

# The games factory

Former Microsoft executive, Xin Chung wants to be an outsourcing hub for the multi-billion dollar computer games industry

BY Dan Slater

It was only a matter of time before America's game designers and artists started to descend on Shanghai. China's hottest Western enclave has already absorbed the manufacture of everything from cars to semiconductor chips, but now it's moving into the nexus of high art and tough business which online gameplaying represents.

Xin Chung, the 33-year old CEO of Vykarian, hopes to be spearheading that wave. Already an industry veteran with lengthy stints at Microsoft and other leading IT companies, Xin felt it was time to wind the industry's clock back by leaping into the unknown waters of Chinese digital entertainment.

"The time when you could set up in a garage in the US are long gone. That's what I miss. The industry has become massive. Sony and Microsoft are both pouring

around him in Shanghai smokes. His claim to clean living is somewhat weakened by the two bottles of Scotch I see perched on a filing cabinet. Their presence lends an enjoyably rakish touch to Xin's set up.

In fact, it's not really his office but is shared with his team, the two most important members of which are his COO, Wu Donghao and American McGee (yes, that's his name). McGee, also 33, is a leading creative force in the US gaming industry and is appropriately entitled Chief Creative Officer. Wu, poached from French gaming company Ubisoft's Shanghai operations in April this year, is the Chinese partner who deals with the gritty reality of running the business on a day-to-day basis. Although Xin is ethnically Chinese he was born and raised in the US.

Xin's company has taken over a large building in a bustling area of Shanghai and

set up an actual factory of the animation and artwork required for online games being designed in the US, and then copy the Shanghai factory to a raft of inland cities.

"We can do the prototype for a game for \$250,000, compared to \$1 million in the US," Xin says. A prototype is the process whereby a game is invented and refined to ensure that it conforms to prevailing tastes. Under Xin's concept, changes derived from the focus groups deployed in the US could be changed by artists in Shanghai, and later in other Chinese cities.

China's cost advantage is an old argument, but it's of unique relevance to the US gaming industry. Ironically, right at the moment that industry behemoths are pumping millions of dollars into the gaming industry, critics say that games are getting worse.

"It's become a business. Nobody wants to take a risk because of the huge costs

**"The time when you could set up in a garage in the US are long gone. That's what I miss. The games industry has become massive"**

billions of dollars into developing games for their X-boxes and Playstations," he explains. Games have come from costing \$1 million to develop 10 years ago, to \$40 million today, while total sales in the industry last year topped \$35 billion, notes Xin.

Xin looks like a cross between a surfer and Latin Quarter poet. Long hair and a faint moustache complement a black T-shirt and worn jeans. He speaks fluently and well in a voice apparently stained by tobacco smoke. This, he assures me, does not come from him smoking, but from the fact that everybody

converted it into a warren of small, interconnected offices. The atmosphere is pleasant, with the rooms opening off from a large central lobby dotted with life-size replicas of online game characters. It's an environment where people have the privacy to work effectively while maintaining contact with their team. Xin refers to the building as a studio – which, he says, better reflects its atmosphere than the term office.

In fact, the building is of crucial significance for Xin, because it's to be the 'model' factory for his venture. The plan is to

involved. In that sense, it's a bit like Hollywood," comments Xin.

Xin points out that one of the most successful PC games ever made, *Sim City*, survived six executive meetings, despite the fact that every meeting opened with the intention of killing the game off. "People couldn't classify it. It couldn't be boiled down to a simple formula so the business side wanted no part of it," he says.

Xin believes he can inject badly-needed creativity into the industry thanks to his low-cost prototyping.



“Instead of taking one bet for one million dollars, a studio can take a bet on four different chances by outsourcing to us,” says Xin. It’s a compelling proposition and one that is in spirit with the times. Media agents and creative IT executives are increasingly turning their eyes to China’s potentially massive markets. A number of factors seems to be converging: a recognition that China is capable of taking on non-manufacturing tasks; a need to rekindle a creative spark domestically; the increasing competitiveness of the gaming industry; the huge growth in phenomena like massive multi-player online games; China’s own obsession with the internet and the popularity of digital art forms, and some relaxation in the types of business the Chinese media can venture into.

#### GAME ON

Vykarian, set up in its present form a few months ago, is being financed by the founders, who are also the shareholders. However, Xin is in the market for venture capital support and is already in touch with candidates through his private banker. It’s his second attempt at figuring how to set up an outsourcing factory in China.

Fortunately he was a beneficiary of Microsoft’s generous stock options policy as the company’s stock began its rocket-like ascent in the 1990s.

Money is important for the venture because it will enable economies of scale through the rapid role out of factories in second tier cities modelled on the Shanghai factory. Xin, who was a former ‘factory artist’ with Microsoft, during the IT giant’s very first venture into the industry, says capturing the client is all about squeezing costs while maintaining quality.

Xin’s musings on creativity, not to mention the hiring of McGee (one of the founders of *Doom*, a phenomenally successful

online game) are signs that he’s not completely happy with the factory model. Somewhere at the back of his mind he wants to create, as opposed to manufacture to order. But he’s smart enough to see that could pose a conflict of interest.

“At the moment, we are positioning ourselves as an outsourcing factory. But at some point, it would be fun to take advantage of the nascent state of the Chinese games market and aim for a blockbuster,” he comments.

Indeed, he’s facing surprisingly little competition. The likes of Nasdaq-listed Shanda don’t invent their own games, but use licensed games from Japan and Korea. *Legend of Mir*, a Korean game, is highly successful in China. But so is *World of Warcraft*, a US-designed game which grosses one billion dollars a year.

Games may be fun, but the business they represent can be brutal. Xin’s conversation is peppered with military terms, from ‘force multiplier’ for a certain business technique, to describing Vykarian as potentially the ‘Halliburton’ of the gaming industry. Now there’s an intriguing analogy. Here’s hoping that Xin and his crew stay somewhat more popular. ■

#### BRIEF BIO

**NAME** Xin Chung

**EDUCATION** BA in Communications from Santa Clara University.

**CAREER** Microsoft, Sony, Squaresoft and THQ producing 3D animation

**TITLE** CEO

**MARITAL STATUS** single