

International Development Costs, '08-'09



Summary of Beriah internal study

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Summary

Outsourcing is growing, but headline cost savings based on man-month rates show an entirely misleading picture. At the same time, it is not always obvious just how rapidly games development is becoming truly international, nor what the range of opportunities truly are for Studios hoping to benefit from this. Major developments handling valuable IP might now be as likely to be found in China as in California (indeed, developments of properties as valuable as Shrek, Lord of the Rings, Barbie and Kung Fu Panda have emerged from studios in locations as diverse as Bangkok, Buenos Aires, Shanghai, Taipei and Vilnius.) And this presents canny developers with a wealth of opportunities – and pitfalls.

Beriah's Q1 2009 international development costs survey gets beyond the misleading metrics such as man-month rates, and the restrictive models such as offshore outsourcing. It examines salaries, exchange rates, efficiencies and a range of other costs (such as government taxation) which affect real development costs. It further examines the impact of the current offshore outsourcing model, and looks at the true impact of international cooperation by aggregating anonymous data on real game development projects to show the actual cost implications of global co-operation.

Immediately, the numbers dispel several widely held misconceptions, and offer tantalizing insights. A few of these are summarized on the following two pages.

The United States seems unchallenged as the most expensive country in the world for development work. The data suggests that someone considering placing work in the US could expect to find that Western European developers are 23% cheaper. However, Eastern European developers remain significantly cheaper than their western cousins – not to the levels suggested by salary data, but still an estimated 19% cheaper on average.

Although raw salary data suggests that those commissioning work in the US could cut 80% of their costs by placing work in Asia, this is in reality entirely unrealistic. An estimate which considers all cost factors, shows Asia to be less attractive than either South America or Eastern Europe: Asian developers certainly have the lowest cost per man month, but not necessarily cost per work.

Eastern European developers seem to have the lowest cost per work, but only by a narrow margin, and this would be overturned by increases in efficiency in South American or Asian teams.

Exchange rates have previously been mooted as a great boon for UK developers in particular, but a glance at a broader range of exchange rates over the last 10 months shows that UK developers have not benefitted much more than Euro-zone developers, while developers in some emerging development territories have seen a greater benefit (such as those in Brazil, Czech, Hungary, Poland and Russia).

The United Kingdom does, however, enjoy several key advantages at present – not only the strong Dollar, but also government taxation and employment policies which make UK developers both cost-effective and flexible. It is easy for a UK developer to bemoan the lack of industry-specific government support, but British developers enjoy a level of employment taxation which is dwarfed by the levels common across Eastern Europe, and employment legislation which would be the envy of many developers.

Looking at the longer term:

- The country where individual would-be developers have the strongest incentive to enter the industry is India. The weakest countries are clustered in Western Europe. The data may indicate a significant long-term advantage enjoyed by Asian nations which have only a fledgling games development capability.
- Although there is great uncertainty over the effect of the current economic situation on developer salaries and other costs, studios in emerging territories still expect more rapid increases in costs than studios in established territories. This may partially offset the advantages enjoyed by these Studios.

From Beriah's own live-project data:

- The average estimate received from an external development team to execute part or all of a project on behalf of a UK developer has been only 15% cheaper than the UK team's internal estimate – underlining the importance of getting the right external partner(s), rather than simply a plausible partner.
- The largest potential project saving seen by Beriah this year has been 70%.
- The largest actual saving (project signed and successfully completed) has been 68%.
- Where cost has been identified as a significant factor, lining up external partners at the outset of the project has saved an average of 47% per project.
- If cost were the sole factor (which it has never been) this average saving would only rise marginally – to 56%.
- Where cost is only of equal importance to other usual factors (risk, schedule, scope, polish), the saving drops to around 30%.

About Beriah

Beriah builds better developments for a variety of video game companies, increasing efficiency through more flexible resourcing. In 2009 Beriah has: built distributed developments to deliver whole game projects, established profitable and reliable subcontracting routes, sourced small teams for co-development work (plus pitch and prototype work), outsourced asset creation (art and music), helped clients identify and adopt project management process improvements, and built flexible R&D and tools and tech teams. To contact us, please visit <http://www.beriah.net/contact.html> .

About the Report

The full report was prepared for Beriah's established clients and internal personnel only, and is otherwise unavailable. Report compiled April 2009 from public domain and proprietary data. Contents remain Confidential, and Copyright. No liability can be accepted for use or misuse of this data, and it is provided for interest and discussion, and not for the purpose of advice. For this study, North America is taken to mean the US and Canada (data for Mexico has been aggregated into South American data). Asia includes India, but not Japan. Data for Japan, Australia and New Zealand has not been included in this study. Data excludes 'marginal' countries with extreme cost bases and questionable development ability (such as Bangladesh). Primary author, Kevin Hassall. Special thanks to Nicolas Lovell (Gamesbrief) and Nicôle le Strange.