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Another perspective on apps

By Bernard Simon



Game boy: a conversation with his daughters convinced Ray Sharma to set up XMG Studios, to develop video-gaming for smartphones

Even by the usual informal standards of the software industry, Ray Sharma and his businesses make a shambolic first impression.

Mr Sharma, chief executive of Toronto-based XMG Studios, chairman of Xtreme Labs, and partner in several other affiliated mobile app and game businesses, is in baggy jeans, a Captain Morgan rum T-shirt and a woollen cap topped with sunglasses. He sips coffee from a polystyrene cup as he greets a visitor in XMG Studios' reception area, which doubles as the staff lounge and kitchen. A pile of pastries near the microwave attests to his practice of buying breakfast for the staff.

The 190 or so employees – almost all young men, predominantly of Asian origin – are scattered across five floors in two adjacent buildings. Consolidating the sites, Mr Sharma says, would strain the only men's toilet on each floor (the women's is in far less demand). "If you're going to have several hundred people between five floors, it's going to get a little chaotic", he says. "Washrooms are the bottleneck to office design."

Mr Sharma is speaking just before flying to India to try to convince Bollywood producers that software developers in Toronto can produce games for Indian smartphone users. "I'm thinking there is a huge opportunity to do games for Indians and the Indian market," he says. "The irony is that I'm pitching [to] Indian partners to outsource to us."

As he sees it, Xtreme Labs and XMG have a big advantage: a culturally diverse workforce

in one of the world's most multicultural cities. He estimates that about half of their employees were born outside of Canada; others are the children of immigrants. "For game development, multiculturalism allows for different perspectives," he says. "Why perspective is important is that it helps drive creativity, and creativity is the essence of innovation."

Away from the reception area, a more conventional picture emerges in Mr Sharma's eyrie-like 16th-floor office. The handsome wooden desk once belonged to the CEO of BCE, Canada's biggest telecoms company, from whom Mr Sharma bought his home in Toronto's fashionable northern suburbs.

In his own words



Ray Sharma on setting up mobile app- and game-related businesses:

- On the importance of multiculturalism:** Canada celebrates ethnic diversity, says Mr Sharma, and Canadians' tolerant outlook helps breed an open-minded culture. "For game development, multiculturalism allows for different perspectives. Why perspective is important is that it helps drive creativity, and creativity is the essence of innovation."

- On the business model behind his pitches to Bollywood:** "We can take a hit game, localise it, and partner with Bollywood content partners. We give the game away for free and sell music as an app upgrade."

- On high growth in smartphone apps:** "In a negative economic scenario, games are looking pretty good in terms of value."

Mr Sharma uses an Apple laptop to project a slick presentation on the mobile app and video game markets on to a 46in wall-mounted TV screen. "Games are the driving force of the app economy," Mr Sharma says, citing sources such as Nielsen, ABI Research and PwC. One chart shows that games make up 60 per cent of apps with the highest revenues. Another shows that playing a mobile app game costs 5 cents an hour, versus 18 cents to watch a film on TV or \$6.25 for an hour at the cinema.

Mr Sharma, who came to Canada from India as a child, worked as a technology analyst for Credit Suisse First Boston in San Francisco, before moving to BMO Capital and GMP Securities in Toronto.

Then, in 2008, he had an urge to set up his own business. "Ten years in the investment banking industry was enough," he says. "I started getting a little fatigued, burnt out from that type of work and environment." He adds: "My roots were in every type of cliché entrepreneurial start-up that you have ever heard of – lemonade stand, paper boy, house painter at university."

With some partners, he set up Extreme Venture Partners, a venture capital company that soon gave birth to Xtreme Labs. His role was to connect the dots and bring the initial investors, board and management together. Xtreme Labs develops its own smartphone apps, but also nurtures promising start-ups in the hope of spinning them off.

Several of the start-ups have been sold to bigger companies. Electronic Arts, the video-game producers, bought J2Play, which developed social gaming offerings. Google reportedly paid \$35m for BumpTop, a Xtreme Labs start-up which designs the desktop interface for tablets and handheld PCs. Another Xtreme Labs offshoot,

Extreme U (as in University), provides early-stage smartphone-app developers with office space, equipment and a few thousand dollars in seed money in return for an equity stake. Mr Sharma says: “They come back with an actual real game concept and then we say, ‘OK we’re going to give you some more money, let’s see if you guys can make something of this’.”

Mr Sharma’s two young daughters gave him the idea in 2009 for XMG Studios, which specialises in smartphone games. “They had this proposal where they wanted to trade in their Nintendo DS games systems,” he says. They wanted iPod Touches instead. “They explained it like this: ‘Dad, if we want to get a game, we have to convince you to get up and into the car, and drive to the store’.” The two girls had other convincing arguments: “With the app store, you can get free games, cheap games – if you don’t like it, you can return it. You can report a problem. The way they put it was: ‘And you get the internet for free’.”

His own research revealed that games were by far the most profitable smartphone apps.

XMG Studios has released 10 game brands, led by Drag Racer Pro Tuner, Cows versus Aliens, and Style Studio. Mr Sharma says seven of them have each drawn more than 1m downloads, and three have at one time or another been the most popular smartphone games worldwide. Current projects include work for Sony Pictures to develop a game based on a new Ghostbusters film.

Mr Sharma declines to disclose the businesses’ financial performance, beyond saying they are in “hypergrowth mode”, and that Xtreme Labs is profitable while XMG is cash-flow positive. XMG’s annual sales are in “mid-single digit millions” he says, while Xtreme Labs’ is several times higher.

Xtreme Labs opened a Silicon Valley office in April to get closer access to some big partners and customers. But remaining headquartered in Toronto has tangible advantages: Ontario offers tax credits designed to attract video-game and other technology businesses.

Equally important, Mr Sharma says, is the availability of talent in Canada from across the world. XMG has hired developers from Australia, Germany, the US, the UK and India, where Mr Sharma plans to do more recruiting on his latest trip. His itinerary includes pitches to develop games for several big Bollywood studios: “Bollywood is unusual in that the movie industry is effectively the channel for the music industry.

“The biggest risk is respecting the culture of the Indian consumer. Localisation is more than just translating English to Hindi. It’s changing story, art, and even game design to properly target the local market.”

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