



Entertainment and Leisure Software Publishers Association

WHITE PAPER

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Computer and video games: a British phenomenon around the world



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COMPUTER AND VIDEO GAMES: A BRITISH PHENOMENON AROUND THE WORLD

Introduction

Throughout the era of youth culture, some time after World War 2, the UK has punched well above its weight. From pop music to fashion to mobile telephony, we're out there, leading from the front.

And the British influence is nowhere more evident than in the video games industry. We buy more games than any other country in Europe. We make and sell more games than any other country in Europe. And, when it comes to games development, our technical nous and imaginative flair brings publishers from all over the world to our shores.

It's time this excellence was recognised.

The UK games market is worth more than £2 billion. It's the biggest in Europe and the third largest in the world, after USA and Japan.

Video gaming is now one of the fastest growing pastimes in the world. Over 20 years ago, UK developers and publishers played a pivotal role in creating it. Now, the combination of creative energy and technical excellence, which is the hallmark of British games creators, has ensured they remain among the best in the world.

Every year "Britsoft" earns millions for the UK and delights gamers all over the world. Yet, British games companies rarely enjoy the publicity and prestige afforded to their counterparts in film, TV and music.

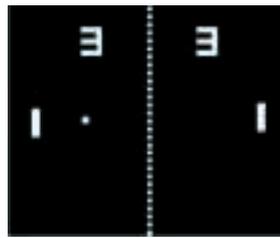
Hence this White Paper.

The aim here is to provide some detail to go with these bold claims. We hope to prove the games industry is as important to UK Plc – if not more – as the traditional creative industries such as film, TV and music.

The UK games market is larger than the market for video rental or cinema.

History – overview

The games industry is barely 30 years old. It started in the US in 1972 and gained real momentum towards the end of that decade in Japan. But by the early eighties the UK had begun to make its own impression.



Pong

Typically, the British went their own way. While the US and Japan focused on ‘console’ hardware (dedicated games machines – the predecessors of today’s PlayStation and Xbox), UK developers were drawn to home computers (the predecessors of PCs), playing and creating games on machines with keyboards and memory.

They were able to do so thanks to the singular vision of UK businessmen such as Clive Sinclair and Alan Sugar. These entrepreneurs created the first affordable home computers. Even more importantly, they launched machines that allowed enthusiasts to programme their own rudimentary games.

Many of the UK’s most respected games developers – now running large internationally-renowned studios – created their first games on these machines.

With the advent of Sega and Nintendo in the early nineties, video gaming exploded beyond the hobbyist sector. But it was when Sony entered the fray with its PlayStation in 1995 that the mass market was truly embraced.

Through it all, British developers and publishers matured from “kitchen table” operations into large, professionally run organisations. And British consumers kept on buying.

By 2002 UK spending on games software passed £1 billion.

1980 – 1985

Although gaming really took off in the late seventies (via the arcades and domestic machines like the Atari 2600), it wasn't until 1980 that British gaming really began to tread its own unique course. This was the year that Clive Sinclair created the ZX80. By today's standards it was embarrassingly basic. But it cost just £100 and was programmable.



The ZX81

If the ZX80 lit a fuse, the ZX81 – released a year later – started a fire. More advanced than its predecessor but selling for as little as £49.95, it put programming within the grasp of the UK's growing army of gamers. For those who knew how, it was often easier to create games than run and load them.

Soon other affordable computers followed. Cambridge-based Acorn launched its Atom machine, which ran games and soon had a sizeable catalogue including versions of the two biggest arcade hits, Asteroids and Space Invaders. The third major piece of hardware to land in 1981 was Commodore's VIC 20. It was more expensive than the other two and, consequently, not so popular. But Commodore was going to become a key factor in the development of British gaming.

In 1982 Clive Sinclair launched the colour Sinclair Spectrum machine. It would become the most successful of all the home computers during this period. Many of today's leading developers owe their careers and fortunes to the Spectrum and other pioneering machines.

They include Richard and David Darling (who own major British games publisher Codemasters), David Perry (founder of US based Shiny Entertainment) and Chris and Tim Stamper (owners of Rare, the most successful of all UK development companies).

Since being founded in 1985 UK studio Rare has sold more than 90 million games all over the world.

The growth of the games market in the UK prompted the creation of many influential publishing companies at this time. Typically, these organisations would sell, market and distribute games. But in time they would finance them too.

As the market grew, some began to import overseas titles and even do licensing deals with the owners of valuable intellectual properties. The foremost games publishers of the eighties were: US Gold, Ocean, Codemasters, Mindscape, Gremlin, Psygnosis, Domark, Virgin. Virtually none of these companies exist today in the same form. However, many did form the basis of today's multi-national publishers.

1986 – 1995

The nineties was the decade that saw the games industry change from a cottage industry to one with global aspirations.

The situation began to change in the late eighties when 8-bit consoles (Nintendo NES, Sega Master System) leapt to prominence. By the nineties 16 bit consoles (Nintendo SNES and Sega Mega Drive) and the PC CD-ROM took the market into the mainstream.



The NES

The leap in technology engendered by these formats meant that development was transformed from a one or two-person task into the job of a multi-skilled team, comprising artists, musicians, coders, animators and designers. Budgets leapt towards seven figures and games began to take 18 months and longer to complete.

This necessitated a change in the nature of publishing. Many rich film and media companies – Time Warner, Philips, Viacom, Pearson – came into the games industry and increased the competition for development talent.

Good UK developers quickly attained a premium value. Many sold minority equity to publishers (for example Rare to Nintendo) or sold up completely to become part of publishing companies (such as Bullfrog to EA, Probe to Acclaim, Millennium to Sony, Reflections to GT Interactive).

By the time 32-bit consoles were established (such as the PlayStation in 1995) the UK publisher base had consolidated. Many became the basis for larger, often foreign-owned companies. For example Ocean and Gremlin were bought by Infogrames (now Atari) while Psygnosis became the development heart of Sony's European games centre. US Gold and Domark were the starting point for what is now the UK's largest publisher Eidos. Meanwhile Codemasters, Empire and SCI held on to their independence and are still active today.



2000 – present

In the new millennium, the industry has continued its growth and, by necessity, consolidation has continued. Today's leading publishers operate in markets all over the world. They spend millions on R&D and investing in the film, TV and sports licences needed to attract the consumer's attention.

The need for deep pockets and global distribution has concentrated power in the hands of a small number of very large games publishers.

A British made game Grand Theft Auto: Vice City was the best selling game in the UK and in the US in 2002.



The most dominant trend in UK games development since 2000 has been the emergence of the "super-developer". These large companies employ hundreds of staff and generally divide their activities between creating their own games, creating games commissioned by publishers and doing 'ports' (converting a finished game for a different hardware platform).

The massive scale of games development (up to £10 million in budget and taking many years to complete) has prompted many studios to seek independent means of finance. It's simply unrealistic for them to rely entirely on publishers to fund their creative ideas. Instead, large companies such as Argonaut have floated on AIM and others such as Kuju, Elixir and Evolution have secured significant VC backing.

Finally, the present decade has seen the UK development sector diversify into exciting new platforms for gaming. British companies are now foremost in the development of games for mobile phones, digital TV and the Internet.



Current UK market data¹

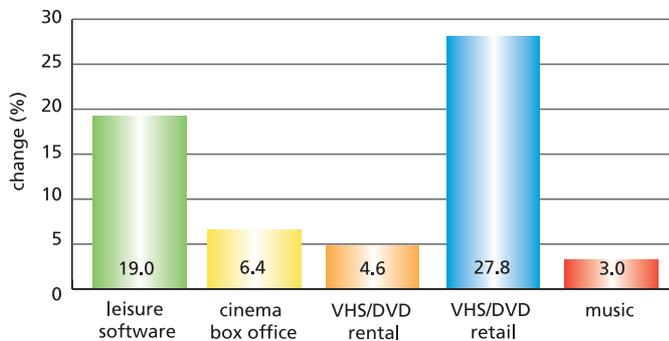
The UK is the largest market for games in Europe and the third largest market in the world, after the US and Japan. Total UK leisure software sales in 2002 were £1,081m, the highest value ever reached. The world market for games and edutainment/reference software was \$16.9 billion in 2002.

Since 1995, more than 215 million units of leisure software have been sold in the UK. That is enough for every household in Britain to own almost nine titles each.

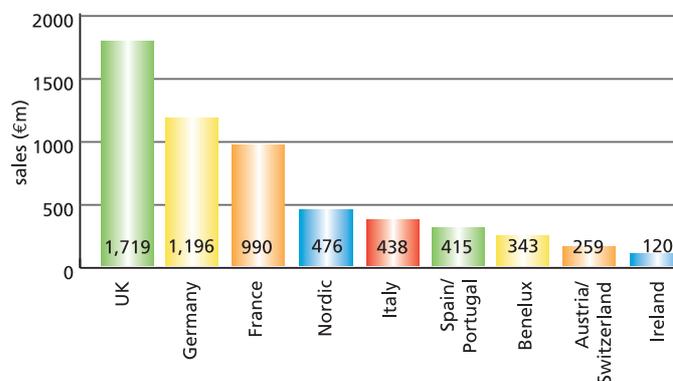
Across Europe, 900 million-plus games or edutainment CD-ROMs have been sold over those eight years. Across the world, the total number of leisure software units sold since 1995 is nearly 3 billion. This level of growth cannot be touched by any of the other entertainment industries. The leisure software market in 2002 was double the size of the British video rental market and 1.4 times more than cinema box office spending.

In terms of hardware sales in 2002, PlayStation 2 is the leading console format. The installed base in the UK at the end of 2002 was around 3.7 million.

Comparative average annualised growth in market spending 1997-2002



European comparative leisure software market sizes 2002



UK games compared with other industries 2002

Games market size	£1,081m
Cinema market size	£ 755m
Video rental market size	£ 476m
Music	£2,016m

UK hardware data 2002

UK installed base of PlayStation 2	3.7m
UK installed base of PlayStation	6.8m

Market size comparison 2002

UK	€ 1,719m
Germany	€ 1,196m
France	€ 990m
Italy	€ 438m
Spain/Portugal	€ 415m

Eidos' Tomb Raider series has sold more than 28 million units worldwide.

The complexion of the UK Games Industry

Publishers

Publishers are the organisations that sell, market and distribute games. They acquire games either by licensing them from other publishers, developing them in-house or buying them from development studios (either complete or as commissioned ideas).

During the eighties, the UK was home to around over a dozen sizeable games publishers. However, as the industry grew these organisations were merged and bought to the extent that, today, there are just four left. This is a pattern that has repeated across the world.

Here are the four main UK publishers:

Eidos



Eidos was a maker of video compression technology before a series of deals transformed it into a games company in 1995. It obtained a full listing on the London Stock Exchange in the same year. Today is home to some of the interactive industry's best known brands including Timesplitters, Soul Reaver, Championship Manager and Tomb Raider.

Of course, it's the latter franchise that has been Eidos' flagwaver. The first Tomb Raider game was launched in 1996. Since then Lara Croft has sold more than 28 million units worldwide and been turned into two Hollywood films. However, there is more to Eidos than Tomb Raider. In 2000 the company topped charts all over Europe with its adaptation of Who Wants To Be A Millionaire? which also became the UK's biggest selling game that year.

Then there's the three million selling Championship Manager series which gets bigger and bigger every year. The most recent version Championship Manager 4 sold 125,000 in a single weekend when it was released in April of this year.

Eidos owns equity in a large and diverse collection of development studios. They include Crystal Dynamics (creator of Soul Reaver and Gex), Ion Storm (Deus Ex), Pyro Studios (Commandos), Elixir Studios (Republic), Hothouse Creations (Gangsters, Who Wants To Be A Millionaire?), Sports Interactive (Championship Manager) and Kronos (Fear Effect).

Eidos recently announced operating profits on a turnover of £88 million for the six months to 31st December 2002.

Codemasters

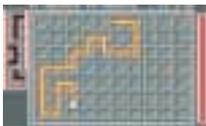
Codemasters was started by games enthusiasts and brothers David and Richard Darling in 1986. They created hits such as Dizzy on home computer formats and steadily grew the company. Today Codemasters publishes on all major formats, has offices in the US, France, Germany, Spain and Holland and turns over around £123 million.



The company is still very development-focused. Most of its games are programmed in-house. Codemasters has a particularly high reputation as a sports publisher. Titles such as Colin McRae Rally, TOCA Touring Car and Brian Lara Cricket have ensured its success in the last five years. However, the company is also active in more 'mainstream' licences. It will shortly launch games based on ITV's top-ranked Pop Idol series, for example.

Empire Interactive

Empire was founded in 1987 and scored major hits with titles such as Gazza Soccer and Pipemania before becoming a consistently successful PC publisher for most of the nineties. In 2000 it joined the Alternative Investment Market of the London Stock Exchange and used the funds to expand into console publishing. It did so with major licences such as Starsky & Hutch. Forthcoming titles include adaptations of film properties Bad Boys 2 and Bulletproof Monk.



SCi Entertainment

SCi Entertainment has an unusual strategy in that virtually all its games development is outsourced to third parties: it has proved successful. The product that put SCi on the map was the controversial Carmageddon in 1997. Since then, the company has published a diverse catalogue but has become known for driving-related games such as The Italian Job, Gumball 3000 and Rally Championship. It has also been a keen purchaser of high profile licences. Examples include Thunderbirds, Futurama and The Great Escape. SCi is a public listed company.



Developers

Today the UK is a world centre for games development, acclaimed for originality, wit and technical ingenuity. It's arguable that games such as the Worms series, Grand Theft Auto and Black And White – with their dark humour and eccentric ideas – could only have come from the UK where there is less of a factory approach to development and teams are comparatively small.

UK developed games maintain a strong presence across all formats and all territories. In 2003 they accounted for half the UK's top 10 best sellers, including two of the top three. And in the US two in the top five biggest hits of 2002 and the first three months of 2003 originated in the UK.

Best selling full price games 2002 – UK²

	Title	Publisher(s)	Country of Development
1.	Grand Theft Auto: Vice City	Take 2	UK (Rockstar)
2.	Fifa 2003	EA	Canada
3.	Grand Theft Auto 3	Take 2	UK (Rockstar)
4.	Harry Potter: Chamber of Secrets	EA	UK (Argonaut)
5.	Medal of Honor: Frontline	EA	US
6.	Lord of the Rings: The Two Towers	EWA	US
7.	Metal Gear Solid 2	Konami	Japan
8.	Spider Man	Activision	US
9.	James Bond Nightfire	EA	UK (Eurocom)
10.	The Getaway	Sony	UK (Team SoHo)

Best selling full price games in 2002 – US³

	Title	Publisher(s)	Country of Development
1.	Grand Theft Auto: Vice City	Take 2	UK (Rockstar)
2.	Grand Theft Auto 3	Take 2	UK (Rockstar)
3.	Madden NFL 2003	EA	US
4.	Super Mario 2 Advance	Nintendo	Japan
5.	Gran Turismo 3 A Spec	Sony	Japan

Best selling full price games in Q1 2003 – US³

	Title	Publisher(s)	Country of Development
1.	Zelda: Wind Waker	Nintendo	Japan
2.	The Getaway	Sony	UK (Team SoHo)
3.	Pokemon Ruby	Nintendo	Japan
4.	Pokemon Sapphire	Nintendo	Japan
5.	Grand Theft Auto: Vice City	Take 2	UK (Rockstar)

Development in the UK: A varied landscape

The UK's long history of games development has evolved to create a sector that is populated by a broad cross section of studios. They vary in size from the large 'super developers' with up to 200 staff to the breakaway groups with less than 10.

They vary in ownership from the studio that is wholly owned by a publisher, to the part-owned, to the entirely independent.

They also vary in their strategy. While some focus on huge, technology-led PlayStation 2 games, others concentrate on the quick turnaround of games for mobile phones or TV.

Independent 'super developers'

The escalating budgets and development timelines of today's console games have made things risky for developers. Creating games like these requires sound management, a large commitment to R&D, the spread of risk across multiple projects and platforms and, if possible, some control over intellectual property rights.

But those who have succeeded have grown into powerful companies capable of assigning multiple teams to work on multiple projects simultaneously.

A selected list includes:

Studio	Selected Titles
Argonaut	Harry Potter series, Croc
Blitz	Chicken Run, Lilo & Stitch
Climax	Warhammer Online, MotoGP, Italian Job
Criterion	Burnout

Studio	Selected Titles
Eurocom	James Bond Nightfire, Buffy The Vampire Slayer
Evolution	World Rally Championship series
Kaboom Group	Lego Island, various Olympics titles
Kuju	Microsoft Train Simulator
Rebellion	Judge Dredd series, Rainbow Six
Revolution	Broken Sword series, Who Wants To Be A Millionaire? (PS2)
Travellers Tales	Crash Bandicoot, Toy Story, Bug's Life
Vis	Powerpuff Girls, Tom & Jerry, Earthworm Jim 3D
Warthog	Tom & Jerry, Star Trek, Rally Championship, X-Men

Publishers' in-house developers

The biggest publishers in the world all have bases in the UK. Many have their own development teams working here too. They include:

Publisher	Country of origin	Selected games by in-house UK studio
EA	US	Harry Potter 2 (PS2)
Atari (Infogrames)	France	Micro Machines
Sony	Japan	Eye Toy, The Getaway, Formula One series
Empire	UK	Starsky & Hutch
Codemasters	UK	Colin McRae series, Pop Idol

Wholly-owned/part owned developers

Many UK studios are so highly prized they become targets for partial or complete acquisition by publishers. The best example of such a studio in the UK is Rare.

This Warwickshire company supplied some of Nintendo's biggest-ever hits, so the Japanese company subsequently bought an equity stake in it. In 2002, Microsoft bought all of Rare in a deal worth \$375m to secure its talents for the Xbox format.

Selected wholly-owned UK studios

Studio	Owner	Selected Games
Rare	Microsoft	Perfect Dark, Conker
Reflections	Atari (Infogrames)	Stuntman, Driver
Core	Eidos	Tomb Raider
Bullfrog	EA	Theme Park World
Rockstar North (DMA)	Take Two	Grand Theft Auto series

Selected part-owned UK studios

Studio	Owner	Selected Games
Sports Interactive	Eidos	Championship Manager series
Hothouse	Eidos	Who Wants To Be A Millionaire? (PSone)

Eidos and Sports Interactive's PC game Championship Manager 4 sold 125,000 units in a single weekend when it was released in April 2003.

Mobile and TV developers

The relentless rise of costs and timescales for developing video games has driven some developers to explore new platforms for gaming. Development for digital TV and mobiles is relatively inexpensive and quick to turn around. Moreover, many UK developers weaned on old home computer formats possess all the necessary technical knowledge and creative instincts to lead this market.

Today, the UK is home to some of the world's most progressive studios serving these new market areas. They include:

Studio	Platform
Hailstorm	Mobile
lomo	Mobile
Games Kitchen	Mobile
Masabi	Mobile
Argonaut/Morpheme	Mobile
Digital Bridges	Mobile
Ngame	Mobile/TV
Denki	Mobile/TV
Yoomedia	TV
Two Way TV	TV

Conclusion

The games industry has moved away the margins to occupy a central position in the leisure time of the British public. The most popular games sell hundreds of thousands of copies and are often based on family-friendly licences such as Harry Potter and Who Wants To Be A Millionaire?.

Meanwhile, the industry's own creations – most famously Lara Croft – appear on newspaper front pages and fizzy drink bottles.

It's time for those who love games to shout out their devotion. And, for those who are less acquainted with its pleasures, it's time to acknowledge that gaming is respectable, culturally important and economically essential.

Gaming is here to stay. And Britain is all the better for it.

Sources:

¹ Screen Digest/ELSPA report 2003

² Chart-Track/ELSPA sales reports

³ NPD Group

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