XDS | EXTERNAL DEVELOPMENT SUMMIT

2023 INSIGHTS ON EXTERNAL DEVELOPMENT FOR THE VIDEO GAME INDUSTRY

XDSUMMIT.COM

External development refers to the practice of video game Developers/ Publishers (buyers) leveraging Service Providers (sellers) in any aspect of development, including but not limited to art, animation, cinematics, audio, engineering, porting, game development, UX-UI, motion capture, QA, localization, and VFX. External development is an established pillar of the larger games development process. This report is intended to identify trends in external development and provide insight into the most significant concerns facing all parties involved.

This edition of the report includes a focus on the various ways geopolitical events — from political instability to climate change — have directly or indirectly impacted external development, among other valuable additions.

The statistics in this report were derived anonymously from over 220 submissions from industry professionals worldwide. Research and data gathered to establish this report was collected by the organizers of the External Development Summit (XDS), with contributions from the XDS Advisory Committee.

Who We Are

External Development Summit (XDS) is the only annual, international games industry event held in Canada, with a primary focus on external development for Engineering, Co-Development, Art, Animation, Audio, QA and Localization. Each year, a broad community of game Developers/ Publishers and Service Providers gather to contribute to the advancement of the video game industry through collaboration, sharing of best practices, networking, and the delivery of a high-caliber, educational program.

XDS

The XDS event is delivered annually in Vancouver, Canada in September. For regular event updates, sign up for our newsletter.

The data in this report was collected between the dates of December 6, 2022 and January 31, 2023. Note that some data tables throughout this report may not add to a total % of 100 due to rounding.

DISCLAIMER: This report was researched, written and designed by humans. No generative AI was used in its creation.

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The landscape of external development is changing…

Based on data and anecdotal evidence collected,
we ***detect*** a shift from a Sellers' market to a Buyers' market.

1 Developer/Publisher needs and purchasing behaviours are changing.

In a world of ongoing market consolidation and economic instability, buyers are looking for cost savings, hard-to-find skill sets and flexible resourcing. This may be a challenge for many Service Providers who have grown accustomed to choosing multi-discipline, long-term engagements that pay top dollar.

Although the market is shifting, we recommend that Developers/Publishers continue to pay competitive rates for quality in order to build and maintain long-term partnerships.

2 Talent scarcity, economic instability and geopolitical events are driving Developers/Publishers to take a more conservative approach to external development.

Service Providers report a struggle to access reliable, high quality talent. That is driving up wages and, in turn, increasing costs to buyers. Some of the largest Developers/Publishers have acquired talent through M&A. Others have delayed or canceled projects due to softening sales and/or economic uncertainty. The demand for external support is lower, and Service Providers are feeling the impact.

Developers/Publishers who continue to leverage external support are mitigating risks by putting more retainer agreements in place, diversifying their partners and seeking talent closer to home.

Chris Arkenberg and Kevin Westcott. "Let's make a deal—in gaming! Gaming M&A is growing on the back of consolidation, portfolio plays, and game tech," Deloitte, Nov 30, 2022

SERVICE PROVIDER OVERVIEW

EXTERNAL DEVELOPMENT CONTINUES TO BROADEN GLOBALLY

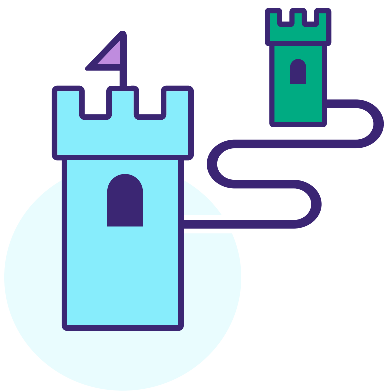
Top Survey Participants

USA CANADA INDIA

India outpaced the UK, joining the ranks with the **USA** and **Canada** as the three countries with the highest number of Service Provider participants in this year's survey.

We saw more Service Provider participants from **Armenia, Brazil, Japan, Spain** and **Sweden** in particular.

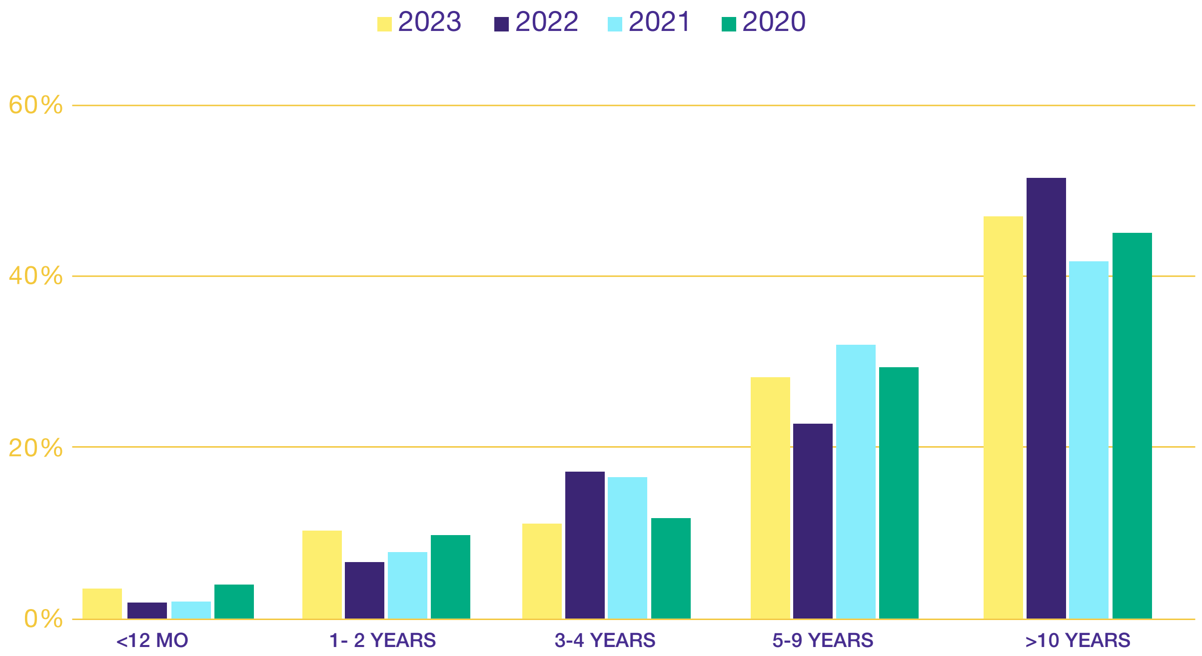
Due to geopolitical events, a number of Service Providers report having **opened new locations** in countries such as **Armenia and Spain**. Rising demand for game development in **South America** has also been reported.



YEARS IN OPERATION

Where are the industry newbies?

We observe the number of new Service Providers has been low for several years. Whether this is due to new companies not yet being exposed to XDS, a true lack of new companies coming on the scene, or a combination of both, **we need new Service Providers** in an industry with growing demand and consolidation.

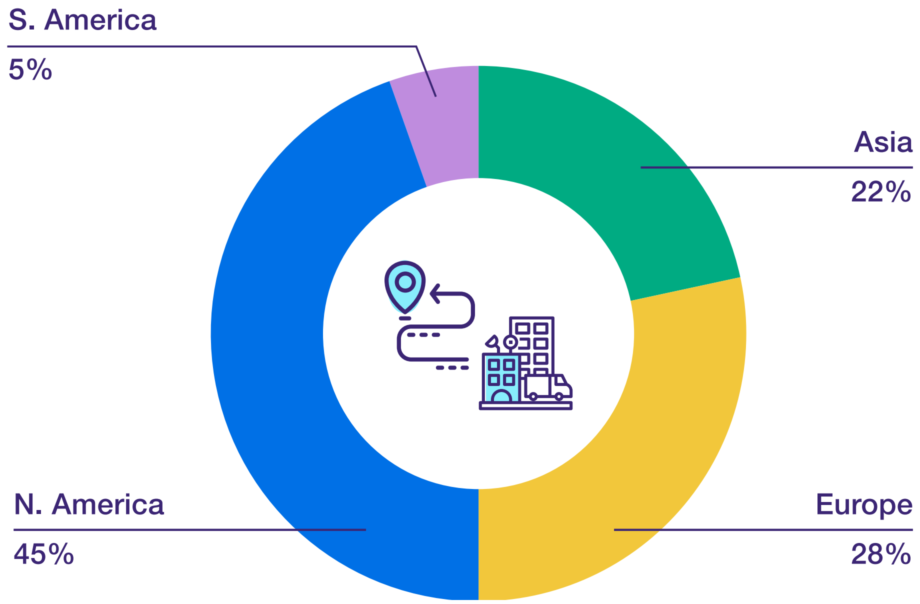


SERVICE PROVIDER OVERVIEW

NEW LOCATIONS

Service Providers continue to open new locations despite shifts towards greater remote or hybrid work models.

Some new locations are opening due to impact from geopolitical events.



We suspect that Service Providers are picking up on Western Developers/Publishers' preference to work with partners in close geographic and/or time zone proximity. Look for **new Service Provider locations** to pop up, particularly in the US and Canada, over the next year.

COMPANY SIZE

Many Service Providers have seen massive growth!

The number of Service Providers reporting 1,500+ employees has **nearly doubled** in the last year. Despite ongoing M&A activity, our data shows that most of this growth has happened through hiring, not acquisition.

The number of Service Providers reporting 250-499 employees is **up by 23%**.

The trend of industry consolidation continues as Service Providers (and Developers/Publishers) lock down talent through acquisition, likely to avoid facing an increasingly scarce pool of talent.

SERVICE PROVIDER OVERVIEW

Service Providers lean into Art, Animation and Cinematics/VFX service offerings.

1 ART
solidly remains the #1 Service Provider offering

2 ANIMATION
holds steady in 2nd place, with growth of 8%

3 CINEMATICS/VFX
is up by 8% and has taken the place of *Console Game Development*, which was in 3rd last year

Console Game Development is down by 8%
likely due to the fact that development for the current generation of consoles has stabilized

KEY SERVICES PROVIDED BY SERVICE PROVIDERS

	2023		2022	2021	2020
Art	**75%**	↓	79%	70%	74%
Animation	**49%**	↑	40%	44%	57%
Cinematics/VFX	**32%**	↑	24%	23%	34%
Game Development – PC/Online	**31%**	↑	30%	32%	39%
Engineering (server side, front end, web development, etc.)	**27%**	↑	22%	27%	20%
Game Development – Mobile	**26%**	↑	24%	35%	39%
Game Development – Console	**22%**	↓	30%	32%	36%
UI/UX	**22%**	↑	20%	19%	21%
QA	**18%**	↑	14%	15%	22%
Motion/Facial capture	**18%**	↑	10%	-	-
Game Development – VR/AR	**16%**		16%	24%	35%
Audio	**16%**	↑	11%	8%	15%
Game Development – Cloud-based	**10%**	↓	12%	-	-
Localization	**12%**	↑	8%	8%	15%

DEVELOPER/PUBLISHER OVERVIEW

Developer/Publisher participants report a decrease in focus across platforms

TOP 3 PLATFORMS

Console, Browser/PC and Mobile remain the top 3 platforms of focus for Developers/Publishers who participated this year.

Streaming/Cloud games witnessed a noticeable decline, down by over half as compared to last year. With the cancellation of Google's Stadia streaming service, and other market corrections, it's possible that supply simply hasn't kept up with demand in this category.

PUBLISHER/DEVELOPER PLATFORM FOCUS

	2023	2022	2021	2020
Console games	**71%** ↓	73%	72%	70%
PC/Browser games	**57%** ↓	60%	61%	66%
Mobile games	**41%** ↓	44%	40%	56%
VR/AR games	**15%** ↓	19%	10%	15%
Streaming/Cloud games	**5%** ↓	12%	13%	7%
Tools development	**9%**	9%	—	—
Facebook games	**2%**	2%	1%	2%