INTERVIEWS WITH THE WORLD'S MOST SUCCESSFUL ENTREPRENEURS IN THE VIDEO GAME INDUSTRY

John Smedley
Sony Online Entertainment

Nolan Bushnell
Atari

Trip Hawkins
Electronic Arts

Tim Cain
Troika Games

GAMERS AT WORK

STORIES BEHIND THE GAMES PEOPLE PLAY

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MORGAN RAMSAY

FOREWORD BY PETER MOLYNEUX, CREATIVE DIRECTOR, MICROSOFT STUDIOS EUROPE

Gamers at Work

Stories Behind the Games People Play

Morgan Ramsay

Apress®

Gamers at Work: Stories Behind the Games People Play

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For those whose lack of faith
never failed to push me forward.

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Foreword

The worldwide video-game industry is in a state of enormous flux. Vast budget opuses, such as Activision's Call of Duty, sit alongside mobile phone games created by tiny two-man teams. We work in an industry that is more diverse than ever—an industry that is appealing to an ever-broadening and growing mass market. Could we see a day when people interact with computer games as much as they do with television? Could we see a day when the framework of a game helps us cross a cultural divide? These thoughts would have seemed crazy five years ago, but they now appear certain to become realities. Video games are in the most exciting place they have ever been right now.

I have been lucky enough to see this industry go through many, many changes, starting with those early days at Bullfrog Productions, when two of us created a game called Populous on a shoestring, through to setting up Lionhead Studios and selling the company to Microsoft. Along the way, there have been many good times and a few bad ones, too. Therefore, I could really empathize on a personal level with the experiences and stories documented in this book.

As I read this book, I realised that this is the first time that a history of the video-game industry has been told through the personal stories of the entrepreneurs who pushed the business forward. Many of the people featured came from humble beginnings with only passion to drive them. Most experienced highs and lows, while all had their shares of good and bad luck. What incredible journeys we all have had! No mountain is too high to climb. Every challenge can be overcome.

Gamers at Work is a critical resource for new and experienced business leaders—for anyone who feels unprepared for the demanding and seemingly insurmountable trials ahead of them.

—Peter Molyneux
Creative Director
Microsoft Studios Europe

About the Author

Morgan Ramsay is a serial entrepreneur and author whose companies have served the defense and entertainment industries. Currently, he is the founder, president, and chief executive officer at Entertainment Media Council, the first and only association for entrepreneurs, C-level executives, and senior managers in the video-game industry.

For seven years, Ramsay was the founder, president, and chief executive officer at Heretic, where he led initiatives that recognized men and women of the armed forces on behalf of the President of the United States of America, and launched technologies and services for clients ranging from the nonprofit and small business to the Fortune Global 500.

As the author of *Gamers at Work*, Ramsay has interviewed the world's most successful entrepreneurs in the video-game industry, including Atari cofounder Nolan Bushnell, Electronic Arts founder Trip Hawkins, and Sierra On-Line cofounder Ken Williams. *Gamers at Work* was introduced by Lionhead Studios founder Peter Molyneux OBE.

Ramsay serves as a member of the Business Council at the Poway Center for the Performing Arts Foundation, and as a strategy, marketing, and technology advisor to the boards of directors at Coronado Promenade Concerts and San Diego Filmmakers. He has also served as vice chairman at the International Game Developers Association of San Diego.

He holds a bachelor's degree in Communication from University of Phoenix, and also received education in nonprofit management; event planning; advertising, marketing, and merchandising; and retailing from Chapman University, San Diego State University, and Palomar College.

Acknowledgments

I would first like to thank my father, an inveterate and pioneering hardware engineer, for putting up with my enthusiasm for the entertainment software business. Of course, I would like to thank my mother, a former professional athlete and coach, for teaching me the importance of discipline, persistence, and restraint; and my sister for showing me that compassion and idealism are traits one should never lose.

A tip of the hat to the busy entrepreneurs who volunteered their time to this project and shared their wonderful and often humorous stories with me. I was privileged to investigate their ventures, as well as their personal and family lives. I also want to specially thank Peter Molyneux for graciously writing the foreword. In grand tradition, I wish them luck as they boldly continue to break new ground. Without their support and commitment, this anthology would have never been possible.

Thank you, Jeffrey Pepper, for going above and beyond the call of duty; Steve Anglin, for giving a first-timer a chance; Michelle Lowman and Kelly Moritz, and Rita Fernando, for keeping the project on track within its particular constraints; and the entire Apress team for the opportunity to address the challenges of entrepreneurship in this time-honored format.

I would recognize many people for their time, insight, and/or willingness to make introductions: Al Lowe, Alan Wasserman, Andy Schatz, Brenda Brathwaite, Casey Wardynski, Cathy Campos, Cory Ondrejka, David Edery, David Perry, Doug Whatley, Erin Hoffman, Gabe Newell, Genevieve Waldman, Greg Zeschuk, Greta Melinchuk, Guy Kawasaki, Hal Halpin, Ian Bogost, Jane Cavanagh, Jason Della Rocca, Jason Kay, Jeff Braun, Jim Buck, John Romero, Joseph Olin, Justin Berenbaum, Kellee Santiago, Ken Dopher, Kristina Kirk, Mark Friedler, Matt Shores, Megan Tiernan, Mike Capps, Mike Morhaime, Nancy Carlston, Pam Pearlman, Randy Pitchford, Raph Koster, Ray Muzyka, Richard Bartle, Rodolfo Rosini, Sam Ford, Shon Damron, Sue Coldwell, Suzanne Goodman, Tawnya Barrett, and Tim Schafer.

I would also recognize the current and former members of the Board of Directors and Advisory Group at Entertainment Media Council for their support over the years: Adam McClard, Alexander Macris, Alyssa Walles, Brandon Sheffield, Christian Svensson, Cindy Armstrong, David Cole, Geoffrey Zatkin, Greg Boyd, Matt Esber, Mia Consalvo, Michael Arzt, Robert Stevenson, Steve Crane, Steve Fowler, and Terri Perkins.

Finally, I thank Laureen Minnich of Southern California Transcription Services for the wonderful work she has done for me; photographer Brandon Colbert for bearing through our session; and Jessica Livingston, for writing *Founders at Work*, which was my inspiration.

Preface

Like many projects, *Gamers at Work* began life as something else. Like many startups, as a first-time author, I made many mistakes. And like most people in business, I had no idea what I was doing, but I lucked out.

When I started the project that became this book, I had founded a trade association, Entertainment Media Council, for business leaders in the video-game industry two years before. We had completed the initial recruiting and planning cycles, and I was anxious to execute our plans.

We needed capital to proceed, but prospective investors, from the world's largest studios to leading universities, wanted to see that our little nonprofit organization had actually done something meaningful.

Entertainment Media Council exists to advance the video-game business by leveraging the collective wisdom and influence of business leaders, in order to address the systemic, market-level, and corporate problems that make video games such a volatile industry in which to do business.

I wanted to get people thinking about solutions, and get them involved with us at any level. Most importantly, I wanted to learn more about the struggles with which startups must contend. So, I had an idea: let's profile the challenges of entrepreneurship by blogging interviews with successful founders that explore major video-game companies at every stage.

Feargus Urquhart, cofounder of Obsidian Entertainment, and Chris Ulm, cofounder of Appy Entertainment, were the first two to sign on. While planning their interviews, I realized that posting interviews with such prominent entrepreneurs on a blog that had zero visibility would not do their stories justice. I would be wasting their time and mine.

On my desk, I saw a copy of *Founders at Work*. I thought, "It's a long shot, but I could write a book. Who's the publisher?" I reached out to Apress, and pitched them on a series of *At Work* books, with my book as the second in the series. They were interested, of course, because they were already developing a series. *Coders at Work* had been published not more than a year before. Within a few weeks, we had a deal.

In this book, I have interviewed 18 successful entrepreneurs in depth. Some are on their first company, others are on their umpteenth, and some are enjoying the retired life. I have tried to ask questions whose answers I wish I knew when I started my previous two companies. I have also tried to elicit answers that I thought I would want to know when someday I start a video-game company of my own.

Additionally, I wanted to illustrate the history of the video-game industry through the perspectives of the developers and publishers who played a key role in its shape. In these interviews, I aimed at having each founder tell their story from the time before their startup had taken form on the horizon to the end of their journey and the start of their next.

As a serial entrepreneur and former consultant, I believe that I should know which are the best questions to ask other founders. However, as you will discover when you read these 17 chapters, experience does not make one an expert.

Indeed, experience and expertise should not be conflated. Experience merely provides opportunities to learn and practice. Assuming that we have taken advantage of those opportunities, remembering our lessons and how they can be applied across problem domains can remain difficult, especially when we are immersed in the day-to-day.

Trip Hawkins, who I greatly admire as a business leader, spent years and years planning Electronic Arts, eventually working at Apple alongside the late Steve Jobs to learn the ropes. Despite that rigor and care which undoubtedly contributed to his phenomenal success, Trip excitedly spun off 3DO on a relative whim in 1991, and that company declared bankruptcy 12 years later. Meanwhile, Electronic Arts exists today as one of the world's most powerful publishers of video games.

The excitement of the day-to-day can be impairing. We turn to advisors, consultants, and trusted colleagues because they are third-party observers, sufficiently removed from our labors, who can pierce through the noise and clarify problems. Similarly, we look to magazines, books, and other publications for insight that gives us pause, or perhaps a simple diversion, that allows us to think clearly and critically.

I hope *Gamers at Work* gives you such a reprieve. I expect the stories shared within this tome will impart valuable information that you might have never obtained elsewhere. I hope the storytellers entertain you with their delightful anecdotes as they have entertained me. Finally, I encourage you to use this book as a reference, which you can revisit from time to time when you would like to remember how those who have gone before you confronted the myriad obstacles along the road to success.

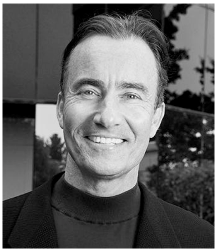
—Morgan Ramsay
Founder and President/CEO
Entertainment Media Council

CHAPTER

1

Trip Hawkins

Founder, Electronic Arts



Trip Hawkins *left his position as director of product marketing at Apple Computer to start Electronic Arts (EA) in 1982, which continues to operate today as one of the largest publishers of video games in the world. EA has since produced many foundational games, such as Pinball Construction Set and M.U.L.E., and best-selling franchises, such as The Sims, Rock Band, and Madden NFL. In addition, many early employees are part of the company's evolving legacy, and they are now recognized as leading figures in the video-game industry.*

In 1991, Hawkins pursued a strategy to provide the company with a direct path to the consumer. The initiative was spun off as The 3DO Company, an independent platform manufacturer and later a third-party developer. Although initially well-received, 3DO was unable to secure a foothold in the highly competitive console market and declared bankruptcy by 2003. Not one to be deterred by past failures, Hawkins founded Digital Chocolate later that same year to develop video games for mobile devices. Today, Digital Chocolate is a leader in the mobile-games category, and controls a wide portfolio of social, PC, and console games, including Millionaire City and MMA Pro Fighter.

Ramsay: Take me back to before you started Electronic Arts.

Hawkins: As a child, I discovered that I was creative and loved to play games. My favorite games were board, paper, card, and dice games that tried to simulate something that I was passionate about: Strat-O-Matic Football and Baseball, Dungeons & Dragons, and Avalon Hill historical war games. I even designed a football simulation of my own using cards, charts, and dice. I noticed that many of my friends thought these games were too much work. In effect, the player had to be the computer. My own game was a minor business failure, but I loved being an entrepreneur. I vowed to do it again, but to be much better prepared the next time.

This was also the golden age of television, so my friends were basically telling me that they'd rather watch television, which was simple and offered high fidelity. In 1971, I heard about computer kits and time sharing, and I decided that the solution was to put the game into the computer, and to have graphics on the screen that looked like a television broadcast. From that moment on, I was very consciously preparing to found EA in 1982.

In 1973, I purposefully spent two years convincing Harvard to let me have my own special field of endeavor called "Strategy and Applied Game Theory," in which I applied computer simulation to relevant social problems, like organizational decision-making and nuclear-war prevention. During the summer of 1975, I got a job at a Santa Monica think tank, Software Development Corporation, that was the computer spin-off of the RAND Corporation. A colleague returned from lunch one day and said he was at a retail store where you could rent KSR-33 teletype terminals for only $10 an hour. I said, "That's great! This is the birth of home computing. I am going to make games that people can play at home on these computers."

My colleague, who had been at Dick Heiser's The Computer Store, which turned out to be the world's first computer retail store, then told me that another company called Intel had introduced the first CPU chip. I spent the next hour trying to plot out how these advances would develop in the home. I concluded that I should let the technology marinate and the hardware base accumulate for a few years, and that in 1982, I should found my game software company. And that is exactly what I did.

Ramsay: What did you do until then?

Hawkins: I finished school and met another objective by working at Apple from 1978 to 1982. My goal was to learn about how to build my own company by working for other entrepreneurs, and to simultaneously help build the supply of computers in homes, since they would be my future customers. When I joined Apple, we had only 50 employees.

Between 1971 and 1982, I refined my ideas about how to make EA successful. I eventually had a pretty good trick bag. I'm a good creative guy, but I also believe that "creativity is the rearranging of the old in a new way." I had seen how valuable it had been at Apple to leverage ideas from the consumer electronics business into our fledgling computer industry.

Ramsay: Can you give me any examples?

Hawkins: One example was the strategic advantage of direct retail sales—not using a distribution middleman. This became a key issue for Apple. I also determined by 1980 that software developers and engineers were like artists, even like divas. My key reference point became Hollywood media, particularly records and books. I studied those industries and found that it had been even more important for them to have direct distribution control and to build strategic value in their sales pipeline.

In addition, I decided to pioneer the idea of bringing the leverage of the recording studio to game development so that developers would have more powerful tools, and so that we could more easily span publication across more computing platforms. I introduced terms like "producer," "director," and "affiliated label" to software engineering for the first time. I even went so far as to mimic the record album in EA's first games, a specific packaging format that was imitated by 22 competitors later in the 1980s. These pillars of strategy were the key founding principles of EA.

Ramsay: When did you start EA? How did you get funding?

Hawkins: I personally founded, funded, and incorporated EA on May 28, 1982. Initially, I worked out of my home and began recruiting artists, channel partners, advisors, and prospective employees. But I began hiring employees in the fall of 1982 and got Don Valentine to let me use an office at his venture firm, which he had offered to me earlier in the year.

I funded the company, including computers, rent, and payroll for the first 12 employees, until December 1982, when I received additional funding from Valentine and other venture capitalists. The first games were published in May 1983, and EA was off and running.

Ramsay: Many entrepreneurs in this business work within founding teams. Did you? Were there any cofounders of EA?

Hawkins: No. A company is either founded by one person, who then hires the early employees, or there is a group of cofounders who work together to found a company on an equal level and who take equal risks. If there is a cofounder, then there cannot be a founder.

Every company must hire employees, but being an early employee does not make you a founder. I have been the founder of three companies, but none of my early employees from 3DO claim to be cofounders. Since I left EA, some individuals have wanted to position themselves as cofounders.

But the facts are that I spent a decade entirely on my own to develop the foundational ideas. I funded the company's first year entirely myself. I was the only one there when I incorporated the company and opened the first office. And I made offers to the early employees and paid their salaries, and in some cases, I even made personal loans so they could buy stock.

Ramsay: How did you know Don Valentine?

Hawkins: I first heard about Valentine in 1978 when his venture capital firm Capital Management—later renamed Sequoia Capital—invested in Apple, around the time I began working there. A year later, I became intrigued when Valentine sold his Apple position prematurely when the company was still private. It gave me the idea that there was something that Valentine didn't like about Apple, which made me curious.

When I was preparing to leave Apple in early 1982, I read an article about Valentine in an airline magazine that claimed he was so intimidating that a visitor making a pitch had passed out in his office from the pressure. At that point, I purposely sought him out because I wanted to have tough mentors on my board. I called his office and arranged to see him in February. He liked my ideas and encouraged me to get on with it. Valentine offered to let me borrow some of his office space for free if I needed it.

Ramsay: Were other venture capitalists just as receptive?

Hawkins: I found plenty of interest from venture capitalists when I began making the rounds in August and September 1982. I received multiple offers, and I don't remember anyone that wasn't interested. There was even competition for the deal that helped me get a better price. This led to an even hotter 1983 for funding companies doing personal and home computer software. After then, the market and funding climate became more difficult.

Ramsay: Can you tell me about the publishing process at the time?

Hawkins: I developed my idea for the "software artist" from working with brilliant developers at Apple, such as Bill Atkinson. These guys were legitimate divas. I decided to study and transfer the principles of artist management from the music industry to software.

I wanted the best game ideas from the most passionate independent artists that were driven enough and good enough to get the job done. I hired a couple of my buddies from Apple, Dave Evans and Pat Marriott, to be my first producers, but I was really the first producer. I sought out the best developers I knew and heard about, and I personally called on them and closed many of the first round of deals.

The typical model was to pay a small upfront advance because nobody else was doing it, and an advance demonstrated that EA had resources, conviction, and faith in the developers. Then there would be milestone payments. The entire deal for Hard Hat Mack was priced at $14,000.

Many of the early developers were teens living at home, developing on their personal Apple II. We would work closely with them to edit, polish, and improve the product until we either thought it was ready to publish or gave up on it. After publication, the artist would earn royalties, initially at 15% of our net revenue, but I made sure we could recoup our advance.

To create the contract, I took a traditional engineering development contract from the lawyer I had worked with at Apple and combined a copy of a music-recording contract, and then I added a bunch of new stuff specific to games. The entire industry copied my contract for the next 15 years.

Ramsay: Were there problems with getting the first titles out the door?

Hawkins: There were always projects that were never completed. Jay Smith, who created some wonderful games for the Vectrex system, was our first big air ball, costing us $35,000. I loved the Vectrex, made that deal, and was very excited because they had a legitimate professional track record.

Ramsay: Can you give me an example how you solved a problem project?

Hawkins: The young developers could be erratic and run late, but they were very passionate and driven, and took reasonable direction, so many things got done. I designed the One on One game, and then hired Eric Hammond to implement it. He was struggling, so we moved him up to our town and had him work in a cubicle near where I was sitting for the last several months.

Ramsay: Which titles were your major early successes?

Hawkins: The best developers from the group that made the six debut EA games were Bill Budge, FreeFall Associates, and Ozark Softscape. Bill made one of the most important games ever: Pinball Construction Set. FreeFall made Archon, which is still one of my favorite games. FreeFall was a married couple, Jon Freeman and Anne Westfall, and another great designer, Paul Reiche. Ozark was put together at my request to make a simple business-simulation game, for which I provided the design of the underlying economic principles, such as the learning-curve theory of production.

I also wrote the manual for the game M.U.L.E., which also remains one of my all-time personal favorites. Ozark, led by the ingenious Dan Bunten, did a stunning array of clever and innovative things in M.U.L.E., and made it quite charming for a business simulation. Pinball, Archon, and M.U.L.E. won a ton of awards, and all three shipped in the first group of games in May 1983.

Ramsay: There are many developers who cite M.U.L.E. as a favorite, too. What's the story behind the game? How did you know Dan Bunten?

Hawkins: I wanted to make a business simulation that would be based on Cartels and Cutthroats by Strategic Simulations, but simpler and better. I called Joel Billings, who founded SSI, but he didn't want to license Cartels to me as a starting point. I then went directly to Dan Bunten, and we became mutually excited about doing a new game. Their loss was our gain.

Dan and I shared a vision for games that was expressed by an old EA slogan: "software worthy of the minds that use it." We wanted games to be good for people in terms of personal growth and social value. Dan got together with his brother and a few other good souls in Little Rock, Arkansas, and formed Ozark Softscape in order to work with me. To play M.U.L.E. properly, you really needed four players and four joysticks. It was ahead of its time, but everyone that played it was completely charmed.

Ramsay: EA began publishing in 1983. Was there competition then?

Hawkins: I tabulated 135 competitors that were already shipping computer and video games when I founded EA. I already understood that I could not succeed with a "me, too" company, but 135 was a surprisingly big number. Also, it was completely intimidating going to the Consumer Electronics Show in January 1983 and seeing competitive game boxes stacked 60 feet high to the ceiling. But by then, I believed passionately in what I was doing differently and was fearless simply out of youthful ignorance.

EA made its conference debut in June 1983 at the Consumer Electronics Show in Chicago. We had a tiny booth compared to many others, but we later learned that we had made the biggest impression, and people respected our approach, which was thick with innovation, artistry, and quality.

Ramsay: Were there any particular competitors that concerned you?

Hawkins: I considered home computers the next wave, and many of the game competitors were small and lacked business experience. Brøderbund was certainly interesting and capable. I loved the Choplifter game they had published, and we competed for good, independent developers. Activision was the largest of the Atari 2600 developers. Activision had done a huge IPO, but I thought they overrated the Atari platform and would eventually burn out. And they did.

Ramsay: Did you consider Atari, which had been operating for at least a decade before EA, a legitimate threat to your business?

Hawkins: I could tell back in 1982 that Atari was going to hit the wall and would take down its game developers with it. The Atari 2600 was over-hyped, but you could literally animate only six sprites, and the entire thing had 128 bytes of RAM. Bytes! It was a glorified Pong machine, so it was only a matter of time before it became a doorstop.

Atari made a famous announcement in December 1982 that was like the Titanic announcing they had hit the iceberg. Their collapse gave video games a bad name, and suddenly nobody wanted to admit that they liked video games. For certain, Atari was a giant sucking sound that hurt the industry from 1983 to 1985.

Ramsay: What about SoftSel?

Hawkins: In June 1982, I visited SoftSel, the dominant game distributor. I went directly into the lion's mouth. I presented myself as a potential customer, but I mainly wanted to size them up as a competitor since I had decided to bypass distributors and go directly to retail.

Distributors are distributors, and I did not care for SoftSel and never did business with them. Again, I came away with a strong conviction that I was doing the right thing, even though it proved to be extremely difficult and required incredible determination over a three-year period. Retailers would never have bought directly from me if they could have cherry-picked our hits from SoftSel. Instead, they had to buy from us because SoftSel did not have our games. As this became a competitive factor, they got very, very mad about it, but I had to worry about what I had to do.

Ramsay: Finding the right people, especially the right leaders, is a difficult task. Was that your experience with hiring managers at EA?

Hawkins: Like Apple, I found that about half of the managers I hired were not very good. In hindsight, when I think about the first 50 managers at Apple and EA, I think perhaps 5% were exceptional and another 40% were solid role contributors. Both companies succeeded despite being held back by the shortcomings of the other 55%. But sometimes managers with dysfunctional personalities were tolerated for far too long.

Over time, as I gained more experience and perspective, I got better at identifying and confronting issues, and either getting them resolved and improved or making management changes. Another positive for both Apple and EA is that I worked hard on creating a strong internal culture and making sure that we were hiring true believers who were passionate. Their tolerance for change, determination to succeed, and willingness to work hard on something they believed in made up for other deficits.

Ramsay: Do you believe that people who work within a strong culture carry its values forward? Many of your first hires now have great careers.

Hawkins: You get out what you put in. I have always invested heavily in defining and building corporate culture. If you don't do it, the alternative forms of organizations are dictatorship and bureaucracy. As the saying goes, things rot from the head. If a company's leadership exemplifies certain values, they will more likely become part of the true culture, which is often different from the officially stated culture.

With a good culture, you have more successful delegation, faster decisions, and better development of people for their own future and that of the enterprise. In my organizations, I put a lot of effort into the learning and teaching environment, and employees are regularly promoted. This was also true at Apple, where, although not a founder, I was asked by the founders to define and maintain the company culture, which I did.

I think Apple lost some things in the 1980s because the founders didn't do enough to drive the culture. Several years ago, I did a rough count and realized over 50 executives who worked closely with me had later become chief executives, many of which were running public companies. I've been a good school for executives. I'm sure the numbers are much higher now.

Ramsay: Why did EA become a public company?

Hawkins: Having been through the Apple IPO in 1980, I founded EA with the intention of being successful enough to go public. I planned to have venture investors and to give stock options to all employees, and I knew the company would need a path to liquidity. I maintained strong relationships with investment banks throughout the 1980s, and it began to look feasible to do an IPO as early as 1986. But I did not think the company was mature enough, and then there was a market hiccup in 1987.

In the 1980s, consoles were underpowered, passé, and EA only made games for more powerful PCs. Computers had mass storage, read-write storage, keyboards, printers, modems, and other features, whereas Atari had made consoles the butt of a joke. But after Nintendo gave rebirth to consoles, it became clear that the low hardware price of a discless machine and the convenience of plug-and-play cartridges would engender a much larger market. The American game industry hoped Nintendo would be another hula hoop like Atari had been, and was ignoring it and hoping it would just go away. I didn't like Nintendo's draconian license agreement, but I felt compelled to enter the cartridge game market.

In 1988, I was looking for an intelligent strategy to enter the console game sector, and the Tengen-Nintendo lawsuit inspired me. I decided that we should focus on the upcoming 16-bit market and enter the market by reverse-engineering the Sega Genesis. I believed that EA would be better off with a cash war chest to deliver on this plan, including deep pockets in the event that we might get sued by Sega. Once I had this strategy figured out, it made sense to go public to establish the war chest. Ironically, we only raised $8 million in the IPO, and EA has never touched or needed to use a penny of that money. I pulled off a great agreement with Sega in 1990, and the cash just kept rolling in, without there ever being a lawsuit.

Ramsay: What impact did the transition from PCs to console game systems have on publishing operations?

Hawkins: It was an enormous change to go from read-write floppy discs to smaller read-only cartridges with high manufacturing costs. We also needed to make different kinds of games with very different user interfaces. For example, the Madden user interface got a complete overhaul, even though it used the same underlying gameplay mechanics, camera angle, playbooks, and player stats. Many of our employees did not like the change and were uncooperative, insisting that we could not make quality games for an underpowered machine like the Genesis.

I knew we had to let go of our attachment to machines that the public did not want to buy, and support the hardware that the public would embrace. I made this argument on the grounds of delivering customer satisfaction and how quality is in the eye of the beholder. If the customer buys a Genesis, we want to give him the best we can for the machine he bought and not resent the consumer for not buying a $1,000 computer.

The majority of employees and developers got on board with our new values and culture, but there were about 30 employees who departed because they thought I was nuts. That was a big number at the time because we probably only had about 200 employees in total. Those that stayed and believed in the plan went on to experience the greatest growth and success period in the 28-year history of the company.

Ramsay: Fast-forward to 1991. Why did you leave EA?

Hawkins: I didn't feel like I was leaving EA, but it turned out that way. From 1988 to 1990, I did my most transformative work at EA, led by a radical strategy to enter the console game business by reverse engineering a new and unproven platform. In 1988, Tengen reverse engineered and sued Nintendo. I watched that situation unfold to Tengen's ultimate detriment.

At the same time, Sega released the 16-bit Sega MegaDrive, which was later branded as the Genesis, in Japan. I really liked this machine and investigated a strategy of reverse engineering it. Doing so would allow EA to have publishing freedom on the platform, which would probably be released in the United States in 1989 and Europe in 1990. EA already had great 16-bit brands and technology that could easily move to the Sega Genesis.

We moved forward, had it figured out in 1989, and had products ready to go in 1990. I then went back to Sega and made a huge strategic deal that made us good partners. The deal would also prove to save EA $35 million in licensing fees and catapult our market cap from $60 million to $2 billion in a two- to three-year period. Once that was all in the bag and well underway, I was still very concerned about future platforms for EA.

I worried that Nintendo and Sega would take steps to make it harder for EA to have freedom in the future. Sony had not yet entered the game business, and the PC was completely dead as a game platform at that time. I concluded that it was time for EA to take a more active role on the platform side—perhaps not to the same degree as Microsoft or Sega, but in some way that we could drive market expansion and publishing freedom. I wanted to see consumers and developers get the chance to have 3D graphics, optical disc storage, and networking.

This effort began with an internal skunk works, but took on a life of its own. I couldn't resist the temptation to spin it out and organize it as a "Dolby sound"-type licensing model called 3DO. From 1990 to 1994, I was chairman and the largest stakeholder of both companies; however, the two companies gradually pulled apart due to conflicting priorities and agendas.

Ramsay: How did you feel about leaving behind something you created?

Hawkins: I was like the father of a rebellious teenager and an infant having open-heart surgery. I felt obligated to care for the infant and knew that the teen was going to make it to adult life. 3DO was in business for 12 years, and twice reached revenues of up to the $100 million level.

For a variety of reasons, 3DO was not sustainable. I made a lot of mistakes, and many of the ideas were too far ahead of their time. I was sad to become estranged from EA because it was my baby. I had always admired Walt Disney as a role model and the fact that he was with his company until the day he died. I regret the misadventure, but I take full responsibility.

Life tests and develops our character, hopefully into something better over time as we learn and understand what is right and true. One thing I do know is that it was somewhat inevitable that I would do something like 3DO because I was trying too hard to push the envelope in those days. I think many of us as younger entrepreneurs are trying to find out exactly who we are and where our edges are, and you don't know where the edges really are until you fall off a few times.

Ramsay: Platform manufacturers not only compete by publishing their own games; they benefit from hardware licensing and third-party properties. Is this business really that lucrative, or are there hidden costs?

Hawkins: Investors like to play monopoly, so they like platforms, but many platforms fail, and many are capital-intensive. In reviewing history, game consoles are now apparently among the riskiest of platform businesses. To be successful, you need custom chips, high manufacturing volume, and tons of marketing. The pace of technology is also very fast, and new models can quickly become obsolete. Nintendo is the only company in that sector that has been consistently successful over a long period.

Ramsay: Why wasn't 3DO sustainable? What were the mistakes?

Hawkins: For starters, 3DO was more than $1 billion short on the capital requirements. Licensed technologies like Dolby sound, Flash, HTML, or MPEG can gradually sneak up on the market, penetrating more devices and platforms over time and becoming de facto standards. This is because the hardware is selling for another reason and the emerging technology is only an additive. I might buy a tape-cassette recorder because I want to record songs or buy music tapes, and I don't even have to know or care that Dolby sound is an option. It is completely different with game consoles, especially in those days where it was winner take all.

A new game console would only succeed on the basis of new games using its new features. Backward compatibility would not drive its success; it had to have new, state-of-the-art games. It turns out that to make a new console good enough to achieve this and to win support from enough good developers, it takes more than $1 billion to build it out and convince others to jump in. Sony committed more than $2 billion, and not only beat 3DO, but pushed aside larger and stronger competitors like Sega and Nintendo.

Sony, Nintendo, and Sega also had strong brand power and great lineups of first-party games. Mario is only on Nintendo, and Sonic was only on Sega. 3DO could lead off with Madden and Road Rash, but as fast as they could, EA put those games on Sega, Nintendo and Sony. Ultimately, the low license fees for 3DO didn't matter. Developers were willing to overpay Sony because they believed in Sony's strength in building the market.

A great deal is made of 3DO's high hardware price, but this mistake is overrated. First of all, the initial street price was $599, not higher myths that are often reported. Within a few months, I negotiated with Panasonic to bring the price down to $499, which was, by the way, Sony's introductory price the next year in Japan. Sony was very aggressive when they later entered the United States at $299, but by that time, 3DO's price was $349. 3DO would have done better at lower prices, but Sony won, and also beat Nintendo and Sega for a variety of these other reasons.

Ramsay: When did you start Digital Chocolate?

Hawkins: When 3DO was selling its assets in 2003, I began to see the mobile category emerging as the next big change, and challenge, in the media landscape. I love new media. The dot-com bubble had recently burst, and venture-capital investors were more intrigued with mobile after seeing strong growth with the mobile Web in both Japan and Korea.

I finished the business plan in September 2003, received funding almost immediately, and hired the first employees in December. My wife suggested a few names for the company using the word "chocolate." I took that word and put "digital" in front. I like names that are a mash-up of two ideas that aren't yet associated and yet that belong together, defining something new. Digital Chocolate's first mobile apps and games came out in 2004.

Ramsay: Are the games you're now developing very different from what you were publishing at Electronic Arts?

Hawkins: A few years ago I realized, in hindsight, that my big, true ambition ever since childhood had really been about social games. I was always looking for opponents as a kid. With EA, I supported a four-player game like M.U.L.E. in 1982 and Modem Wars a few years later, at least a decade ahead of the Web. I was very passionate about the multiplayer EA Sports games. Even with 3DO, I produced another multiplayer game called Twisted, and we made a daisy chain of joysticks so that a game could have as many as 16 players in the same room. FIFA only supported six players.

However, Digital Chocolate today is making a much more casual games for a larger and more mainstream audience, like Millionaire City. And our games are free to play with virtual goods, which was never the business model at EA.

Finally, these modern games don't want to let players fail, which was "part of the deal" in the old days. Now, you want everyone to feel like a winner. One of the best tools for making that happen is to completely eliminate any need for timing or hand-eye coordination. Too many people find it intimidating or embarrassing to fail on that basis. By contrast, everyone has brain cells and can enjoy basic decisions and tactics, and will even develop pet strategies. In comparison, the traditional arcade games have typically been about hand-eye coordination. While these arcade games were easy enough to play for everyone in the beginning, within a few years, they became too difficult to play, especially in the everlasting pursuit of the next quarter.

Ramsay: Is the "free to play with virtual goods" model sustainable in the long term? There has been much evangelism, but what are the weaknesses?

Hawkins: It is the future. Even in the present, all of the growth at Digital Chocolate is in virtual goods. I am especially excited about the long-term potential for our NanoStar platform that allows a virtual item to be a character with personality, and to then turn that character into a different game asset in a variety of different games. This approach gives the player much more emotional and gameplay value.

Games are going mainstream, so it is only natural that the business model would become less like a theatrical film and converge toward television and the Web. Free broadcast television paved the way for today's hefty cable subscription fees, and the original World Wide Web paved the way for the monetizable Web 2.0. The only major weakness is that virtual goods work well in some game genres but not in others. As television also works better with some genres, the game industry will have to migrate more to what will work better in the future.

Ramsay: Are you concerned that mass-market video games are migrating toward a future where art, entertainment, and fun take a backseat to what you called "the everlasting pursuit of the next quarter"?

Hawkins: The arcade games took a fork in the road, opting to make the games harder to win. The competitive hardcore male player would try harder, and devote more time and quarters. This made games too difficult for the mass market that had been happily playing Pong, Pac-Man, Centipede, and Space Invaders. Also forsaken and misunderstood were the importance and value of social benefit.

Pong was played, socially, in a lot of bars by people looking for social life. The games that followed in the next decade were almost exclusively played solo. We realized that interactive and social media are far better for us than the "boob tube." We now know how to make better user experiences that are simple and convenient and social. And today, we have more and better technology and art. We are also reaching an enormous mainstream audience. It is still a business, so there is nothing wrong with figuring out what people want. It's entertainment, so there's nothing wrong with helping players release hormones like dopamine and feel good about themselves.

Physical exercise and video games are big elements on the short list of healthy ways to use hormone management to improve life and health. We are not Pavlov's dogs, but B.F. Skinner proved long ago that the strongest form of behavioral modification is variable-ratio reinforcement. The slot machine thrives on it, but is a social ill because it is a dehumanizing addiction. In a more interesting, thought-provoking, and truly interactive game design, the principles of reinforcement are very useful. Nobody is going to do anything if, in the end, it doesn't constructively involve your emotions.

Ramsay: In 2006, quality of life became a hot-button issue for EA. Can you provide any insight into the labor environment then? Did you do anything differently with the culture at Digital Chocolate?

Hawkins: I don't know the details, but I've always been interested in organizational culture, and I want to help my employees win and become better people. At every stop in my career, I've defined the personal values for my companies and the business practices to make them a reality. I even did this at Apple at the request of the founders.

As the industry matured, it became a bit more "dog eat dog," and all of the companies were under more pressure. Many companies, including 3DO, failed. Countless people have told me over the years that the culture and quality of life at EA declined after my departure. While this is disappointing, culture is defined by everyone's values, beliefs, and behavior, not just any one person's.

Ramsay: How has Digital Chocolate fostered a culture where employees can thrive and enjoy their success? Have your publishing strategy and offering numerous outlets for creativity played a role?

Hawkins: Digital Chocolate operates throughout the world, and our employees were born in 35 different countries. But we speak English in our offices. As a lazy American, I appreciate this accommodation, and it helps the global organization exchange ideas and feedback, and learn faster. We do our own technologies, design, and brands internally, so there is plenty to be creative about. Projects tend to be pretty short and have small teams.

Over the course of a year, we can crank out dozens of new games, and again, this creates much more opportunity for good ideas to be used. We let everyone participate in generating ideas and discussing plans, and we're committed to the highest level of production values and quality. We also give bonuses and stock options to all employees. For all of these reasons, the results are very good, and our people are highly motivated.

Ramsay: Has recruiting talent for mobile or social games been difficult? I've heard that some developers can be averse to joining teams dominated by business graduates instead of experienced game developers.

Hawkins: We have around 350 employees in five major offices on three continents, and our people come from a variety of backgrounds. I think the most important things are good education, aptitude, and willingness to learn and adapt. In the old days, the ponytails made the games, and the suits got the packaged goods manufactured and put on shelves, and collected the money. There were big operational demands. Today, the ponytails and suits can sometimes be embodied in one person. In any case, the perspectives of art and science need to be blended together. Creative people need to get out of the ivory tower and pay attention to the tests in the Petri dish. And the scientists need to understand that it takes creativity to make something fun.

Ramsay: You've seen this business from every angle, having worked in publishing, development, and even hardware. What would you say are the most serious threats to the growth and long-term viability of startups?

Hawkins: Digital media has collapsed the traditional value chain, so financial and distribution leverage are no longer viable means of controlling shelf space and pipelines. Now, digital platform companies like Apple, Facebook, and Google have the ability to dominate and control entire value chains.

We all have to be concerned that any of them that get too big or become too central could misbehave. In order to favorably influence the platform titans, smaller game publishers and developers will need to find ways to stick together, and have some collective bargaining power and policy viewpoint. Going forward, the business of games will be about how to leverage technology and intellectual property. Startups will have to find ways to contribute in those dimensions, but it is always possible.

MORGAN RAMSAY is the founding president and CEO at Entertainment Media Council, the first and only association for entrepreneurs, C-level executives, and senior managers in the video game industry.

Previously, he was the founding president and CEO at the ad agency Heretic, where he provided strategic communication expertise to clients in the defense and entertainment industries. In addition to his work at Entertainment Media Council, Ramsay advises corporations on strategy, marketing, and technology.

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