62.01/1, which covers the development of games.

Much of the cultural content of games and interactive entertainment is generated by games developers. Therefore, under the current proposal of only including four-digit SICs to measure the value of the cultural sector, *none* of the innovative companies producing culturally important (and in some cases extremely commercially successful) games would be included in DCMS' cultural sector estimates.

This would mean excluding some of the biggest games developers in the world from the DCMS's cultural estimates and would clearly not present an accurate depiction of the games industry's significant contribution to the cultural sector.

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[1] 'A Wacky Device that turns Polluted Air into Glitch Art' by Stinson, L., in *Wired* (23rd July, 2014), accessed at: http://www.wired.com/2014/07/a-clever-device-that-turns-polluted-air-into-art/

[2] http://artsdigitalrnd.org.uk/projects/extant/

c. that the 4-digit SICs identified are the correct ones? If not, please provide details of changes you would like to see.

Based on our assessment set out in the answer above, we suggest that any definition of the cultural sector that includes games would have to include both the four-digit 58.21 *and* the five-digit 62.01/1.

2. Do you agree with the proposal to use an agreed international definition for the Digital Sector in order to allow future comparability? If not, please provide details of your preferred approach.

As a sector that is inherently digital we believe that games and interactive entertainment businesses should also be included in estimates for the digital sector. We believe that both relevant games industry codes are already included (both the four-digit 58.21 *and* the five-digit 62.01/1) within the OECD definition.

However, we would urge DCMS to also consider the approach described by Nesta in their 2015 research with techUK, that applied the intensity/Dynamic Mapping approach to the information economy. This method defines the digital sector industries as those industries which employ high proportions of digital occupations. This would be consistent with the current way that the UK creative industries are classified, and would provide a more coherent basis for digital industry statistics.