



# Playing for Keeps

Challenges to sustaining a world-class UK games sector

UK  
TRADE &  
INVESTMENT



INTELLECTUAL PROPERTY



# Playing for Keeps – challenges to sustaining a world-class UK games sector

## Monograph: Country profiles

Prepared for:



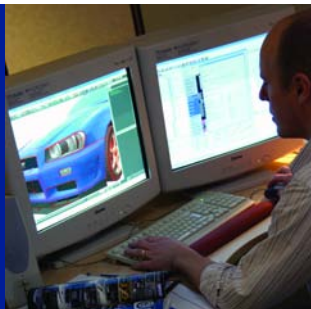
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# Introduction to Playing for Keeps

The UK computer games industry makes a valuable contribution to the UK economy: in 2006, games generated £2 billion in retail in the UK, £370 million was invested in games creation and approximately 21,000 people worked in the sector, 8,000 of these in games development. Games are increasingly becoming part of the lives of millions of UK citizens: 59 per cent of the UK population are gamers and this is growing fast as the demographic widens and games evolve beyond the original genres into casual, lifestyle and learning applications. Games technology and content are at the cutting edge in terms of innovation and creativity. Games sector jobs are typically high-quality and high value. These points are not lost on the three Government departments that support the games industry in the UK – UK Trade and Investment (UKTI), the Department for Business, Enterprise and Regulatory Reform (BERR) and Department for Culture, Media and Sport (DCMS).

Both Government and industry have been concerned about the lack of authoritative and up-to-date data on the UK games sector. In late 2006 UK Trade and Investment, in partnership with BERR and trade association TIGA, commissioned independent research on the UK computer games industry in a bid to help fill this gap and to provide much-needed evidence to contribute towards the development of relevant Government policy. The resulting work by Games Investor Consulting Ltd – *Playing for Keeps – Challenges to Sustaining a world-class UK games sector* – is a detailed examination of the UK games sector and how it compares globally, with a particular focus on the creation of new games intellectual property, the ability of new companies to start up and grow in the UK and the barriers to inward investment by global companies into the UK.

*Playing for Keeps* is published in three separate monographs:

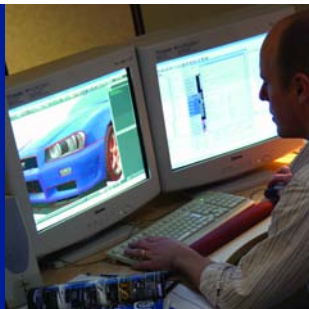
**Country Profiles** – Games Investor Consulting profiles the UK along with a number of leading games development territories around the globe using a series of key performance indicators;

**Intellectual Property** – Games Investor Consulting examines ten of the most successful, influential and representative pieces of intellectual property generated in the UK since the birth of the UK games industry back in the early 1980s;

**Commercial and Distribution Models** – Games Investor Consulting analyses the prevalent commercial models and distribution channels in the games industry today to better understand the key drivers and the future development of the sector.

Each of the monographs includes the results of an Industry Survey which Games Investor Consulting undertook with fifteen senior representatives from UK-based development and publisher companies to inform their research.

Games Investor Consulting's research tells us that there are many positives for the UK: we have a world-class hub for games development with an excellent track record in producing hit games which have global appeal. The UK is known for its ability to combine strong characterisation with humour and creative flair; the UK has good levels of development staff and graduates compared to most of our competitor territories; we remain the preferred location for the European headquarters of global games companies.



# Introduction to Playing for Keeps

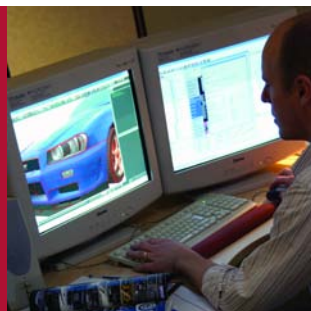
However, Games Investor Consulting's findings also warn us that we have no room to be complacent: for example, in 2006 for the first time the UK moved from being the world's third to its fourth largest producer of games based on revenue and some territories are showing growth rates that out-pace our own.

*Playing for Keeps* is an evidence-rich piece of research which will help inform the policies of Government departments and agencies but will also be of great value to the industry itself. UKTI, BERR and DCMS are now evaluating this research and discussing it with the industry: we need to determine together what it tells us about the UK's future competitiveness in the global games sector, about our ability to remain competitive and to fully exploit the massive growth of the global market and what actions Government and industry might take to help ensure that we have the best possible business environment for games companies in the UK.

UK Trade and Investment  
*Department for Business, Enterprise and Regulatory Reform*

October 2007

All three of the monographs can be downloaded from UKTI's website  
–[www.uktradeinvest.gov.uk](http://www.uktradeinvest.gov.uk)



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# Executive Summary

## UK games IP

The report profiles ten of the most important IPs of UK games and concludes that:

- The UK has an excellent track record of producing hit games, many with global appeal.
- The best UK games are cultural artefacts which, like their peers in any UK media, wed strong characterisation, design, humour and creative flair with technical ability to succeed on the world stage.
- The creation and ownership of original games IP has proven to be of vital importance to the growth of the UK games industry. In addition to the potential for exceptional profitability that it has delivered, successful games IP has historically increased the industry's contribution to the economy, triggered the start-up of new UK companies, increased investment in innovation and attracted inward investment to the UK from global companies.
- Many of the best UK games IPs (and their originating companies) have been acquired by global companies for disproportionately small sums compared to the value they have subsequently generated, but such studios often grow substantially after acquisition.

## Industry survey

A detailed survey of 15 of the UK's most successful independent studios, publisher studios and publisher head offices was conducted for this report and concludes that:

- Most respondents acknowledge that games IP is a critical revenue stream and nearly 90 per cent of independents surveyed will self-fund part of a new game's development. For independents, owning technology IP is also an important factor in increasing production efficiency and winning work for hire.
- There was strong agreement that independents struggle to get new original IP distributed. Many think new platforms open opportunities for new original IP, but a sizeable number of respondents think that the UK's ability to generate new IP is diminishing. Most think this situation will persist for the foreseeable future.
- Most companies face recruitment difficulties trying to find suitably skilled and experienced new staff, and 40 per cent of respondents' companies are expanding in competitor territories.
- Most respondents described heavy competitive pressure from playing fields made uneven by government subsidies and investment incentives overseas, and almost all wanted such incentives matched by tax breaks and prototype funds in the UK.



# Introduction to the monograph

## About Games Investor Consulting Limited

Games Investor Consulting is a specialist games industry consultancy founded in 2003 to provide independent games research and corporate finance consulting to the games industry and financial community. Games Investor Consulting is one of the industry's most trusted sources for market intelligence, has generated a number of industry-standard reports, has surveyed over 200 games companies internationally and has consulted on games strategy and research for numerous games and media companies as well as trade and governmental bodies.

## Methodology

Games Investor Consulting gathered primary data through interviews with senior industry figures, but the majority of the research derived from secondary research comprising desk-based research and Games Investor Consulting's existing knowledge of the European and global games industry and capital markets. Qualitative and, where possible, quantitative data processing was conducted. The project was broken down into five discrete work packages which were phased consecutively or in parallel between October 2006 and April 2007.

Data gathered for this report was accurate at the time of each monograph's completion, but, for reasons of budget and timing, new data could not be updated once a monograph was completed. The report focuses on a fast and ever-changing industry and therefore it represents a snapshot of the industry at the time of writing.

## Definitions

The following definitions are used throughout the report:

**AAA:** For the purpose of this report, an AAA IP means a game that has achieved over one million unit sales worldwide.

**Angel funding:** Funding for unlisted companies from high net worth individuals.

**BERR:** Department for Business, Enterprise & Regulatory Reform. BERR was one of the new Departments created following the major Machinery of Government changes announced in June 2007 which also saw the discontinuation of the DTI.

**Currency:** For the purposes of facilitating benchmarking between territories, all sums are in US dollars, with exchange rates from late November 2006 (£1:US\$1.9). Due to the extent of recent sterling exchange rate fluctuations, these figures may date rapidly.

**Current generation:** Still anachronistically referred to as 'next generation', this refers to the PlayStation 3 and Xbox 360 games console generation.

**DCMS:** The Department for Culture, Media and Sport.



# Introduction to the monograph

**DTI:** Department of Trade and Industry. This Department no longer exists following the Machinery of Government changes made in June 2007. Some of DTI's business support activities described in this report are now part of the newly-created BERR whilst others are part of the similarly newly-created Department for Innovation, Universities and Skills (DIUS).

**ELSPA:** The Entertainment and Leisure Software Publishers Association.

**IP:** Intellectual Property. Unless otherwise stated, the use of the word IP refers to games IP, as opposed to technology IP. IPR refers to Intellectual Property Rights.

**MMOG:** Massively multiplayer online games.

**Overages:** Royalties earned after advance payments from a publisher have been recouped by an independent developer against a pre-negotiated percentage of net receipts.

**Private capital:** Funding for unlisted companies from specialist private equity firms (a sector in which venture capital forms the most relevant part for games businesses).

**Public funding:** Funding for companies from national, federal, regional, provincial or state governmental funds.

**R&D:** Research and Development.

**RDA:** Regional Development Agency.

**RSA:** Regional Screen Agency.

**SKU:** a version of a game tailored for a specific platform.

**TIGA:** The trade association representing the interests of publisher's and independently owned development studios in the UK.

**Trade capital:** Commercial funding arrangements with games companies such as publishers.

**UKTI:** UK Trade & Investment.

**Work for hire:** Games development undertaken by independent games developers working on IP owned by third parties, usually publishers, from which most see limited or no post-advance revenues.



# Profiles of key UK games intellectual properties

## Introduction to the games IP profiles

The following ten profiles take some of the most successful, influential and representative pieces of intellectual property generated in the UK since the birth of the UK's games industry in the early 1980s. They are designed to provide an instructive historical background to the UK's industry as a leading games development market, and act as case studies highlighting the highs and lows of creating ground-breaking new IP, how IP can both accelerate and hold back the companies that originate or acquire them, and underline the importance of creating new IP in future in the UK.

The profiles, critical evaluations of the relevant companies, their strategies and their games, indicate lessons to be learned from the successes and failures of key IPs.

The choice of the games IPs profiled has been designed to provide a spectrum of major, AAA – selling (one million units or more) IPs generated in the UK, both in terms of both genre and their ownership by UK independents, UK-owned publishers and global publishers; their subsequent exploitation by new owners if acquired; and their progress, where appropriate, towards the present day.

Each profile will look at the IP, and its impact on the originating company. A timeline for the game's development and release will be followed by a history of the IP's ownership. A description of the game's inception and growth, will parallel a description of the company's inception and growth. Finally an analysis of the major factors contributing to the game's rise (and, in some cases, fall) will be made, with bulleted conclusions ending each profile.

Please note that Games Investor Consulting Limited generated this report in March 2007 and some facts and scenarios may have changed between completing and publishing the report.



# Profiles of key UK games intellectual properties

## IP profile 1: Tomb Raider

**Number of iterations:** seven across multiple platforms. There have also been three hand-held and three mobile releases, some of which have been original titles.

**Estimated total unit sales:** 31 million+ (console and PC)

### Timeline

- 1993: Development start
- 1996: Tomb Raider
- 1997: Tomb Raider 2
- 1998: Tomb Raider 3 Adventures of Lara Croft
- 1999: Tomb Raider 4 The Last Revelation
- 2000: Tomb Raider 5 Chronicles
- 2001: Lara Croft: Tomb Raider (movie) released by Paramount
- 2003: Lara Croft Tomb Raider: The Angel of Darkness
- 2003: Lara Croft Tomb Raider: The Cradle of Life (movie) released by Paramount
- 2006: Lara Croft Tomb Raider: Legend (Crystal Dynamics)

### Ownership history

- 1988: Core Design started by Jeremy Heath-Smith.
- 1994: CentreGold acquires Core Design to consolidate finances of U.S. Gold, Core Design and CentreSoft
- 1996: Eidos acquires CentreGold for £17.6m
- 1996: Sony Computer Entertainment (SCE) offers Eidos exclusivity arrangement for Tomb Raider 2-4
- 1998: Crystal Dynamics acquired by Eidos

2003: Responsibility for the development of Tomb Raider: Legend passed from Core Design to Crystal Dynamics. Jeremy Heath-Smith resigns to start a new studio

2004: Eidos seeks acquirer following consistent poor trading

2005: SCi acquires Eidos for £74 million

2006: SCi sells Core Design assets and staff to Rebellion

**Creator(s):** Toby Gard (Tomb Raider 1) and Phil Campbell

### Game inception and growth

Initially, the principal character in Tomb Raider was a placeholder for a male lead but was soon changed into a British female version of Indiana Jones (first envisaged as Laura Cruz, a militaristic heroine). Core Design also decided that their earlier ideas about creating an action game should change. Instead they decided to focus the gameplay around puzzles and stealth, with less shooting and killing (a position which gradually changed over the various iterations, slowly alienating some players). The first game was a very polished product, with platform-defining graphics showcasing what the PlayStation could achieve, classical music and a very cinematic approach to gameplay and narrative. Its third person viewpoint and varied camera angles allow a wide degree of interaction with the game environment, while keeping the main character in centre of camera. The narrative style involved the player but did not get in the way of gameplay.

Details about the game and its lead character were withheld until close to release, when the media were captivated by the character, her face appearing on covers of publications ranging from *The Face* to the *Financial Times*.



# Profiles of key UK games intellectual properties

Lara Croft, as she had finally been renamed, quickly achieved iconic status in the media, and captured the imagination of gamers worldwide. The controversial combination of Lara's hard-hitting femininity (some say it was appealing to female gamers) and pneumatic figure (most say it was appealing to teenage males) simply added fuel to the media fire, guaranteeing her headline news status to this day.

The game went through a number of iterations, with varying degrees of success in sales. Tomb Raider 2 represented the sales peak with over seven million unit sales, partly helped by a deal with Sony to keep Tomb Raider on the PlayStation platform to the exclusion of other platforms. The deal was one of the first major platform exclusives and Sony believes the deal contributed significantly to hardware sales in USA and Europe. The deal terms were never made public but they are understood to have comprised a substantial advertising "contribution" and co-marketing benefits (at point of sale as well as on multiple media). Despite the Sony exclusivity assistance, the third and fourth Tomb Raider titles failed to match the success of the first two but still managed in excess of 3.5 million units each. Tomb Raider Chronicles (the fifth in the series) arrived in 2000 as the PlayStation market had begun to decline and received only a lukewarm critical reception but still managed in excess of 3 million unit sales.

The sixth, Lara Croft Tomb Raider: The Angel of Darkness, proved particularly problematic because the technology transition between console generations (from PlayStation to PlayStation 2) was mishandled. The development team reportedly focused too heavily on the technical challenges of running the game on PlayStation 2, ignoring playability and gameplay. The end result was a late, buggy game that was critically mauled.

Although Eidos had initially shipped 2.3 million units, sell-through was slow and the actual revenue generated failed to meet the company's sales expectations. Stung by the potential death of its most valuable IP, Eidos made a radical move. It passed the development of the next in the series – Lara Croft Tomb Raider: Legend – from the Core Design team to Eidos' Crystal Dynamics studio in California. Under first the Eidos management and then the SCi management, Crystal Dynamics were given the time to get the technology right (building a new Tomb Raider engine to handle all current platforms including the Xbox 360) and focus on maximising the gameplay experience. With this move, the game returned to its roots, met with favourable reviews and, crucially, sold well, achieving over three million unit sales to date.

## **Company inception and growth**

Core Design was founded in 1988 as a games developer and made a name for itself creating original titles (such as the best-selling Rick Dangerous) and, in the mid 90s, technically innovative titles for various Sega consoles (most notably Thunderhawk for the short-lived SegaCD). By this stage, Core had begun to self-publish some of its products and its success was recognised by rapidly expanding publishing and distribution group CentreGold which acquired the company in 1994.

The first Tomb Raider game's development was achieved by a team of six people and was initially developed for the Sega Saturn console. Early Core Design team members say that the developer was having problems with development for the PS1 version (which was released after the Saturn version), but these problems were overcome eventually and, before the game was released, CentreGold was acquired for £17.6 million by newly listed Eidos.



# Profiles of key UK games intellectual properties

Eidos quickly disposed of CentreGold's distribution business but integrated all of CentreGold's development and publishing business except for Core, which it recognised as being the gem of the CentreGold group and granted special autonomy.

At the time of Tomb Raider's launch, Eidos was just a small (albeit comparatively well capitalised) company that had only been operating in the games sector for less than a year. But strong reviews, great gameplay, good marketing and Sony's championing of the game as a platform-defining product helped the first game sell in significant volume – over five million units. The franchise went on to become the principal driver of Eidos' remarkable four-year ascent, during which over a dozen additional companies were acquired or invested in. However, by the start of the 2000s Eidos' management of internal and, in particular, external studios had started to become loose and inefficient, with a blank cheque mentality that played havoc with the company's profitability. The introduction of new management at the top of Eidos brought a degree of respite and the company initiated a major cost reduction programme to improve its dwindling efficiency.

Unfortunately, this initiative failed to curtail the mounting problems being experienced with the development of the sixth Tomb Raider game, Lara Croft Tomb Raider: The Angel of Darkness, the first title being developed for PlayStation 2. Despite a massive development team, the project was beset by technical problems, the design focus was diffuse and the development cycle ran to well over 3 years. The title was finally released in 2003 following several much-publicised delays and with the final release candidate still incorporating numerous technical and gameplay problems. Sales of the game were unsurprisingly weaker than expected, and contributed to its continued financial underperformance. This ultimately led to the Eidos board's decision to seek a sale of the company.

SCI's purchase of Eidos, and the subsequent integration of its more successful approach to publishing management (a stronger emphasis on tight financial controls and a focus on execution) has seen wide-ranging changes. The underperforming team from Core Design has been sold to Rebellion, the Tomb Raider franchise was successfully passed to Crystal Dynamics (a process – passing a game from its originating team to a new one – which had rarely been undertaken successfully before elsewhere), and Tomb Raider itself has returned to strong financial performance with the 2006 release of Tomb Raider: Legend.

A unique aspect to this particular IP history is the property's diversification into other media. When Paramount had initially approached Eidos for the movie rights, there had been no successful game to movie cross-over. Eidos' management, however, underestimated the potential for Paramount's proposed dramatisation of its IP and secured what is estimated to have been only a low level, US\$1 million – US\$2 million fee per movie, including a complicated royalty deal that ultimately resulted in only limited royalty revenues. They did secure a more material percentage of any additional film-related merchandising revenues. A slightly better deal is thought to have been renegotiated for the second film, after the success of the first (which grossed US\$275 million in box office receipts alone), but the second film flopped ("only" managing US\$156 million in box office receipts) leading to an acrimonious dispute between Paramount and Eidos over who was to blame. In negotiating the original film deal, Eidos' management were much more concerned with protecting their brand from being mangled by Hollywood, and strove to retain final approval rights for the script and the casting of all Tomb Raider films. The other major flaw in Eidos' handling of the film was their inability to schedule the release of a game tie-in with each film, thus missing out on significant marketing expenditure by Paramount.



# Profiles of key UK games intellectual properties

## Analysis

In its 11 year history Tomb Raider has proven to be a pivotal IP for every company that has owned it. In Eidos' case, it single-handedly transformed the company from being a small regional publisher into an international player, but equally contributed to the company's downfall and eventual sale. In this regard, it has demonstrated IP's ability to be a double-edged sword. During the UK industry's history, a number of developers have gone under or been acquired in distressed sales while trying to bring out sequels to best-selling franchises that have over-run budgets, schedules or its internal team's production capabilities. This reflects a whole host of endemic problems in the UK development community but primarily a lack of management experience in companies struggling to manage growth after a major hit game.

That the Tomb Raider franchise has bounced back after critical savaging, the relative commercial failure of the sixth game in the series and the transfer of the franchise to an entirely new studio is a testament to the resilience of the underlying IP, the loyalty of its fan base, the patience of its new publishers and the ability of its new developers. Both the transfer and the resurrection of a brand many had feared was terminally damaged were almost unique achievements in the industry.

Despite striking numerous lucrative merchandising deals for Tomb Raider and Lara Croft, Eidos failed to demonstrate this shrewdness with the IP's biggest spin-off, the Tomb Raider films. Combined, these films generated over US\$400 million in global box office sales (comfortably the biggest game-to-film successes the industry had seen) and an unknown level of DVD, video and other film merchandising sales. Eidos, however, is not thought to have generated more than US\$20 million from them in total.

With over ten million units sold by the time the movie was green lit, Eidos could undoubtedly have been justified in securing a greater proportion of the film's receipts. However, this is far from an easy deal to negotiate: Microsoft's recent attempts to extract a significant percentage of box office receipts from a proposed movie based on its Halo franchise are considered by some to have contributed to the project's failure to secure funding.

Ownership of the Tomb Raider IP has changed hands several times, including most recently to SCi Entertainment Group PLC, where its improving fortunes have ensured that Eidos and its new parent company have prospered. It is still a critical IP for SCi, but the company has wisely diversified its portfolio to be less reliant on the franchise in future. Tomb Raider is the strongest IP to remain in the hands of a UK company, although SCi may change hands again in the short to medium term. Since there are no potential acquirers of scale in the UK, any purchaser (Time Warner recently took a ten per cent stake, but others have shown an interest) is unlikely to be a UK-based company. Once again, UK IP ownership may change hands to a larger US or possibly European company.

## Conclusions

- The strength and innovation of gameplay and character hooked players
- The character quickly achieved iconic status and captured the imagination of the press and public worldwide
- The first games showcased the potential of the PlayStation, leading to one of the first exclusivity deals signed by Sony to drive their platform
- The IP, acquired early by Eidos, has driven the success (and failure) of Eidos
- The sixth game underperformed when the originating studio failed to overcome the technical challenges of PlayStation 2, ultimately because of failures within Eidos' management team
- The franchise's transfer to a new studio resulted in an unprecedented revitalisation of the brand and it is still a critical IP for new owners SCi



# Profiles of key UK games intellectual properties

## IP profile 2: Grand Theft Auto

**Number of iterations:** six games plus two expansion packs for Grand Theft Auto (GTA) 1

**Estimated total unit sales:** 57 million (console and PC)

### Timeline

- 1997: GTA
- 1999: GTA 2
- 2001: GTA 3
- 2002: GTA Vice City
- 2004: GTA San Andreas
- 2005: GTA Liberty City Stories

### Ownership history

- 1988: DMA Design founded by Dave Jones
- 1991: Lemmings published by Psygnosis (eventually selling over ten million copies)
- 1997: DMA bought by Gremlin for £4.2 million (long-term GTA rights had already been pre-sold by DMA)
- 1997: GTA released by Take 2 (North America in June 1998), ASC Games (Asia), BMG Interactive (Europe)
- 1998: DMA's Body Harvest released on Nintendo 64, Take 2 acquires GTA publishing rights from BMG Interactive

- 1999: Gremlin bought by Infogrames for £24 million, who sold DMA to Take 2 for the nominal sum of £1 and the assumption of US\$12.3 million in debt. DMA was subsequently integrated into Rockstar Games, becoming Rockstar North
- 2002: Sony secures three year console exclusivity for the GTA series (the terms were never disclosed). This was later amended and terminated, allowing Take 2 to release it on Xbox
- 2004: GTA San Andreas becomes the best-selling game ever in the USA (12 million units sold)
- 2005: Develop study indicates RockStar North products generated £71 million in sales in the UK alone in 2004
- 2006: Microsoft secures exclusive levels of GTA's next generation 2007 release

**Creator(s):** Dave Jones (GTA 1) and team.



# Profiles of key UK games intellectual properties

## Game inception and growth

DMA Design had been asked to join Nintendo's "dream team" of independent developers to create launch titles for its new N64 platform. Body Harvest, a top-down 2D game involving driving and aliens harvesting human organs that was originally intended to launch with the new platform, was delayed until nearly three years after the platform's launch, held up by Nintendo's multiple requests for overhauls of the game to better suit the Japanese market. The game was eventually published in 1998 by DMA's new owners Gremlin. However, the game did so badly that the company had to announce a profit warning and start looking at its strategic options. The driving gameplay mechanics for Body Harvest were utilised in an interim game, Grand Theft Auto (GTA), which took the top-down 2D engine and switched the gameplay from the cops' perspective to that of the robber.

Despite a low production budget, relatively primitive graphics for the time and lukewarm critical reception, GTA was a commercial success in its first two iterations, selling over 630,000 (GTA) and one million units (GTA 2).

The game's violence and immorality immediately caused uproar in the conservative press in Europe and North America, which guaranteed the game publicity. However, gamers enjoyed the freedom of movement in large cities with huge numbers of activities including a range of linear missions, driving cars, shooting guns and entering a wide variety of buildings. The player could conduct assassinations, rob banks, drive taxis, shoot strangers and jack cars. In its earlier iterations before the advent of full (third person perspective) 3D in GTA3, the violence was fairly cartoon-like and viewed from a top-down 2D perspective. However, as the game progressed into 3D, the humour became more subtle and the violence more graphic, especially as the game began to ape more accurately the gang violence found in America's big cities.

The arrival of 3D and its launch on PlayStation 2 was the trigger for propelling GTA from a fairly successful, difficult game with relatively good sales to being a huge global success. Production values, under the auspices of DMA's new owners Take 2, rose sky high, 3D perspectives brought the player deeper into the action, narrative became more compelling, and the gameplay widened to include more and more activities including pimping hookers and fighting fires. Increasingly sophisticated, the game began to conjure memories of bygone days such as Vice City's 1980s Miami theme, and San Andreas' 1990s Los Angeles gang theme. GTA gradually added humorous "those were the days" features which both lauded and satirised US culture including radio stations, commercials, popular music and a dysfunctional urban environment.

The inclusion of a deeply buried set of sex scenes in the latter game caused Take 2 a great deal of negative publicity, but, while this story was beyond the publisher's control, the company has encouraged that kind of publicity since the first game was launched, and looks set to benefit from the release of GTA 4 on PlayStation 3 and Xbox 360 (which will boast some exclusive post-launch levels).

## Company inception and growth

DMA Design was formed in 1988 in Dundee by Dave Jones. The developer had some early successes with games such as Blood Money and Menace, before producing Lemmings in 1991. The Lemmings series of puzzle games became an enduring world-wide phenomenon with dozens of iterations released on almost every games platform. New SKUs continue to be released today and the series has now managed over ten million unit sales. Despite spawning the Lemmings series, DMA never owned the rights to it, having signed them to its long-term publishing partner Psygnosis (later acquired by Sony).



# Profiles of key UK games intellectual properties

DMA Design was itself acquired by Gremlin for £4.2 million in 1997, being subsumed into a combined development / publishing company with over 300 staff. Although the publishing rights to GTA were already under contract to BMG at the time of the acquisition and later Take 2 Interactive who acquired them from BMG in 1998, the underlying technology IP and the GTA development team were unequivocally Gremlin assets.

Gremlin grew to acquire a number of other development studios, and had invested heavily in its Actua sports series of titles, which initially started well but began to under-perform in 1998-99. Gremlin listed on the London Stock Exchange in 1997 shortly after the DMA acquisition but lasted 20 months before poor performance of key titles, in particular DMA's Body Harvest, forced a sale to Infogrames for £24 million, a valuation well below its high and even below its value at IPO. The acquisition in part showed that the management team lacked the experience and capital to play on a world stage increasingly dominated by larger US publishers.

As part of a complex rights deal, Take 2 acquired DMA from Infogrames for a nominal sum of just £1 (but also assumed some US\$12.3 million in company debt), incorporating it into its Rockstar Studios group of developers as Rockstar North. The team grew rapidly under Take 2, as the company invested heavily in the development of GTA's first iteration on PlayStation 2 (GTA 3). More recently, Rockstar Leeds was established (through the acquisition of UK handheld games developer Mobius Entertainment for US\$4.6m) as a new studio to develop a version of GTA for PSP called Liberty City Stories: for over six months this was the best-selling PSP title in the USA following its release in October 2005.

## Analysis

The GTA franchise is an example of a game that grew gradually from modest, local roots to achieve global renown and a position as one of the most valuable games IPs ever generated. The gameplay at the heart of GTA has not changed substantially since its inception. The kernel of the game – driving around a completely navigable environment committing crimes – is unchanged. Even when the game took the leap from limited top-down 2D graphics to full 3D environments, the move which drove the game from being a controversial medium-tier game to a game that dominates the charts upon every release, the gameplay itself did not change dramatically. Rather it became more refined, subtle even, as it tapped into an undercurrent of humour and cultural commentary that is extremely British in nature.

Much of GTA's success can be credited to Take 2's faith in DMA, its recognition of GTA's potential and its understanding of the drivers of its success. As a result, the series has been consistently and highly successfully marketed since its initial launch, which marketing savvy is central to its success.

The target audience is clearly male, but the marketing teams behind the game have used outraged parents, politicians and right-wing press as a brand vehicle for the target demographic as much as normal marketing channels. Teenagers buy the game as a result of their parent's generation's disapproval as much as for the game's merits. Max Clifford has been associated with ensuring that the media was saturated with and outraged in its coverage of the first game, and this "damn the consequences" publicity-maximising approach has persisted. Not all the publicity has produced positive results – Take 2 had to withdraw substantial numbers of its GTA: San Andreas title, at a cost of several tens of millions of dollars, from retail shelves following revelations about hidden sex



# Profiles of key UK games intellectual properties

scenes within the game. Take 2 has become the target of numerous powerful campaign groups, including the conservative Christian lobby in the USA. Take 2's similarly provocative Bully game has recently been banned in multiple territories, either by government or by retailers themselves. Its share price has taken a battering in the markets following a year of financial underperformance and a recent shareholder revolt has resulted in the ousting of many of the company's board members, including its CEO Paul Eibeler.

GTA 3 was also ground-breaking in that it was one of the first world-beating games that was built using third party middleware – Criterion's RenderWare – and not the games engine of the originating studio. This obviated the need for Rockstar North to spend years and millions of pounds researching and developing its own technology and allowed it to focus almost exclusively on maximising the quality of the game's content and gameplay.

GTA 3's use of RenderWare proved to be pivotal for Criterion and for the burgeoning games middleware market overall, precipitating a wave of commercial interest in RenderWare and other third party middleware solutions.

Given the number of companies that, at one stage, owned DMA Design or the publishing rights to the GTA IP, Take 2's acquisition of the publishing rights in 1998 from BMG Interactive (for an undisclosed but probably derisory sum) and then DMA Design in 1999 for just £1 must represent two of the greatest deals in games industry history. From the release of the first GTA title in 1997 until the end of January 2007, the GTA IP has generated US\$1.973 billion in net revenues for Take 2. At its height, the IP generated US\$458 million (38 per cent of net revenue) in a single financial year (2005) and it remains a significant cash cow for Take 2,

GTA 4 looks set to continue this trend. As long as the game retains the quality of gameplay of its predecessors, and production values are maintained on the current generation platforms of PlayStation 3 and Xbox 360 (on which Microsoft has negotiated some exclusive downloadable levels available only via Xbox Live Marketplace), and it continues to utilise strong marketing (all of which seem guaranteed), the game will continue to break records (as it did with San Andreas, which was the highest selling game across all platforms in the USA).

## Conclusions

- The series has strong gameplay, being sandbox games (where the player has free use of the game environment) with violence and criminality which the player is forbidden to enact in real life.
- Take 2 was shrewd in first acquiring the publishing rights to several iterations of the game, and then acquiring the entire share capital of DMA Design for just £1 (albeit also assuming over US\$12 million in debt). Since then, DMA Design/Rockstar North has generated over US\$2 billion in net revenues for Take 2 from its GTA franchise.
- Take 2 has consistently marketed GTA to maximise controversy, generating scandalised headlines and raising the games' appeal for its target market, young males.
- GTA 3 was secured by Sony as a PlayStation 2 exclusive game
- As the game progressed, GTA rose in quality, especially in terms of narrative, production and sophisticated humour, to attain Hollywood-level production values.
- GTA 3 was one of the first major games to utilise middleware (in this case Criterion's RenderWare) which kept its costs down and allowed its designers to focus on gameplay not technology.



# Profiles of key UK games intellectual properties

## IP profile 3: Championship Manager

**Number of iterations:** 18 games (including season updates and ports)

**Estimated total unit sales:** 5.5 million (console and PC)

### Timeline

- 1992: Championship Manager (Sports Interactive, Domark)
- 1993: Championship Manager 93/94 (Sports Interactive, Domark)
- 1995: Championship Manager 2 (Sports Interactive, Eidos)
- 1996: Championship Manager 96/97 (Sports Interactive, Eidos)
- 1997: Championship Manager 97/98 (Sports Interactive, Eidos)
- 1999: Championship Manager 3 (Sports Interactive, Eidos)
- 2000: Championship Manager 00/01 (Sports Interactive, Eidos)
- 2001: Championship Manager 01/02 (Sports Interactive, Eidos), Championship Manager Quiz (Sports Interactive, Eidos)
- 2003: Championship Manager 4 (Sports Interactive, Eidos), Championship Manager 03/04 (Sports Interactive, Eidos)
- 2004: Championship Manager 5 (Beautiful Game Studios, Eidos), Football Manager 2005 (Sports Interactive, Sega)
- 2005: Championship Manager 5 Solo (Dynamo Games, Eidos), Championship Manager 5 PSP (Gusto Games, Eidos), *Football Manager 2006 (Sports Interactive, Sega)*
- 2006: Championship Manager 2006 (Beautiful Game Studios, Eidos), Championship Manager 2006 PSP (Gusto Games, Eidos), Championship Manager 2006 Mobile (Dynamo Games, Eidos), Championship Manager 2007 (Beautiful Game Studios, Eidos), *Football Manager 2007 (Sports Interactive, Sega)*

### Ownership history

- 1992: First Championship Manager developed by brothers Paul and Oliver Collyer and published by Domark who secured the title's brand rights in perpetuity
- 1994: Sports Interactive incorporated
- 1995: Championship Manager IPR transfers to Eidos following their acquisition of Domark
- 2001: Sports Interactive co-founder Oliver Collyer leaves the company and the games industry
- 2003: Championship Manager 4 ships and breaks UK records for speed of sales. Sports Interactive and Eidos announce their mutual intention to end their publishing arrangement following the release of the Championship Manager 03/04 season update. Whilst Eidos retains the Championship Manager brand and interface rights, Sports Interactive retains the Championship Manager player database and underlying game code. Sports Interactive agrees to acquire the 25 per cent stake in it owned by Eidos for GBP0.5 million. Eidos forms Beautiful Game Studios, an internal team, to work on future Championship Manager titles. Sports Interactive starts work on new, rival football management game and begins search for a new publisher
- 2004: Sports Interactive secures long-term publishing deal with Sega but retains the full IPR to their new series, Football Manager. Eidos releases the first Championship Manager (version 5) developed by Beautiful Game Studios, based on a brand new engine and player database. The game is not well received and sells a fraction of the units of the previous version in the face of better-received competition from Sports Interactive's Football Manager 2005



# Profiles of key UK games intellectual properties

2005: Eidos dramatically expands Championship Manager franchise with a range of console, handheld, online and mobile versions

2006: Sports Interactive acquired by Sega for an estimated GBP30m

**Creator(s):** Paul Collyer and Oliver Collyer

## **Game inception and growth**

Like many UK games brands originating from the start of the 1990s and earlier, Championship Manager was the product of “bedroom” programmers – individuals and tiny teams operating out of their homes and developing games with no budget to speak of. Paul and Oliver Collyer, Championship Manager’s creators, were football fanatics who began developing football management games in the late 1980s. Their first professionally published title, Championship Manager, was released in 1992 following the signing of a publishing deal with UK publisher Domark. It was released on the dominant games platforms at the time, the Commodore Amiga and Atari ST, and was then ported to PC, the platform that was to remain at the core of its release schedule for over a decade, shortly afterwards.

The first Championship Manager title was written in BASIC, an extremely limited programming language favoured by amateur developers for its ease of use at the time. It was almost entirely text-based, offering little by way of graphics and, possibly because of this, it received middling review scores. The first game did coincide with the creation of the English Premier League and undoubtedly benefited from the rapidly increasing popularity of football that this precipitated. However, the early versions were hamstrung by the fact that they did not feature real player names but instead used randomly generated names.

The absence of player names and limited graphic appeal was in stark contrast to some of Championship Manager’s principal rivals at the time, in particular UK publisher Gremlin’s Premier Manager (a franchise also launched in 1992 and still continued to this day). With subsequent iterations, real player names and better graphics were added. The advent of the former allowed the Collyers to move their development schedule to one offering annual updates based on the latest football league information, with major engine updates launched every few years.

Championship Manager’s initial, exclusively British football league focus resulted in an approach from French publisher Ubisoft in 1993 to create a localised version using the Championship Manager engine for the French market. This product, called Guy Roux Manager, was to become a minor franchise for Ubisoft that lasted until 2000 although the Collyers had nothing to do with its development after the first few iterations. Sports Interactive also began to expand the scope of Championship Manager in 1996, adding European leagues and eventually leagues from all over the world. By Championship Manager 4 (2003), the game included 43 different leagues and a player database that exceeded 270,000 people. Researching this volume of information on a regular basis would have been impractical to do from Sports Interactive’s UK base, so the company decided to develop a global network of volunteers and part-time researchers to assist them. By 2004, this had reached some 2,500 people. Sports Interactive also attempted to expand into other sports using a combination of organic development and IP acquisition, launching sports management games based on ice hockey and baseball.



# Profiles of key UK games intellectual properties

One of the major drawbacks of Sports Interactive's Championship Manager engine was that it made extensive use of local storage (ie hard drive space) to record all of the permutations to the leagues and players that playing the game generated. This, however, precluded its deployment on non-hard drive games consoles such as PlayStation 2. The first variance to this came in 2002 following the launch for the hard drive-equipped Xbox when a version of Championship Manager 01/02 was converted to console for the first time. When Sports Interactive split from long-term publisher Eidos and Eidos was forced to create an entirely new management game engine, it used this opportunity to develop one which obviated the need for a hard drive and opened up the franchise to more console platforms. This took place in 2005 when Eidos released Championship Manager 5 on PC, Xbox and, for the first time, PS2. Eidos also launched a PSP version (Championship Manager 5 PSP), a version for mobile phones (Championship Manager 5 Solo) and a PC online version (Championship Manager Online). For the latter three SKUs, the core game engine created for Championship Manager 5 by Eidos' Beautiful Game Studios (set up to take over development of the Championship Manager brand) was adapted by third party developers Dynamo Games (UK), Gusto Games (UK) and Jadestone (Sweden). Gusto Games also developed the console versions of Championship Manager 5 and Championship Manager 2006 in close co-operation with Beautiful Game Studios.

Despite its unimpressive start, the Championship Manager brand developed into the world's largest football management franchise, the product of its continual, iterative improvements and the determination (and patience) of its developers and publishers. Its niche appeal gave it a small but dedicated following that could be seen as the epitome of hard-core gaming. However, no single iteration has managed over one million units and its sales records are all testament to the zealous loyalty rather than the size of its fan base.

## Company inception and growth

Sports Interactive was not founded by the Collyer brothers until 1994, two years after the commercial launch of the first Championship Manager. Possibly as a result of the brothers' unincorporated status, Domark, publisher of the first title, was able to secure outright ownership of the Championship Manager name whilst the Collyers retained the game code. This was, and remains to this day, a popular publishing method as it gives strong incentives for both the publisher and developer to remain in partnership whilst a franchise grows. The Championship Manager brand IPR transferred to Eidos, which also took over the publishing rights following its acquisition of Domark in 1995. As the Championship Manager brand grew in popularity, so did the barriers to severing Sports Interactive and Eidos' relationship. However, following the conclusion of Championship Manager 4 and with only the 03/04 season update left to deliver under the terms of its most recent (three title) publishing contract signed in 2000, Sports Interactive and Eidos announced in 2003 that they were parting company, citing "creative differences". As part of the deal, Sports Interactive also bought back the 25 per cent stake owned in it by Eidos for GBP0.5 million. It is believed that Sports Interactive was seeking improved terms which Eidos was not willing to provide and, following approaches by numerous publishers, Sports Interactive signed with Sega to establish a new, rival football management title, Football Manager. Sports Interactive parted with its game engine, player database and researcher network whilst Eidos established a new studio, Beautiful Game Studios, to continue the Championship Manager series using new technology and new developers.



# Profiles of key UK games intellectual properties

Unfortunately for Eidos, it was Football Manager rather than Championship Manager that continued where the latter had left off. Much of Football Manager's success was due to a very loyal fan base that stayed with Sports Interactive despite the change in game brand. Record sales and chart-topping positions of the new game ensued, leading to the Japanese publisher Sega's eventual acquisition of Sports Interactive and its newly established Football Manager brand for a reported GBP30 million in 2006. Championship Manager 2005 on the other hand suffered badly from the transition to its new development home, missing its Christmas release window, receiving a critical mauling and sales that were considerably less than both Football Manager and the previous, Sports Interactive-developed version of Championship Manager. Eidos, however, persevered with the franchise, expanding it to five platforms and its next release, Championship Manager 2006, received a better critical reception and improved sales (across all platforms, bar mobile, Championship Manager 2006 achieved 0.5 million unit sales in its first six months on sale). Eidos now aims to release new iterations on an annual basis on four to six platforms. Sports Interactive also aim to release multiple iterations on an annual basis and it remains to be seen who will triumph in the long run.

## Analysis

The Championship Manager franchise represents one of the most telling case studies of games IPR and where its inherent value lies. Born from bedroom programming roots and with its IPR split, from its first contract, between developer and publisher, the franchise grew steadily for over a decade providing both parties locked in this symbiotic relationship with regular profits and little incentive to part company. The core team at the heart of Sports Interactive has seen very few departures and staff retention rates are extremely high.

When the split between developer and publisher (thought to have resulted from simple commercial differences rather than the stated creative differences) came in 2003, it appeared that the inherent value of this established games franchise lay not in the brand name but in the loyalty of the fan base, the core technology, the developers behind it and the quality of the product. However, whilst the first Championship Manager created by Eidos' new Beautiful Game Studios suffered at the hands of reviewers and appeared to result in a substantial exodus to Sports Interactive's rival game, the subsequent version fared considerably better, managing some 500,000 units versus Football Manager 2006's estimated 800,000 units.

It should be remembered, however, that football management is a games genre that attracts a hard-core and highly dedicated following willing to commit tens of hours of game time to their favourite titles. This audience is considerably more discerning and knowledgeable than the mass-market, and less willing, as a result, to accept an inferior quality product. The recruitment of a loyal fan base early in its history, and the deep links (primarily online) established between players and developers resulted in fans' ideas being incorporated into the game, which further bound players to the company. There is, as a result, as the Championship Manager and Football Manager products' relative sales figures show, a direct correlation between critical reception and sales volume which is not evident in other, more mass market, genres.

Due to the limited graphical and animation requirements of the game, the team behind its creation has remained small. As the various iterations of the game proceeded and unit sales increased, the size of the team that made the game did not grow commensurately, despite a trend across the industry towards massive teams and high definition graphics which has seen team sizes dramatically increase.



# Profiles of key UK games intellectual properties

At the time of its sale to Sega, Sports Interactive still numbered under 40 staff. The economy of its development budgets, its formulaic nature, and its slow and incremental iteration over the years should ensure that Football Manager continues to be a successful franchise.

## Conclusions

- The game is based on the world's most popular sport, launching at a time (1992) of rapidly increasing popularity for the English domestic game
- Annual updates allow current football trends and data to be incorporated
- Deep gameplay necessitates considerable time dedication
- Deep connections to its fan base were built, resulting in hundreds of thousands of loyal players, several thousand volunteer researchers and ability of fans to input ideas into gameplay
- There was limited effective competition until the arrival of Football Manager series in 2004
- The franchise was highly profitable despite relatively limited sales, in part due to low development costs

## IP profile 4: Burnout

**Number of iterations:** five games

**Estimated total unit sales:** eight million + (console and PC)

## Timeline

- 1997: Sub-culture (Criterion's first internally-developed game, Ubisoft)
- 2000: RenderWare 3 middleware suite, Burnout (Criterion Games, Acclaim Entertainment)
- 2002: Burnout 2: Point of Impact (Criterion Games, Acclaim Entertainment)
- 2004: Burnout 3: Takedown (Criterion Games, Electronic Arts)
- 2005: Burnout Legends (Criterion Games, Electronic Arts)
- 2005: Burnout Revenge (Criterion Games, Electronic Arts)

## Ownership history

- 1993: Criterion Software founded as a wholly-owned subsidiary of Canon Inc. to specialise in the development of graphics-rendering technology
- 1997: Criterion forms internal games development studio to help development and marketing of its struggling middleware business
- 1999: Burnout publishing rights secured by Acclaim Entertainment
- 2002: Burnout 2: Point of Impact publishing rights secured by Acclaim Entertainment
- 2004: Burnout 3 publishing rights acquired by Electronic Arts
- 2004: Criterion Software Group acquired by Electronic Arts for USD68 million in cash. Acclaim Entertainment goes into liquidation

**Creator(s):** No single individual credited



# Profiles of key UK games intellectual properties

## Game inception and growth

Burnout was created in 1999/2000 by the internal games development division of Criterion Software Group. It made use of RenderWare 3, the most recently released version of the company's core middleware software and was used by Criterion to assist in the continued development of its RenderWare technology and its marketing and sale. Although reworking the well-known racing genre, the game was innovative in that it was designed as an "arcade-style" car-racing game, with a greater emphasis on ease of use and instant gameplay gratification rather than the accurate modelling of car dynamics and less immediate gameplay features of many contemporary driving games franchises such as Gran Turismo and Colin McRae. Unlike most of the successful racing games of the period, Burnout was set on urban and country roadways (rather than dedicated racing tracks) amongst non-racing traffic as well as other racing competitors. This sort of "illicit" gameplay mirrors Grand Theft Auto in enabling gamers to do things on screen which they would not be able to do (or would be prosecuted for doing) in real life. Players were rewarded for setting time records, finishing ahead of opponents and, uniquely, for driving aggressively. As the Burnout series progressed, more emphasis was placed on the latter gameplay concept and the accompanying slow-motion replays that allowed players to show off their driving stunts and recklessness in a highly cinematic format.

Burnout 3: Takedown was a pivotal release, which condensed the kernel of aggressive gameplay at the heart of the game into the main game mechanic. The first game published by Electronic Arts, Burnout 3 placed the concept of causing your opponents to crash spectacularly and driving as recklessly as possible at the heart of the gameplay. A burn meter feature rewards players driving head-on at incoming traffic or cornering at great speed.

The combination of the two dramatically opened up the North American market, a territory in which the previous Burnout titles had failed to make a critical or commercial impression under the auspices of Acclaim Entertainment. This trend was continued with Burnout Revenge, the fourth major release in the series and Burnout Legends, a new Burnout title designed exclusively for PSP, that incorporated elements from all three previous games. Burnout remains a key driving franchise for Electronic Arts, sitting surprisingly successfully alongside its other major racing franchise, Need For Speed, a series that has increasingly begun to mimic Burnout for gameplay features and game style. Burnout 5 is currently in development by Criterion Games for a 2007 release.

## Company inception and growth

Criterion Software, a wholly-owned subsidiary of Canon Inc., was formed in 1993 by David Lau-Kee, who had previously founded and headed up Canon's European research division. It was established to continue the research and development of graphics-rendering technology begun a few years earlier and which was originally designed to take advantage of Canon's computer and imaging hardware. Criterion began to move into the games market shortly afterwards and began to re-focus its RenderWare software towards 3D and games rendering but met with limited success. Criterion would undoubtedly have failed if it had not been for the patience and deep pockets of its parent company. The company decided to complement its struggling middleware business in 1997 with the establishment of a full games development studio in an attempt to diversify its revenue streams; to acquire, for its middleware development team, a more detailed understanding of the challenges of games development; and to demonstrate the efficacy of its middleware solutions.



# Profiles of key UK games intellectual properties

However, its first three forays into full games development, despite steadily improving critical and commercial reception, failed to propel the company into profit and self-sufficiency.

The turning point for Criterion came in 2000 with the release of RenderWare 3, a complete middleware solution catering to, amongst other games platforms, the recently released PlayStation 2 console. At that time, developers were struggling to manage the technology leap from PlayStation to its considerably more complex successor, and a technology solution to solve some development issues found an immediate market. RenderWare 3 obviated the need for extensive games technology development by providing a ready-made games “engine” around which, in theory, almost any style of game could be built. Developed in parallel to this was Burnout, Criterion’s fourth internally-developed game. With Canon’s balance sheet to support it and with extensive reliance on the RenderWare 3 technology, Criterion was able to self-finance the development of Burnout and managed to retain the full brand as well as technology IPR when it sold the publishing rights to the title to Acclaim Entertainment. The game’s success in Europe, in particular, gave rise to a sequel which was also signed to Acclaim on improved terms and was developed in a remarkable eight months, a potent advertisement for its RenderWare 3 technology. Despite combined sales of two million units, the Burnout titles, however, had not fared well in the USA. In part, this was due to what was considered a more European-oriented games design for these titles. However Acclaim was experiencing an increasingly restricted financial position and it simply lacked the financial muscle to provide proper marketing and sales support in its home territory.

Around the same time, Criterion had begun to receive approaches from Electronic Arts, interested in its middleware as well as its games in development, Burnout 3 and a new IP called Black. This led to Criterion jumping ship from Acclaim to sign the publishing rights to both IPs to Electronic Arts. As the value and quality of the IP quickly became clear, later in the same year EA completed an outright acquisition from Canon of Criterion’s games and middleware businesses for \$US68 million in cash.

## Analysis

Although Electronic Arts’ acquisition of Criterion brought in games IP, development teams and market-leading middleware technology, it could be argued that Electronic Arts’ decision to acquire Criterion Software was based more on the potential of the Black game, then in early-stage development, and the desire to bring the well-known and already successful Burnout IP in house than to acquire the RenderWare technology and staff. By the time of its acquisition, Criterion was comfortably the middleware market leader with over 500 titles having been developed using its technology. The market’s reasonable expectation was that RenderWare would dominate the current PlayStation 3 / Xbox 360 cycle too. However, the RenderWare licensing business quickly (and unsurprisingly) died after the acquisition because third parties decided against relying on their largest rival for a core part of their development and because EA reduced third party support for the product. Although the middleware division was intended to form the heart of Electronic Arts’ next generation technology development, Electronic Arts scaled back this ambition and even went on to licence other third party middleware (Epic’s Unreal Engine 3). The RenderWare division is now part of a global EA Technology division with its main centres in Vancouver and Guildford.



# Profiles of key UK games intellectual properties

The value to Electronic Arts of the acquisition of Criterion's middleware business was therefore as much its market-spoiling effect (it forced many of its rivals to scramble to find alternative technology or hastily turn to in-house solutions) as its utility as an internal technology platform. Both are difficult to measure but are likely to be limited compared to the value gained from the acquisition of Criterion's games development business and its accompanying IP. Electronic Arts has not formally revealed sales figures for its Burnout releases although we estimate that Burnout 3, Burnout Legends and Burnout Revenge have together accrued over six million unit sales whilst Black went on to achieve over two million unit sales. This would have represented over \$US 200 million in very profitable (given Criterion Games' relatively low development costs) revenues for Electronic Arts in the two years following the acquisition of Criterion. Electronic Arts had already seen the potential of the Burnout series with two million units recorded by their poorly performing and financially hamstrung publishing rivals Acclaim Entertainment and would have been very confident of considerably greater sales success for the franchise. As such, Criterion's acquisition is a typical example of an acquisition driven by successful, AAA IP.

The Burnout franchise succeeded because of a combination of reasonably novel and high-quality games design and the support of its two owners, Canon and Electronic Arts. For many years Criterion, as a subsidiary of Canon, was a heavily loss-making division that relied entirely on the financial support of its parent. This was critical also for both the subsidisation of the company's games development business (for which the creation of a hit product was just one of a number of business goals) as well as its ability to retain its games IPR when securing a publisher.

Electronic Arts, on the other hand, provided the platform from which the Burnout franchise was able to expand its appeal and substantially increase its sales.

## Conclusions

- The game had a short learning curve, instant gameplay gratification and mass-market design appeal
- It offered the novelty of aggressive driving gameplay features but also the use of roads populated with non-participating (but fully interactive) traffic
- Quality of cinematic visual style for replays and use of blurring to add to sensation of speed
- Distribution, marketing and sales might of Electronic Arts backed Burnout 3 and subsequent releases
- Use of RenderWare middleware allowed developers to focus on design and gameplay enhancements (rather than technology development)



# Profiles of key UK games intellectual properties

## IP profile 5: Worms

**Number of iterations:** 11 major iterations, two spin-offs

**Estimated total unit sales:** 12 million (console and PC)

### Timeline

- 1995: Worms (Amiga)
- 1995: Worms Reinforcements (DOS)
- 1996: Worms United
- 1998: Worms 2
- 1999: Worms Armageddon
- 2001: Worms World Party
- 2002: Worms Blast
- 2003: Worms 3D
- 2004: Worms Forts Under siege
- 2005: Worms 4 Mayhem
- 2006: Worms Open Warfare
- 2007: Worms HD

### Ownership history

- 1987: 17Bit Software formed within Microbyte
- 1990: Team 17 formed out of initial teams

**Creator(s):** Andy Davidson

### Game inception and growth

The original game was designed by a lone programmer in his bedroom. The first concept, called Artillery, did not feature worms at all, but soldiers and tanks. Its creator, Andy Davidson, entered the game, now called Wormage, into a competition run by Amiga Format magazine, where it failed to make an impact. Undeterred, Davidson then took it to the European Computer Trade Show in London in 1994, and showed it to a producer from Team 17, who agreed to develop and publish it under the title Worms. The original game featured turn-based combat on a fully deformable landscape, with touches of quirky humour, strong animation and characterisation. The original was darker and slightly less cartoony than later sequels, but had the trademark “bloke-ish” humour characteristic of its target audience, a feature that helped its sales perform well. It also featured strange, comedic weapons in an unpredictable terrain that changed with each game session, which encouraged repeat play and acted as a hook for sequels. The game sold well on Amiga, and was later published by Ocean on a number of additional platforms.

For the second game, the teams split into two, one working on the final Amiga version and the other working on the most viable of new platforms, the PC and other formats. This split was the result of an amicable difference of opinion between the originator Davidson and the Team 17 producers. Davidson’s version was released onto the dying Amiga format, and sold barely 5,000 units. Worms Reinforcements did better on PC, and succeeded in recruiting a community of Worms addicts that suggested new gameplay elements and kept the faith between instalments, encouraged by Team 17’s community site the Allotment. Worms 2 featured a reworked game engine, support for better resolution graphics and it introduced both customisation to the game, allowing players to change many of the game’s settings, and some limited online play.



# Profiles of key UK games intellectual properties

The graphical style also changed slightly, becoming more cartoony and seemingly targeting a younger audience. Nevertheless, it sold well.

With the delayed publication of Worms Armageddon in 1999, however, the game took a step forwards, adding 33 missions in a wider campaign, death match features and more extensive online play, which, while it was abused by some, was popular. Reductions in customisation and some persistent problems with the online play caused further rifts with the game's fans. Before Armageddon was released, Davidson, having operated at arm's length from the company for some time after some disputes over the game's direction, formally left the company to pursue other projects.

The developer made the leap to 3D in 2003, to produce a game with 3D terrain, more detailed missions and levels and a decidedly more youthful feel. Having finally alienated its core users by the more approachable style of game, the game sold less well than previous versions. Some of the game's original appeal – its focus on gameplay and humour – were downplayed in this version, which pushed graphics to the fore. However, the handheld, 2D version of the game was a return to form for the company, and the success of Worms Open Warfare on DS and PSP has stimulated a deal with Microsoft Games Studios who are publishing Worms HD on Xbox Live Arcade.

## Company inception and growth

17Bit software was formed in 1987 within the Microbyte retail chain to produce and publish games for the Amiga platform, the market-leading platform of the day. Initially, the company was largely staffed by freelancers but in 1990, Team 17 coalesced more formally, separating from Microbyte to form a new company.

Its first game was Full Contact which topped the format's charts for weeks. Following this success, a run of popular games followed including Alien Breed, Assassin, Project-X and Body Blows. A collaboration with Ocean Software saw their reach extend to more platforms, driving better global sales. For a time, Team 17 also acted as a publisher for small UK developers such as Audios and Eclipse.

The Worms franchise began with a lucky break for Team 17, finding a random programmer (Davidson) at a trade show who had a game concept that would hook millions of players. The company was doing well before the game was published, but this title took the company's revenues to a new level. It expanded on back of a number of releases of the franchise. The company did face a few bumps along the way in the mid-00s. Acclaim, its partner of a previous game and funder of the Under Siege version of Worms suddenly collapsed in 2004, leaving Team 17 with a hole in its finances. More set-backs came when Worms 3D failed to sell as well as hoped. Despite offers to purchase both the company and the IP, Team 17 has remained a privately-owned company, and is still based in West Yorkshire. Its fortunes have revived with the success of Worms games based on the original game concept, on new releases on new digital platforms such as Xbox Live Arcade and its success in winning work for hire from long-term partners to work on games such as Lemmings on PSP.

## Analysis

Worms is an interesting case study because it is a rare example of a prominent UK IP that was developed from scratch to become an AAA seller, which then peaked in sales, declined and was finally successfully resurrected to perform well on smaller platforms. The franchise has been a success in spite of working with many different publishers, whose number could have muddied brand, distribution and audience.



# Profiles of key UK games intellectual properties

The company had a track record of developing many good games before Worms, and had nurtured relationships with publisher partners that allowed it to secure better distribution as the franchise grew. Worms was also the product of a generation of games consoles that were cheap to develop for and whose number and spread allowed developers to specialise in, and get the best out of, individual platforms, even in an immature publishing market. Worms' decline as a franchise was triggered by succumbing to the temptation to go 3D, which ironically has historically been a trigger for other franchises' sales to soar. The game's fortunes were ultimately in the hands of a classic 90s gamer demographic who remained loyal to a simple, addictive game with few pretensions towards being graphically impressive. The game flourished as Team 17 marketed to their customer base, allowing them to buy into the game through community features and gameplay suggestions. The game began to wane as it abandoned some of its founding principles of humour, re-playability, lo-fi graphics and imaginative weaponry, features cherished by its core user group. No doubt its renewed success on new platforms has in part attracted back some of its original players, although their launch on new platforms probably means that the game is reaching new audiences.

Team 17 has resolutely stayed independent, even through bad patches where the company's future was in doubt. This survival has undoubtedly been assured by some fairly level-headed management and some financial decisions that were beneficial in the long term, particularly when the company faced shortfalls due to lack of projects or a defunct publisher. Team 17 has also held onto its IP so tightly that no publisher has taken rights away from the company, and this remains the case today.

The IP has in many ways assisted the company to reach its position now as one of the UK's leading independent developers, although it is fair to say that Team 17's portfolio of IP is not at all balanced, listing heavily in the direction of its one major franchise.

Despite its success with original IP, Team 17 now is notable in demonstrating the trend that is seeing major UK developers turn towards work for hire. The future success of its IPs, including Worms, will be reliant on selling well on new platforms such as handheld and the online console games platforms such as Xbox Live Arcade. As publishers turn towards demanding ownership or at least control of all IP in their portfolios, it will be interesting to see whether Team 17's approach can be maintained and if future iterations will reach as wide an audience as earlier versions released when publishers exerted less of a stranglehold on new IP.

## Conclusions

- Worms succeeded through a combination of quirky humour, unique characterisation, replay value and careful marketing towards its user base
- A very loyal fan base helped the game grow in sales, and web-based community features were instrumental in hooking more players
- The IP has never been sold or licensed for more than a limited time to third parties, allowing the developer to harvest significant long-term value from its property
- The developer has been well managed by executives who value building relationships while keeping a firm hold of proprietary IP
- Despite the success of Worms and other own-IP games, Team 17 is inexorably moving towards becoming a work for hire developer



# Profiles of key UK games intellectual properties

## IP profile 6: Black and White

**Number of iterations:** two major releases and one expansion

**Estimated total unit sales:** 2.5 – 3 million (PC)

### Timeline

1989: Populous

2001: Black and White

2002: Black and White Creature Isle (expansion disk)

2005: Black and White 2

### Ownership history

1987: Bullfrog founded by Les Edgar and Peter Molyneux

1989: Populous, the first 'god-sim' game released on PC

1995: Bullfrog acquired by EA for an estimated US\$25m – US\$30m

1997: Peter Molyneux leaves EA to form Lionhead Studios with Richard Evans, Mark Hedley, Steve Jackson and Tim Rance

1998: EA Distribution secured as publisher for Black and White

2000: Lionhead initiates satellite development studio structure,

2002: Lionhead investigates flotation on London Stock Exchange

2004: Lionhead takes on investment of an estimated £7 million from a consortium of investors (IDG Ventures Europe, Ingenious Ventures and Add Partners), Fable released, reaching over two million unit sales

2005: Black and White 2, Fable: the Lost Chapters and The Movies released

2006: Lionhead initiates major restructuring, making 50 development staff redundant.

2006: Lionhead is acquired by Microsoft one month later for an undisclosed sum

**Creator(s):** Peter Molyneux, Richard Evans

## Game inception and growth

The concept of the god simulation or "god-sim" strategy games which place the player in the role of god-like entities, can be traced back to 1989 and the release of Populous by Peter Molyneux's first Guildford-based development studio, Bullfrog. Populous proved to be Molyneux's most successful game series, going on to achieve an estimated four million unit sales across multiple SKUs.

Black and White was formed when Peter Molyneux and Richard Evans left Electronic Arts to form a new company, based on creating quality games using small teams. They quickly secured a publishing agreement with EA and began development in earnest with a new team largely staffed by ex-Bullfrog staff and Cambridge graduates. The game takes some of the core gameplay concepts of Populous and expands upon it, adding a more open-ended game structure, artificial life simulation (developed by Richard Evans) and expanding the strategy components. Players use their divine powers to cajole and persuade villagers on an island to worship them, and also make use of a semi-autonomous (ie AI-powered) fabled creature which inhabits the island and performs acts of violence, benevolence or assistance for the player. The game's name refers to the moral dilemmas posed by this gameplay.

The game's release was delayed several times as gameplay tweaks and improvements were added. However, when it was finally released, Black and White was very well received by the critical press, and was acclaimed for its novel features and gameplay. Its success spawned an expansion pack (Black and White Creature Isle). Together they achieved some two million unit sales.



# Profiles of key UK games intellectual properties

The game was only ever released on PC; development of PlayStation and Dreamcast versions of the game was started but they were never released.

By the time work began on Black and White 2, Lionhead was working on a number of titles (Fable, and The Movies) as well as developing new game concepts. The size of the development team had grown dramatically from 25 on the first game to over 70 on the second, and an overall company headcount of over 220. The efficiency of such a large team was low, its senior production managers were overloaded and the company's senior management were being distracted by protracted attempts to raise finance while managing three large teams. The sequel was based on a moderately improved version of the original game engine and featured a more structured form of gameplay. It was well received by the critical press but not as well received as the original (later attributed by Molyneux to failing quality levels after a rushed release). Possibly because of this, the game underperformed commercially, achieving only a fraction of the unit sales of the original.

## Company inception and growth

Lionhead Studios was set up by Peter Molyneux, Steve Jackson (co-founder of Games Workshop with Eidos' Ian Livingstone), Mark Webley and Tim Rance in 1997 and was largely staffed by ex-Bullfrog employees who had also left Electronic Arts and Cambridge graduates. The original aim was to create and maintain only a small development team working on a single title. Black and White was their first title and, with the company financially underpinned by Peter Molyneux, the company was able to secure an advantageous publishing deal with Electronic Arts' Distribution business (a business separate to the main, higher margin EA publishing business that focuses on publishing games IP owned by third parties) well before major development milestones were reached.

However, Lionhead found itself being approached by several other development teams and it saw an opportunity to nurture them by setting up a "satellite development" business where Lionhead would help secure publishing deals and provide admin support in return for equity and royalty participation. Under this system, Lionhead quickly took on two new teams, Intrepid and Big Blue Box and even separated out the Black and White development team in 2000 to form Black and White Studios. The satellite concept, however, failed to work well. Intrepid had its project cancelled and the studio was subsequently closed. Big Blue Box, which developed Fable for Microsoft, was eventually brought in-house after selling over three million copies. Black and White Studios was in effect only an internal division formed to allow a degree of development management autonomy and it never acted as a true satellite.

Partly driven by the satellite system but also by the cash flow from Black and White sales, Lionhead expanded rapidly, at its peak hiring two to three new staff each week. By early 2006, despite being founded on the principle of keeping development teams small, it numbered 220 staff, and was burning over £1 million per month. The management decided it needed more infrastructure to handle its large teams, and in 2001 it began to investigate a flotation on the London Stock Exchange. At the time approaching the apex of its dotcom-inspired ascent, the company's management found itself stretched between meeting potential investors, re-structuring the company to prepare it for a public listing and managing the company's continued growth. The collapse of the dotcom bubble brought the flotation process to a halt and the company had to, once again, re-organise itself for its continued unlisted (and, at that stage, under-funded) existence. Needing a greater cash inflow than publisher funding was providing, Lionhead next sought venture capital and secured an estimated £7 million investment from a consortium of UK-based investors (IDG Ventures Europe, Ingenious Ventures and Add Partners).



# Profiles of key UK games intellectual properties

Unfortunately for the investors, of Lionhead's three major titles in development two – Black and White 2 and The Movies – failed to live up to their promise although the third, Fable, was a success achieving around 1.5 million unit sales in its first month and over three million to date. Like many of Lionhead's products, Fable had experienced a difficult development process with several release date postponements. The company had begun to get less stable financially, with one project bootstrapping another late game. The elevated cost that this represented, combined with the commercial inertia of Black and White 2 and The Movies' poor sales forced Lionhead to undergo yet another restructuring whilst starting the search for a potential acquirer. Lionhead reduced its headcount to around 135, even letting 85 staff go just a month before its acquisition in 2006. A number of publishers were courted but of the final three it was eventually Microsoft that acquired Lionhead for a sum believed to be around US\$40 million (of which half is believed to have been debt repayment).

Although Lionhead's sale appears to have been made under a degree of duress from its investors ready for an exit and from disappointing sales of two out of three of its major franchises, its management were greatly relieved to find financial stability within a major publisher and go back to creating innovative games. Its sale value reflected both the IP rights and the creative force at the company's centre.

## **Analysis**

Black and White was a truly novel game that successfully merged several genres whilst retaining a high-quality of gameplay. Its commercial and critical success suggested an extremely bright future for Lionhead Studios, its developers.

However, instead of adhering to its original ambition of remaining a small, focused single-team developer, Lionhead committed the cardinal sin of games development, expanding too rapidly on the assumption that all games would match the quality of the first. Whilst Black and White 2 was being developed, Lionhead's focus began to be spread amongst numerous other projects. Instead of focusing on execution, its management team became distracted and tied down with flotation and then venture capital investment. The additional investment secured in the middle of the company's lifecycle helped its survival and expansion but undoubtedly hastened its premature sale.

The expansion of concurrent development teams has often historically proven challenging for games developers and Lionhead's expansion and then sudden contraction after a successful first game is mirrored in the demise of many a UK studio. To attempt such an expansion whilst the senior management are heavily distracted with non-games issues only compounded the potential for disaster. The cancellation of a number of Lionhead projects and the commercial failure of key releases Black and White 2 and The Movies were undoubtedly attributable in part to Lionhead's failure to grow in a controlled way. Ultimately, Black and White's potential as a major games franchise was damaged, possibly irredeemably, by its flawed sequel and it is likely that most of Microsoft's estimated US\$40 million valuation of Lionhead Studios was based on bringing Fable (and also Peter Molyneux himself) in-house. We do not believe that the Black and White IPR featured prominently in the valuation and it seems unlikely at this stage whether any further Black and White games will be produced.



# Profiles of key UK games intellectual properties

## Conclusions

- The game received a strong critical reception with very high average review scores
- Novel gameplay combines god-sim, artificial life and strategy genres
- The original title had a highly open-ended game design
- The original title benefited from being published by Electronic Arts, the largest games publisher in the world, and from a massive PR campaign which was headed by Peter Molyneux, one of the best-known British games developers
- The development team, many of whom had worked at Bullfrog, had a strong pedigree

## IP profile 7: Elite

**Number of iterations:** three games (and over 20 SKUs, many with minor alterations)

**Estimated total unit sales:** 1.6 million+ (across 11 computer formats and one console)

### Timeline

1984: Elite

1993: Frontier Elite: 2

1995: Frontier First Encounters

### Ownership history

1984: Elite created by Ian Bell and David Braben

1988: David Braben secures exclusive sequel rights to Elite from Ian Bell in return for ten per cent of David Braben's net receipts from the first sequel.

Subsequent sequel rights were granted by Bell to Braben royalty free.

1993: Frontier Elite: 2, the first official sequel to the original Elite, released

1994: Frontier Developments incorporated, starts development of Frontier First Encounters, the first Elite title for which David Braben is the sole copyright holder.

Ian Bell challenges David Braben over the ownership of the Elite IPR.

This eventually leads to litigation by David Braben against Ian Bell.

1999: A new IPR ownership spat is initiated when David Braben challenges a website run by Ian Bell from which material from the original Elite can be

downloaded for free. This is eventually resolved in 2000.

**Creator(s):** David Braben and Ian Bell



# Profiles of key UK games intellectual properties

## Game inception and growth

Elite was created by Ian Bell and David Braben whilst they were undergraduates at Cambridge University. The first version was written for the BBC Micro computer and was published by Acornsoft (makers of the BBC Micro) after it had been rejected by Thorn EMI. Elite was a space-trading and combat game set in a colossal (even by today's standards) game universe that comprised eight galaxies and over 2,000 visitable worlds. The aim of the original game was to advance characters through a series of ranks (based on ship kills), accumulating wealth and possessions along the way. Unlike most games of the time, Elite featured non-linear gameplay similar to many role-playing games. This gave players the flexibility to explore the Elite universe, and reach new ranks and levels of wealth in whichever way they chose. Thus players could opt to pursue both legal and illegal trading activities, become a pirate or bounty-hunter or undertake military missions or even mine asteroids for valuable minerals. As such, Elite did not actually have an ending as players could continue to play in the game universe even after they had attained the highest rank. Elite is also noted for featuring a number of novel technologies including 3D (wire-frame) graphics, procedurally generated worlds (necessary for such an expansive game universe), a living and reactive galaxy-wide economic model. The result was a remarkable feat considering the 32Kb memory limitations of the BBC Micro. The game received almost universal critical praise as well as considerable commercial success and, in subsequent years, the title was ported to some 20 different platforms.

An aborted attempt at a sequel was started in 1985 but was shelved to allow Ian Bell and David Braben to focus on other matters, which in Braben's case meant the development of other (non Elite) titles.

A sequel, developed by David Braben (but not Ian Bell who had signed over the sequel rights to David Braben several years earlier) was released nine years after the original Elite, following over five years of development and featuring much improved graphics, the ability to visit planet surfaces and more accurate space flight physics. This too met with commercial success but critical praise was less universal. David Braben almost immediately started work on a new Elite title, incorporating Frontier Developments in 1994 to handle the development. However, under pressure from their financially struggling publisher, Gametek, Frontier's First Encounters was released before adequate testing had been completed and still had unresolved bugs. The game received a poor critical reception as a result and it flopped commercially despite further graphical and gameplay improvements over the previous Elite incarnation.

Frontier Developments explored the potential of an Elite MMOG in 2000 but the project failed to get off the ground. David Braben revealed his intention to start work on two Elite titles in an interview in 2006 (a single-player Elite and the MMOG version) although it is thought that no work would start until the release of Frontier Developments' current major project, The Outsider, is finished (expected in late 2008).

## Company inception and growth

Frontier Developments Ltd was incorporated in 1994, ten years after the first Elite game was published, but it had existed informally before this point and had produced both Elite Plus and Frontier Elite: 2. The original Elite was jointly developed and owned by David Braben and Ian Bell. As was common for the time, they had personally entered into a contract with Acornsoft, Elite's publishers.



# Profiles of key UK games intellectual properties

Recognising its quality and the potential for improving hardware sales, Acornsoft took a major risk investing in a high-profile launch campaign and using comparatively extravagant (and expensive) packaging for the game. The BBC version went on to achieve sales of 150,000 (representing a near 1:1 tie ratio of software versus hardware sales at the time) and this led to intense competition for the publishing rights to the title on other platforms. This was eventually won by BT Telecomsoft's Firebird publishing label following one of the first games IPR auctions (handled by a games agent, also something of a novelty at the time). The title went on to sell a reported total of over one million units. Following the aborted attempt at a sequel, David Braben proceeded onto other games development projects, writing Zarch and Virus. He returned to Elite after securing from his former partner the exclusive sequel rights (and the right to re-use material created for the original Elite) to Elite in return for a ten per cent royalty (of net receipts to David Braben) for the first sequel. The sequel, Frontier Elite:2 – published by UK-based Gametek (following the original publisher Konami's withdrawal from the PC publishing market and subsequent sale of the Frontier Elite:2 rights) – became Europe's best-selling title of 1993, notching up some 500,000 sales.

Buoyed by this commercial success, Gametek and Braben agreed to produce a further Elite title, Frontier First Encounters. David Braben established Frontier Developments' to work on its development. However, its premature release in 1995 undoubtedly damaged both the title's sales and the reputation of the Elite brand – no other Elite title has been produced since. Its botched release also led to a protracted legal battle between Gametek and David Braben with whom the publishing contract had been signed. This litigation was eventually resolved in David Braben's favour in 1999, a year after Gametek went into liquidation.

Frontier has gone on to become one of the UK's largest studios, working on both original IP and work for hire from major publishers.

## Analysis

Elite was a truly seminal games property that featured both technology and gameplay concepts that were not just years ahead of their time but in some cases have still to this day not been emulated. Whilst it did not mark the start of the space-trading genre, it certainly popularised it far beyond any of the preceding space-trading games, largely because earlier titles were text-only. It also went a long way towards introducing the concept of open-ended "sandbox" gameplay, also a seminal development which was to be emulated broadly in later years by games such as the Grand Theft Auto series and even massively multiplayer online role-playing games such as World of Warcraft. A number of titles based on space flight and trading have been released since the last Elite-based title in 1995, most noteworthy of which were Electronic Arts' Freelancer and CCP Games' MMOG Eve Online (which is reported to have 300,000 players and is still growing).

Elite is also notable for being a games IP over which several bitter and unnecessarily public legal battles were fought. It appears that many of the legal problems that existed between David Braben and Ian Bell arose because of the continued failure to identify clear IPR ownership of the original title. The agreement between Acornsoft and the two Elite co-authors as individuals was not uncommon at a time when most games were developed by sole programmers or very small teams who mostly comprised people in their teens or early 20s.



# Profiles of key UK games intellectual properties

It is still not entirely clear where the Elite IPR (as distinct from the original title copyright, which is jointly owned by David Braben and Ian Bell, and the sequel rights, which were conferred to David Braben via a legally-binding contract with Ian Bell) lies. David Braben's desire to avoid using the Elite name in sequels (he yielded to publisher pressure for the first sequel but kept the name from the third release) could be interpreted to reflect the less than clear ownership of the Elite brand. As it stands, David Braben appears to retain the right to create further Elite games and he has already announced his intention to do so.

The value of the Elite IPR in today's market is difficult to ascertain as it has been over a decade since the last release. However, the popularity of Elite's core gameplay concepts in many of today's best-selling titles and the failure, in critics' eyes, of the market to produce a comparable Elite-style game that lives up to the original release would suggest that it still has considerable potential.

## Conclusions

- Its game universe was unprecedented in scale
- The game was open-ended, with "sandbox" gameplay featuring role-playing elements
- Elite was the first implementation of 3D graphics on a home computer
- The game secured the strong backing of publisher Acornsoft (whose computer the BBC Micro was the first platform Elite was created for) which included a high-publicity release and premium packaging
- (In the sequels) Elite was the first space-flight game to feature fully explorable planet surfaces, an almost unique achievement even to this day.

## IP profile 8: RollerCoaster Tycoon

**Number of iterations:** three games and six expansion packs

**Estimated total unit sales:** Nine million+

### Timeline

- 1994: Transport Tycoon
- 1999: RollerCoaster Tycoon
- 2002: RollerCoaster Tycoon 2
- 2004: RollerCoaster Tycoon 3

### Ownership history

- 1999: RollerCoaster released by Hasbro Interactive which had taken on the publishing rights originally signed by Chris Sawyer to MicroProse.
- 2001: RollerCoaster Tycoon 2 publishing rights transferred to Infogrames following its acquisition of Hasbro Interactive. These rights were subsequently transferred to Atari Inc, a majority-owned USA-based subsidiary of Infogrames
- 2004: RollerCoaster Tycoon 3 published by Atari having been developed by Frontier Developments

**Creator(s):** Chris Sawyer



# Profiles of key UK games intellectual properties

## Game inception and growth:

Games programmer and designer Chris Sawyer had been operating in the games industry working on numerous games projects for other designers and development companies for 11 years before releasing his first game. The game, *Transport Tycoon*, placed players in the position of a newly-incorporated transport company owner and tasked them with expanding their virtual company via the creation of new transport networks servicing industry and passengers. *Transport Tycoon* was clearly inspired by US designer Sid Meier's *Railroad Tycoon* (published by the same publisher, MicroProse, but otherwise unrelated) which itself shared many gameplay similarities with the seminal *Sim City*, released in 1989. All three games were essentially economic simulations with the Tycoon games adding the entrepreneurial slant. Like many games of the time, *Transport Tycoon* was developed by a lone developer, Chris Sawyer. Its commercial success, combined with a new-found passion for rollercoasters, led Chris Sawyer to focus his next title, originally intended as the sequel to *Transport Tycoon*, on the business simulation of rollercoaster theme parks and thus *RollerCoaster Tycoon* was born.

*RollerCoaster Tycoon* was unique for its time being developed almost entirely by Chris Sawyer, with the assistance of just two consultants (an artist and a composer) and was released in 1999. It was also unique in being written in the abstruse Assembly language (a low-level programming language rather than the more abstracted C languages), a development practice considered obsolete even at the time. As a result, the game was reported to have taken over four years to create. The *RollerCoaster Tycoon* games give players the role of creating and managing a theme park based around rollercoasters.

Players not only design the rollercoasters but also many other features (other rides, the layout, amenities and so on) of the theme park, all of which decisions impact the popularity of the park and the revenue it generates. This, in turn, influences the flow of capital available for the player to invest in maintaining, improving and expanding the park. The first two games feature an isometric (angled pseudo-3D) perspective and simplistic graphics (relative to the time), a result of the limited programming resources Chris Sawyer was willing to throw at the project. The third title featured full 3D, being developed by Chris Sawyer's long-time associate David Braben and his UK-based Frontier Developments company rather than Chris Sawyer (who acted only as design consultant).

All three games present the player with scenarios to play through, such as reaching a certain level of capital in a restricted timeframe or creating a rollercoaster that attains a certain popularity level. The later versions also introduce a scenario-builder to allow new scenarios to be created by players and a non scenario-based sandbox mode allowing players to do what they want within the gameworld.

*RollerCoaster Tycoon*, like many of the preceding economic simulation games, adopted a sales curve that was unlike traditional computer and video games; featuring a "long tail" sales profile: the vast majority of the game's sales took place after the first three months on the shelves. Indeed, *RollerCoaster Tycoon*, which had been critically well received in the games press, sold steadily and simply continued to sell, finding a highly receptive market in North America via non-specialist games retailers such as Walmart whose customers were attracted to the non-violent, family-friendly gameplay. It also had mass appeal and fun subject matter for non-hardcore gamers who were not put off by its relatively basic graphics.



# Profiles of key UK games intellectual properties

A significant proportion of the title's games sales were achieved at or around a budget price point, although the game's publisher(s) also assisted its sales momentum with an extended promotional campaign.

All three games were developed for the PC with a Mac version created of RollerCoaster Tycoon 3 and a commercially unsuccessful Xbox version created of the first iteration (but not repeated for subsequent versions).

## Company inception and growth

Unlike the other lone designer-developers in the UK who had created games in the 1980s and early 1990s, Chris Sawyer never saw the need to incorporate his development efforts into a specific company. The IPR to all the games he has designed, including RollerCoaster Tycoon, resides exclusively with him as an individual to this day.

The publishing rights to the RollerCoaster Tycoon series, on the other hand, have followed a less clear-cut path. Chris Sawyer originally signed the publishing rights to the first title in the RollerCoaster Tycoon series to MicroProse, a UK-based publisher which had handled Chris Sawyer's Transport Tycoon series. It appears that he assigned first publishing right of first refusal (or some other sequel rights) to MicroProse, as the publishing responsibilities for the three RollerCoaster Tycoon titles and their six expansion packs ended up in the hands of four different publishing companies. A year prior to the first RollerCoaster Tycoon's release, MicroProse was acquired by Hasbro Interactive (in 1998). Hasbro Interactive itself was then acquired by French publisher Infogrames in 2001 and was subsequently rolled into its US division. Infogrames later spun-out and renamed it Atari Inc. (in which Infogrames continues to have a majority holding). Atari published both sequels to the original RollerCoaster Tycoon title.

The relationship between Atari and Chris Sawyer seems to have soured some time after the release of RollerCoaster Tycoon 2. His involvement in RollerCoaster Tycoon 3 was restricted to consultant although he had clearly had a hand in choosing its developer, long-time collaborator David Braben's Frontier Developments. In 2005, details came to light about litigation initiated by Chris Sawyer against Atari following an independent audit of sales and royalties generated by the RollerCoaster Tycoon titles in 2003. The court statements revealed that the series had achieved over nine million unit sales and grossed over US\$180 million. Chris Sawyer had, at that point, received some US\$30 million in royalties but believed that he was still due US\$4.8 million in unpaid royalties.

## Analysis

RollerCoaster Tycoon is arguably the most improbable success story involving UK games IP in that it defied not only established development and publishing practices but also the accepted wisdom of the industry about how AAA titles emerge. As a (largely) one-man development project, the title took an inordinately long time to reach the market, was developed using a relatively antiquated programming language and methodology, featured extremely simplistic graphics at a time when high-quality graphics were considered a necessity for PC sales success, and was based around a subject that had never been explored as the sole gameplay focus of any previous game. However, this also allowed the game to be developed for a fraction of the cost of most other AAA PC titles and allowed the title to run on a PC specification significantly lower than that for most other PC titles (enabling the broadest addressable market).



# Profiles of key UK games intellectual properties

If the court documents filed by Chris Sawyer are correct, the franchise's success has been phenomenal and, given its background, should be considered a unique achievement. Since the original title's release, numerous Tycoon clones have been released by other companies, many also achieving multiple million unit sales (such as Microsoft's Zoo Tycoon). Interestingly and somewhat ironically, the two RollerCoaster Tycoon titles that Chris Sawyer worked directly on achieved the vast majority of the total sales generated to date (a reported seven million of the nine million sold by mid 2005) with the third title, with its considerably greater production values, achieving much more limited commercial success.

Rollercoaster Tycoon demonstrated the inordinately large impact one creative game maker can have on an industry, and the power of strong IP to emerge intact from an industry mired in multi-million pound development budgets, hundred-strong development teams and the hype of the latest technology.

## Conclusions

- The game had mass appeal due to its subject matter, gameplay and family-friendly content
- The intuitive interface and easy learning curve attracted non-games players
- The patient commitment of its original publisher (Hasbro Interactive) aided the development of the first title's "long tail" sales curve
- The budget/mid-market pricing (average of \$US20 per unit sold over lifetime of series) kept the game accessible to a wider market
- The availability at, and promotion within, mass-market retail stores such as Walmart and BestBuy helped deliver strong sales

## IP profile 9: Driver

**Number of iterations:** two major releases and one expansion

**Estimated total unit sales:** 14 million (multiple platforms)

### Timeline

1995: Destruction Derby

1997: Destruction Derby 2 and Thunder Truck Rally

1999: Driver

2000: Driver 2

2004: Driv3r

2006: Driver: Parallel Lines

### Ownership history

1984: Reflections Interactive founded by Martin Edmondson

1989: Reflections releases first one million unit seller, Shadow of the Beast

1995: Reflections enters driving market with one million unit-selling

Destruction Derby

1998: Reflections Interactive acquired by GT Interactive in advance of its release of Driver (in 1999)

1999: Infogrames acquires 70 per cent stake in GT Interactive for US\$135 million and subsequently renames GT Interactive Atari Inc.

2003: Reflections Interactive used as security (along with several other Atari assets) to secure a US\$50 million facility for Atari from General Electric Capital Corp.

2006: Driver IPR (brand and technology) and existing staff and most of the assets from Reflections Interactive sold by Atari to Ubisoft for €19m

**Creator(s):** Martin Edmondson



# Profiles of key UK games intellectual properties

## Game inception and growth

Driver was Reflections Interactive's third driving game brand following the two million+ unit-selling Destruction Derby games and the less successful Thunder Truck Rally which was based on the Destruction Derby technology. Driver put players in the role of a 1970s undercover policeman trying to break into a crime syndicate by pretending to be an elite driver. The game is set in four real-world cities and although the game is mission-based, the cities are freely navigable – giving the player the sort of freedom that contributed to the success of Grand Theft Auto 3 (which came out two years after Driver). Like GTA3, Driver is played from a third person perspective with the camera following the car although, unlike GTA3, the player's character could not explore the cities on foot.

The first Driver game received broad critical praise from the games press although the reception for the sequel, released in the following year, was considerably more mixed. Despite more expansive gameplay features (such as the ability for the player's character to get out of the car), many reviewers condemned the game for appearing to be incomplete and rushed to market by Infogrames. Despite this, the original game's sales momentum was largely maintained and it was a commercial success.

However, Driv3r, the first Driver game to be released on the latest generation consoles (PlayStation 2 and Xbox), suffered at the hands of the games press which mauled it. Once again the accusation was that Infogrames had rushed the game to market before it could be properly balanced and finished (not inconceivable given the financial precariousness of Infogrames at the time). The game suffered as a result at retail, achieving a fraction of the sales of its predecessors.

Some of these problems were addressed in the most recent Driver game, Driver: Parallel Lines, but by this time the damage to the franchise had been done and the moderately improved review scores it received were not able to prevent it flopping completely at retail.

Under the stewardship of Ubisoft (which acquired Reflections and the Driver IPR in 2006), a new Driver PSP has already been released and a major re-launch of the franchise on current generation platforms is expected.

## Company inception and growth

Reflections Interactive was founded in 1984 by Martin Edmondson. Its first commercial title was not until 1989 when it released Shadow of the Beast, a side-scrolling action game that went on to achieve over one million unit sales under the auspices of UK publisher Psygnosis. Psygnosis was acquired by Sony in 1993 to form the basis of its future European PlayStation development and publishing division; Reflections continued to use Psygnosis for all of its products including the company's initial, highly successful forays into the driving market with the Destruction Derby games.

With a string of commercial successes behind it, Reflections was in a strong enough position to be able to retain the IPR to its next title, Driver, whose publishing rights were eventually picked up by a new publisher, GT Interactive. In the year before its eventual release, GT Interactive, recognising a potential blockbuster franchise in the making, acquired Reflections Interactive and its Driver IPR for 2.28 million shares in common GT Interactive stock (worth at the time of acquisition approximately US\$13.5 million). By the time Driver 2 had come out a year later in 2000, Driver had already achieved over five million unit sales.



# Profiles of key UK games intellectual properties

GT Interactive had been transferred into the hands of ambitious French publisher Infogrames which had acquired a 70 per cent interest for US\$135 million. Infogrames, shortly thereafter, acquired Hasbro Interactive (the computer, video and online games division of toy company Hasbro) and began restructuring its US and European operations. Infogrames had grown rapidly through a multitude of acquisitions, financed by convertible loan issues, but struggled to create a profitable development and publishing entity out of them.

Driver 2 achieved similar success to the first title – the two titles achieved lifetime sales of 12 million between them – but Driv3r failed to match this success (although it achieved some two million unit sales). In between Driver 2 and Driv3r, Reflections released a new IP, Stuntman, which went on to sell over one million units whilst Glu Mobile released a mobile version of Driv3r which exceeded one million paid-for downloads.

Faced with persistent cash shortfalls, Infogrames used Reflections, amongst a which number of Atari assets (of which Reflections was the only named developer), as security for a US\$50 million debt facility in 2003. It then raised US\$13 million through the sale to rival publisher THQ of the IPR to an unreleased title, TimeShift, and the Stuntman IPR and publishing rights to Stuntman 2 (being developed by a third party developer). Finally, in 2006, it announced it had sold the Driver IPR, Reflections Interactive and its other assets for €19 million to rival French publisher Ubisoft.

Martin Edmondson's departure from Reflections in late 2004 was controversial and shortly thereafter he brought a constructive dismissal claim against Reflections and Atari who, he claimed, had unfairly forced his resignation. The settlement agreement which was reached in mid-2005 resulted in Atari paying Edmondson US\$4.7 million, an amount that was intended to compensate for the loss of income from salaries and bonuses arising from Reflections' Driver 4 game which was in development at the time.

## Analysis

In acquiring Reflections prior to its launch of Driver, GT Interactive was remarkably prescient and, with the benefit of hindsight, got the company for a bargain price (US\$13.5 million in stock). The 12 million unit sales generated by Driver and Driver 2 would have generated a minimum 20x return on its investment acquisition cost. Reflections had certainly produced best sellers but none that had achieved over two million units for a single iteration. It could be argued that Driver created the market which DMA and Take 2 subsequently exploited to a far greater extent with Grand Theft Auto 3. Driver seemed to tap into the same demographic with a similar mix of driving and crime, although its main success was on the original PlayStation whilst GTA3 was a PlayStation 2 console exclusive. The failure of Reflections and Infogrames to build upon the success of the original Driver appears to be due to the inability of the developer to make a convincing leap to PlayStation 2 and Xbox, as well as the impatience of cash-strapped Infogrames.

That Ubisoft was (in 2006) willing to spend €19 million to acquire what was left of Reflections Interactive (which had already lost its founder and the designer of the original Driver games) and the Driver IPR speaks volumes for the inherent value it still believed was locked in the Driver brand. The genre in which Driver sits is still hugely popular and many publishers now have a title to attempt to compete with Take 2's GTA franchise. Ubisoft, which did not, can now tick this genre's box and has a development methodology that has not only revived other seemingly moribund brands (such as Prince of Persia) but will likely result in the sort of development patience needed to guarantee a successful return for the Driver IPR in the future.



# Profiles of key UK games intellectual properties

## Conclusions

- Driver's crime subject matter and reckless street driving potential appealed to the core PlayStation demographic (18-26 years old)
- Driver was one of the first 3D games to offer entire cities to explore
- Reflections had a strong pedigree of producing successful products including the Demolition Derby titles
- GT Interactive, publisher of the original Driver title, believed strongly in its potential, backing its launch with an extensive promotional campaign

## IP profile 10: RuneScape

**Number of iterations:** two major versions

**Estimated total unit sales:** 5.4 million active players, including just under one million paying subscribers

### Timeline

- 2001: RuneScape open beta launched in January, reaching one million active players by the end of the year
- 2002: RuneScape subscription service launched
- 2003/4: RuneScape 2 launched as a more advanced alternative to the original RuneScape which is renamed RuneScape Classic
- 2005: Paying subscribers reach 500,000
- 2006: Paying subscribers reach 850,000
- 2007: German language version being launched. Paying subscribers exceed 950,000

### Ownership history

- 2001: Earliest public version of RuneScape launched. Jagex founded at the end of the year by Andrew Gower, Paul Gower and Constant Tedder to take over the operation of the game which had experienced explosive growth
- 2005: Jagex secures unknown quantity of investment from VC firm Insight Venture Partners

**Creators:** Andrew Gower, Paul Gower



# Profiles of key UK games intellectual properties

## Game inception and growth

RuneScape's inception appears highly anachronistic, a story that is more often heard about the UK games industry in the 1980s. The original version of the game was created by Andrew Gower (with the help of his brother and Jagex co-founder, Paul) whilst he was an undergraduate at Cambridge University. It was written in Java, a language considered highly unsuitable for games coding by the development industry because of its performance constraints and inefficiency. The game was even launched from and initially hosted at Andrew Gower's house, such were the constraints of the budget the original Jagex team were operating under. However, unlike many in these profiles, the creation of this IP took place in 2000-01 not the 1980s.

RuneScape is a massively multiplayer online role-playing game (MMORPG) set in the fantasy world of Gielinor, a world that exists on a continual and persistent basis and which players can enter and exit as they wish. Players create and nurture characters which are taken on quests and adventures and, in so doing, acquire valuable virtual assets such as currency, weapons or magic items. As they advance, their characters accumulate skills and experience. Players can opt to undertake these quests alone or in conjunction with other players or can even enter a zone within the game world where they can pit their characters in combat against other players' characters. Key to RuneScape's gameplay is the community. Regular players can meet in the gameworld and can communicate with each other to co-ordinate quests or simply to socialise. In fact, it appears that a significant proportion of many players' game time is spent socialising rather than "questing" and "levelling" (undertaking activities solely to improve their characters' statistics).

Unlike the vast majority of MMORPGs (including the current gaming phenomenon, World of Warcraft), RuneScape is played in a Java-capable web browser and is therefore playable on almost any computer with an internet connection. It was designed from the outset to be a game with appeal in all demographic categories and its technology base is a product of this aim. Because of this low common denominator, the game is simplistic-looking compared to retail PC games. The RuneScape website, the central hub from which all new games are launched, looks equally low-tech, despite the vastness of its user base and revenue currently being created. Whilst the original game was rendered in a form of isometric 3D (ie fixed angle 3D that obviates the need for the creation of a fully modelled 3D world), a higher quality 3D renderer was launched as part of RuneScape 2, an overhaul of the game engine launched in later 2003 and early 2004 which also addressed numerous security issues that had arisen as a result of the simplistic original version.

Like all massively multiplayer online games (MMOGs) and unlike the rest of the IPs profiled in this report, RuneScape is more of a service than a product. The retention and expansion of RuneScape's paying user base is entirely dependent on Jagex's ability to maintain the game's ongoing appeal. RuneScape's content needs to be updated on a regular basis to keep the experience fresh for the longer-term players and this necessitates a sizeable development team that is permanently at work. It also necessitates a large, dedicated customer support resource handling players' technical, gameplay and billing enquiries. The failure to provide adequate support for MMOGs has proven the undoing of numerous other MMOGs in the past and it is likely that a significant proportion of Jagex's rapidly growing headcount is dedicated to this function.



# Profiles of key UK games intellectual properties

## Company inception and growth

Jagex was incorporated in late 2001 by Andrew and Paul Gower, and Constant Tedder after it had become apparent that the RuneScape project Andrew Gower had begun at Cambridge University, having accumulated a million (non-paying) registrants in less than 12 months, could no longer be operated out of the Gower house and as an amateur concern. With hosting costs mounting as well as the growing need for constant maintenance and improvement of the RuneScape gameworld, Jagex began to seek ways of monetising the vast and rapidly growing traffic the game was generating. Advertising was an obvious and easily implemented first step. This was followed by the more important development of a subscription fee-paying version of RuneScape that for approximately £3-£4 per month (the variance being based on payment method and subscription duration) gave players access to exclusive game areas, features, content updates and support. The subscription price was, and continues to be, a fraction of that charged by most other MMORPG providers although Jagex can now claim to have more active players in the west than any other massively multiplayer online game.

With some 140 servers located in seven countries servicing just under one million paying subscribers, some 5.4 million non-paying active (defined as playing in the previous two weeks) players, Jagex has become a major player in the western online games market (a market that remains, due to cultural reasons, largely segregated from the even larger Asian online games market). Some 55 per cent of its user base is said to be based in North America with the majority of the rest in the UK and other parts of Europe. Jagex has servers in Holland, Sweden and Finland and is in the process of launching a German language version of RuneScape.

Part of Jagex's success can be attributed to a carefully controlled affiliate marketing scheme which sees RuneScape promoted on a limited number of high-traffic third party sites. The most important of these is UK-based miniclip.com, one of the largest casual games aggregation and community sites on the internet (receiving in excess of 30 million unique visitors per month).

Jagex's average revenue per paying subscriber is reported to be US\$5 suggesting annualised sales of some US\$60 million. However, its rate of growth means that these revenue estimates are constantly being revised upwards. In 2005, Jagex announced that it had taken on an undisclosed level of investment from Insight Venture Partners, a US VC. The purpose of the investment was stated as being to allow the company to ensure its "explosive" level of growth is properly supported and to help take the company into more international markets. Since then, the company has expanded rapidly. At present Jagex employs 296 people in its Cambridge offices.

As an online games business, Jagex's business model is very dissimilar to traditional computer and video games developers. Its principal business partners are not games publishers but hosting and bandwidth companies, payment service providers, advertisers and distribution companies and it operates with the sort of creative and commercial autonomy that most other developers could only dream of. Jagex remains one of the quietest and least publicised developers in the UK (a stance taken deliberately by its management team). It is also the UK's largest independent developer, and one whose revenues dwarf its peers. Its commercial model should make it a poster boy for the disintermediation of publishers and the "direct to consumer" distribution channel in which so many developers place their hopes.



# Profiles of key UK games intellectual properties

## Analysis

At a time when the concept of “bedroom” hit games development was thought to have long since passed into history, RuneScape arrived to shatter this misconception and turn Jagex Ltd, its creators, into the largest indigenous independent games developer in the UK by staff numbers and very probably by revenue. Of course, much of Jagex’s financial success can be attributed to the fact that most online games such as RuneScape tend to be published by the companies that developed them and thus, unlike traditional games developers who derive a percentage of a third party’s percentage of sale proceeds, Jagex books 100 per cent of the sale proceeds itself. As a result, RuneScape should be counted as one of the most valuable IPs to have originated from the UK whilst having its sales, profits and ownership retained by a UK company.

RuneScape’s mass market appeal lies in its simplicity and accessibility. It has tapped into the vast market of games players unwilling, or unable, to spend premium prices on PCs capable of playing the latest, expensive and hardware-taxing games. And it does so offering core gameplay concepts that are very similar to its retail-distributed RPG and MMORPG analogues. The (re-) popularisation of fantasy milieus by the Lord of the Rings films has undoubtedly helped games such as RuneScape and World of Warcraft by making such universes acceptable to teen and even pre-teen players. These age groups are responsible for a global explosion in the popularity of avatar-based online community games and services in which communication and social interaction are key. It is likely that RuneScape has been able to tap into this trend (although Jagex has never released demographic information on its user base).

## Conclusions

- The game maximises its addressable market by being web browser based and thus capable of being run on all Java-compatible (eg most) computers
- The relatively low subscription price and multitude of payment mechanisms is attractive to younger and less affluent players
- Strong community features encourage broad and open socialisation between players
- The game exhibited a strong growth momentum that, to a degree is self-sustaining as the addition of more players increases the socialisation opportunities and enhances some aspects of the gameplay
- Strong role-playing gameplay features (eg character building, virtual asset accumulation) encourages loyalty and reduces churn
- Affiliate deal with miniclip.com allowed RuneScape to tap into one of the largest casual games communities on the internet



# Profiles of key UK games intellectual properties

## IP profile conclusions

Key findings from the historical profiles of these important UK games IPs can be summarised as follows:

- The ownership of games IP is of vital importance to the industry, because supernormal profits can be generated by games IP which can increase the industry's contribution to the economy, trigger the start-up of new companies, increase investment in innovation and attract inward investment to the UK from global companies
- The best UK games are cultural artefacts which, like their peers in any UK media, need strong characterisation, design, humour and creative flair with technical ability to succeed on the world stage
- The ownership of successful IP can not only deliver outstanding financial performance but is also the principal driver of inherent value for most games companies
- However, many of the best UK games IPs (and their founding companies) have been acquired by global companies for paltry sums compared to the value they have subsequently extracted
- The failure of a key IP can result in its originating company being acquired for low values by better capitalised global companies
- Innovative games created by comparatively small teams can sell well globally despite a climate of massive investment in games created by large teams
- Many of the key UK games IPs have succeeded by building and maintaining a loyal audience base which can feed ideas into the game, with the result in 'long tail' sales
- Development technology that speeds (or slows) development underpins the success (or failure) of many of the UK's best games IPs
- The majority of the most successful UK games IPs were created by teams that had a track record of critical and commercial success with earlier games
- A characteristic of many of the older IPs was their unclear initial ownership and somewhat naive dealings with third party publishers. Legal wrangles are an all too common feature of many of the IPs' histories
- A number of smaller, less technologically ambitious games have succeeded through mining niche games genres or games subject matter, often producing games with narrow but deep gameplay appeal



# The industry survey

## Introduction to the industry survey

### The interview programme

GIC conducted an interview programme between November 2006 and March 2007 investigating games development in the UK with a particular focus on the development of games intellectual property (IP), the UK as a market for games development and the commercial climate for making and distributing games.

The interview programme targeted leading developers and publishers of games, covering independent studios, publisher-owned studios and publisher head offices. The programme succeeded in interviewing managing directors, commercial directors, chief executive officers and senior technologists at 15 UK-based development and publishing companies.

These companies are:

Blitz, Codemasters, Eidos, Electronic Arts, Eurocom, Eutechnyx, Climax, Iomo (Infospace), Kuju, Rebellion, Revolution, Team 17, Sony Computer Entertainment Worldwide Studios, Sports Interactive (Sega), Swordfish (Vivendi).

Of the sample, seven are independent developers, three are development subsidiaries of publishers, one the development subsidiary of a media services company and four are the publisher head offices (or in Sony Worldwide Studios' case, the publishing arm of a console manufacturer). Each interview was conducted by telephone for one to one and a half hours.

The interview data has been anonymised, although permission has been sought for any quoted material. Companies were reassured that the interviews were confidential and that individual company opinions would not be published.

We have aggregated the opinions of both publisher-owned studios and publisher head offices. Where appropriate, some results have been defined in terms of these two sub-groups (some results have been highlighted as data provided by acquired studios from before their acquisitions), but by default the term publisher refer to both sub-groups.

We have aggregated the opinions of independent games development studios and the one non-independent studio, Kuju (which is an independent developer recently acquired by a media services group that still retains its independent status in terms of how it works with publishers), under the heading of independents.

### Questionnaire content

We proposed a first draft of the questionnaire, which was subsequently checked and amended by the programme sponsors. The interviews were conducted as conversations which GIC guided towards specific questions. Some questions were open discussion questions, and some were built as scored answers. After the interview, GIC gave marks to grade the strength of some companies' responses to these scored questions; but to increase the fluidity of the conversations, few interviewees were asked to grade statements directly.



# The industry survey

## Response rate

The questionnaire had a total of 38 (publishers) to 41 (developers) questions. GIC obtained an average of 85 per cent of the questionnaire answered, exceeding its own expectations. However, inevitably, some questions remained largely unanswered. This is partly due to the deliberate repetition of some questions through the report, which were designed to elicit a range of responses from the more reticent interviewees. However, it is also due to the structure, of the survey, conducted as wide-ranging conversations in which it was inevitable that gaps would result.

## How results are analysed

It should be heavily stressed that such a small sample group of such heterogeneous companies, in different commercial situations and multiple sectors of such a diverse industry, cannot deliver statistically significant data, and GIC has always strived to manage expectations about this interview programme. Although we have presented results in terms of percentages and average scores, the results of this survey are presented as indicative of broad trends, rather than representative of the industry as a whole or any one games company type.

The results of this survey have been aggregated into a spreadsheet for ease of analysis. Answers to more discussion-based questions were grouped together into broad themes. GIC's methodology has been to use these results to direct its analysis of answers to each question in turn. The following results are from the entire sample, which includes publishers and developers. GIC has also conducted differential analysis to isolate opinions by different groups, namely independent developers and publishers, which comprise publisher studios and developers acquired by publishers. The aggregate results from the spreadsheet are in *The industry survey*.

## Formats and appendices

The format of this report will be to state the results to each question, giving percentages where appropriate, then analyse trends and identify specific statements that illustrate such trends. Because of the wide-ranging nature of some of the more open questions, we cannot discuss all answers and ideas generated by our interviewees. At least three questions (26-28) that reworded earlier questions were deliberately included to encourage less forthcoming interviewees and the results have been included in the earlier questions rather than being repeated later.



# The industry survey

## Headline results

- Fifteen independent developers, publisher studios and publisher head offices were interviewed by phone about the UK as a market for games development
- Only 12 per cent of independent studios' revenues derive from overages, and most revenues came from advances for work for hire deals
- Most acknowledge that new games IP is a critical revenue stream and nearly 90 per cent of independents will self-fund part of a new game's development. For independents, owning technology IP is a critical factor in increasing production efficiency and winning work for hire
- All respondents agreed that publishers will not distribute new original IP without controlling or owning its rights, and most agreed that publishers invest less time, effort and money in new independent IP
- Most publishers acknowledge the creativity and importance of the independent sector as a source for new original IP, but several thought it unlikely they would licence independent IP
- Sixty per cent of respondents are using, or are planning to use, project financing and 75 per cent of independents plan to go direct to consumer via Xbox Live Arcade (or similar)
- Variable rate royalties, royalties at publisher break-even or partial self-funding are seen as the best commercial models, because they deliver the fastest recoupment
- R&D tax credits were the most frequently accessed source of finance (after publisher funding for games development)
- A wide array of methodologies for capturing ideas for new original IP is in practice, but formal assessment of these ideas is used by only half of the sample. Technology development is more formal and continuous
- Design and project management skills are considered the most important skills for creating new original IP. Opinions were split about how difficult it was to recruit in the UK, but nearly half of respondents have links to universities
- Staff are trained mostly through mentoring, and nearly half expect new hires to learn on the job
- There was strong agreement that independents struggle to get new original IP distributed. Many think new platforms open opportunities for new original IP, but a sizeable number of respondents think new UK IP is shrinking. Most think this situation will persist for the next five years
- Eighty seven per cent of respondents think that the UK government should introduce tax breaks for games production similar to those available for film production to counter the threat of subsidies in competitor markets. Prototype funding also gets good support.
- All respondents were aware of the Canadian incentives. Forty per cent have set up or acquired studios in markets where such incentives are offered, half of those in Canada. Forty seven per cent of respondents thought that Canada had drained talent from the UK



## The industry survey

- Nearly three-quarters of respondents thought that incentives offered overseas destroyed the level playing field, and made the UK less competitive. Forty per cent thought UK companies would slow or stop their growth in the UK, with a knock-on impact on creating new original IP
- Nearly three-quarters of respondents see outsourcing as an opportunity to design a game in the UK but to build it overseas, resulting in leaner, more cost-effective and efficient studios
- When asked for one single measure to help UK companies create IP, 60 per cent said tax breaks
- Forty per cent of respondents thought that digital distribution of games would transform the industry

### Strategies for intellectual property

#### Own IP vs third party licences (Question 4)

Interviewees were asked what proportion of their revenues over the past three years derived from original IP and what proportion from third party licences.

**Table 18: Ownership of IP versus third party licences**

	Total	Independents	Publishers
Own IPR	52%	42.5%	67%
Third party licence	48%	57.5%	33%

This fairly anodyne result illustrates the make-up of our sample. Half of the respondents are independents, among whom work for hire predominates, and the other half of respondents are publishers or acquired studios, among whom work on original IP predominates. Here is Kuju on the subject of work for hire:

*Work for hire is consistent, scalable and since demand outstrips supply, we have no problems generating revenues. **Jonathan Newth, CEO, Kuju***

When split into these sub-groups, independents are deriving more revenue from working on IP that is not their own, and publisher studios are clearly focused on internally generated IP.



## The industry survey

However, while independents are almost inevitably working on IP that derives from publishers (including licences from other media), it does not follow that publishers are working on games IP originated by independents. Most of the work discussed by publishers involved licences from other media such as film and television.

### Frequency of overages (Question 5)

Interviewees were asked what proportion of their revenues over the past three years derived from overages generated after their advances. Included in these payments are additional revenues from original IP and a proportion from third party licences. Acquired and independent studios answered this question, although acquired studios were asked to give historical figures from before their acquisition.

**Table 19: Frequency of overages**

	Total	Independents	Publishers
Overages	13%	12%	25%

These statistics confirm the conclusion in *Monograph 3, Commercial Models* (which detailed the drivers, inhibitors and metrics of the predominant commercial model in the industry) that overages are rare and do not represent significant portions of most studios' revenue streams. The independents in this sample are all at the more successful end of the market, which means that they have a higher chance than most to develop new original IP. If they cannot derive meaningful revenue streams from new original IP, then smaller, less successful developers cannot either.

The higher level of overages at acquired studios indicates that they were probably more successful in driving revenues from their IP (a fact that undoubtedly contributed to their acquisition), but none reported revenues from overages of over 40 per cent as independents. Here is Revolution on the Catch-22 situation:

*The problem with production values rising, and therefore costs, is that developers of original IP very rarely earn any royalties under the traditional recoupment model; and yet publishers expect developers to create the products at cost. The effect of today's business models is that it either drives developers down a work for hire route which, ultimately, doesn't build value in their companies, or encourages them to go down the value chain towards cheaper formats that disintermediate publishers altogether by going direct to consumers digitally. **Charles Cecil, MD, Revolution***

### Partial game development (Question 6)

Interviewees were asked what proportion of their last three years' revenues came from doing parts of games rather than complete development (excluding porting from one platform to another). An example might be that one development company might create the main game, and another might create the multiplayer version or technology.

Only two studios (7 per cent of respondents) reported that they worked on partial game development, representing 20 per cent of their revenues. This practice is clearly rare among large studios, but is probably likely to occur more frequently among smaller ones, who may need to pool resources to work on more expensive platforms.



# The industry survey

## IP ownership (Question 7)

Interviewees were asked to describe the IP that they owned in terms of game and technology IPR.

**Table 20: Ownership of IP**

	Total	Independents	Publishers
Games engine IPR	87%	75%	100%
Tools	80%	75%	86%
Productivity tools	40%	38%	43%
Licences from Third parties	40%	13%	71%
Games IPR (no./ studio)	3	3	4

Games engines (and to a lesser extent tools and project management tools) are highly important features of successful games studios, irrespective of who owns them. As we shall see with later questions, having good technology is a critical success factor for independents working for hire for publishers. A few independent studios have no engines of their own, but they are either those that operate using the Hollywood model of having no permanent development resource, or those that rely on publishers to provide game engines such as Epic's Unreal Engine. The importance of licences for publisher studios is highlighted by 71 per cent of publisher studios owning licences for movie or television IP.

The importance of IP has resulted in some changes in direction, as Climax describes:

*We've gone from being Europe's largest full service work for hire games company to being a development hub that creates IP with multiple partners. When we looked at how to grow to company, we decided that the real value is in creating IP. We aim to self finance a game to the point of a prototype, and then licence the IP to publishers, getting a better royalty position, and getting that all-important rapid recoupment of any advance. **Karl Jeffrey, CEO, Climax***

All studios in our survey possess games IP, but they were asked how many IPs (whether completed games, games in development or game prototypes) were owned. The results show that in general low numbers of unique IPs are possessed by studios in the industry working on traditional console platforms. However, publishers were not asked to list all the extensive IP in their portfolios, and as such these results are indicative only of independent and acquired studios.

## The role of games IP (Question 8a)

Interviewees were asked to describe the role that games IP played in their company. The following is a selection of the most common responses.



## The industry survey

**Table 21: Role of games IP**

	Total	Independents	Publishers
Critical revenue stream	67%	38%	100%
If you can't own the IP, it's not worth anything	53%	25%	86%
Exploit IP across or from other media	47%	38%	57%
Balances work for hire revenue	33%	63%	0%
Studios are self-funding prototypes	33%	63%	0%

The strongest message concerning IP from this section is that IP is a critical revenue stream. Publishers are very clear that they want to own any IP that they publish. This is because they make such a significant investment in a brand that the risk of a developer going to another publisher for a sequel negates the viability of picking up rights to only one iteration of a game. Eighty six per cent of publisher studios voiced this sentiment. The market reality of the strength of publishers' opinions on this naturally results in a lower percentage of independents wanting to retain their rights in new original IP.

This market structure is also behind the lower importance given towards new original IP as a revenue stream (versus work for hire) by independent studios. Some publishers and a few independent studios were also keen on exploiting IP across different media, such as film, TV and print. Many independents see IP as an important business line that balances the majority of their work performed for publishers.

Over half the independent studios interviewed were investigating new funding vehicles for IP, mostly single project financing. Some of these were alternative financing schemes, including some specifically targeting games production (eg debt-based and off-balance sheet finance such as completion bonds), and others were being set up in Germany where fund management companies have created funds to benefit from tax breaks for individuals' financing media projects. Here is Kuju on the subject:

*What we really need is better access to financing that is less risk averse, which means there should be a better tax regime in the UK to promote investment in riskier projects. Sadly, political reality means that this is unlikely to happen. We don't approve of hand-outs or grants, because an industry builds up around them which is not based on the market and which will collapse when the grants are stopped. Instead we need a more favourable environment for risk financing. We are now part of a group which is listed on the German stock exchange and will be looking outside the UK for alternative financing going forwards. **Jonathan Newth, CEO, Kuju***



# The industry survey

## Value of Games IP (Question 8b)

Interviewees were asked to describe the value that the ownership of games IP provides to their company. The following is a selection of the most common responses.

**Table 22: Value of games IP**

	Total	Independents	Publishers
Highly valuable revenue stream / essential to own IP	93%	88%	100%
Licences from other media are too important to ignore	20%	0%	43%
Must keep a fresh supply of IP coming in from independents	20%	0%	43%

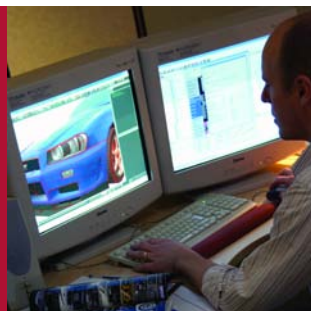
Every publisher and almost all independent studios stressed the importance of owning games IP. Here is Sony Worldwide Studios on the subject:

*When it comes to new original IP, it's all about the long game – you have to own the IP you're developing to exploit franchises and get long-term customer buy-in to a brand. The only people who really benefit from an IP are those that own it 100 per cent. **Shawn Layden, Vice President, Sony Computer Entertainment Worldwide Studios Europe***

Some publishers acknowledged that world-class independent studios have a right to retain ownership in part of a strong new original IP going forward. Interestingly, the publishers surveyed see equal value in harvesting new original IP from licences as they do from a vibrant independent sector.

## Strategy for Games IP (Question 8c)

Interviewees were asked to describe their company strategies for games IP. The following is a selection of the most common responses.



# The industry survey

**Table 23: strategy for games IP**

	Total	Independents	Publishers
Self-fund part of game, keep rights	53%	88%	14%
Must not relinquish sequel rights	53%	50%	57%
Scale of prototype makes self-funding difficult	47%	75%	14%
Strong IP allows better negotiating position	40%	63%	14%
Invest in new platforms with minimal or no publisher involvement	33%	63%	0%
Looking to create specific funding vehicles for new original IP	33%	63%	0%
Long-term investment in brands	33%	0%	71%
Go direct to consumer	27%	50%	0%
License media brands	27%	0%	57%
Must keep an open mind about independent IP, unpredictable but essential	27%	0%	57%

From this study, it is clear that most games studios (as opposed to head offices, for which this is not relevant) have in the past self-funded or, for those still independent, currently do self-fund part of a new game IP (often the prototype) in order to win a larger share of the rights or royalties from their publishers. Again, this reflects the more successful studios in this list, rather than the entire industry. This has become core company strategy for some – such as Kuju:

*Publishers won't fully back IP that they don't own or have a significant interest in, so we decided not to produce new original IP and try to keep all of it. Instead our strategy is to provide an IP generation service for publishers. We can make better revenues from a game that is fully backed by the publisher than we could if we tried to keep a hold on to 100 per cent of the IP, won a better revenue share percentage on a game that was then not fully backed by the publisher. **Jonathan Newth, CEO, Kuju***

Just over half of respondents agreed that the rights to a sequel are too important to give away. Most independents who voiced this opinion said that they would expect to develop the sequel, or at the least get paid a royalty if their technology were used by another developer. All publishers voicing this opinion said that their investment was in a franchise not a single iteration of a game. Almost all independents want to self-fund lower cost games on new platforms in order to get more revenue, retaining more or all of the rights. Some anticipated using the distribution services of publishers to get their titles onto the decks of Xbox Live Arcade or its PC and console competitors. A number expressed the desire to bypass the publisher altogether and self-publish online or on online consoles. Here is Blitz on the new platforms:



## The industry survey

*We want to develop new original IP for new platforms like Xbox Live Arcade, for one tenth of the price of a full console product. It's attractive because there is the opportunity to go direct to the consumer, take 60-70 per cent of the revenues, equating to roughly £3.50 per unit sold – not far off what we would earn from a full console product selling for £40. Philip Oliver, MD, Blitz*

Publishers are reasonably enthused by well-known media brands, in which they make long-term investments. The same number endeavour to keep an open mind about the opportunities coming from the independent sector, which were often described as unpredictable in throughput but an important ingredient for a successful portfolio.

### Challenges of games IP (Question 8d)

Interviewees were asked to describe the challenges of developing original games IP. The following is a selection of the most common responses.

**Table 24: Challenges of games IP**

	Total	Independents	Publishers
Publisher will not publish new original IP without owning all (or most of) the rights	100.0%	100%	100%
Must be cross-platform	60%	63%	57%
Publishers under-perform on IP that's not 100% theirs	47%	63%	29%
New original IP brands are very (even too) expensive to market	47%	25%	71%

In the clearest indication of the conflict between developers and publishers, every respondent agreed that publishers will refuse to publish new original IP if they have funded its development without taking a controlling stake in the IP in question. Independents see this as a challenge because they want to retain control over their creation and keep revenue streams flowing from it in sequels.



# The industry survey

Publishers see this as a challenge because independents try to negotiate retention of rights, and face losing a sequel to a rival. In another indication that the studios profiled here are at the highest end of the industry, most publishers and half independents said that their work must cross platforms to perform well, and that this brings high production costs, particularly in games engines and other development technology which must deliver across games platforms. A strong sentiment among independent studios is that games that were not owned by a publisher were given lower priority and thus underperformed in sales and revenues. A few acquired studios agreed that this was often the case. Several independents reported changing their strategies for IP in the face of publishers' newfound demand for control or outright ownership of IP, commenting that this is driving them towards digital downloads, project financing or even towards creating IP for the sole purpose of selling outright to a publisher.

Here is Eutechnyx on the financial barriers affecting new original IP and the need for alternative financing:

*For the future growth of the UK industry, we must find new ways to finance game production in order to retain ownership of new original IP. If a publisher is spending US\$8 million on production, the same again on marketing, it's natural that they would want to own the IP themselves. The problem is that developers generally need the advance funding to finance their overheads, and are therefore forced to hand over their IP. Alternative financing would separate the money from the deal, making it faster to recoup, generating better deal terms and sharing more risk with the publisher. **Darren Jobling, Director of Business Development, Eutechnyx***

## The role of technology IP (Question 9)

Interviewees were asked to describe the role of creating and owning technology IP and its position in their portfolio of assets. The following is a selection of the most common responses.

**Table 25: Role of technology IP**

	Total	Independents	Publishers
Makes production more efficient, esp. across platforms	60%	75%	43%
Sharing technology across the group	47%	0%	100%
Critical in terms of winning work for hire (proves capabilities, lowers risk)	40%	75%	0%
Proportion of development headcount working on technology full time	12%	7%	22%



## The industry survey

Following the earlier indication of the importance of game engine technology to studios, the results about the role of technology IP are clear. Two-thirds of independents see creating and utilising proprietary game engines and technology as important for their efficiency, although a lower number of publishers mentioned this factor, which reflects the lower premiums put on efficiency in publishers' internal studios. However, closely related to this was the need to reduce duplication and share knowledge across global organisations, which of course would increase efficiency if effective.

Many independents see technology as a demonstration of their ability to win work for hire, or as a separate business line. Developers with complete and proven game engines are considered lower risk by publishers and are more likely to win time-critical licence development contracts such as those based around upcoming movie releases. One example is a production management system created by Climax:

*Our proprietary web-based production management technology is making our production much faster and more efficient, and despite not marketing it heavily we have now licensed it to partners such as Disney and Microsoft, after they saw it in action on games in development. **Karl Jeffrey, CEO, Climax***

Several respondents provided statistics about the number of staff working in their UK studios on technology development in full-time creation and maintenance roles, and the average proportion of their total headcount was 11 per cent. Significantly, publishers dedicate over three times the resources (22 per cent of publishers' UK studio headcount vs. 7 per cent of independents' studio headcount) to this role than independents, which reflects the need for control over proprietary technology (particularly after EA's purchase of Criterion) but also their focus on expensive and often cross-platform current generation games, and possibly looser budgetary controls.

### Publishers' work with independents

#### Working with independent studios (Question 10a)

Publisher head offices were asked about their attitudes towards working with independent developers. The following is a selection of the most common responses:

**Table 26: Working with independent studios**

	Total
Independents are an important creative source	67%
Must maintain their growth through external and internal development	67%
Internal teams work on new original IP, external teams on licences	50%
External teams used when internal resource is unavailable	33%

Despite the low proportion of most major publishers' revenue that derives from licensed third party IP, senior executives at publisher head offices were extremely positive about the creativity of work provided by third party studios. Many see their growth as inextricably tied to genre-changing or genre-redefining games that spring unanticipated out of the independent sector. Here is Electronic Arts on the subject:



## The industry survey

*The industry will continue to grow with games created by companies like EA and by independents. That growth is very dependent on what's available, and it's very important to keep a flow of fresh ideas coming in from independents.*  
**Colin Robinson, EA Partners**

A number use external teams as overflow when internal teams are too busy or as developers of licensed content.

### Working with independent studios' original IP (Question 10b)

Publisher head offices were asked about their attitudes towards working with independent developers who approach with new original IP ideas or prototypes. The following is a selection of the most common responses:

**Table 27: Working with independent IP**

	Total
Independents are an important source of new original IP	83%
We must own the IP	83%
Extremely unlikely we'll hire them / buy the idea / fund it	33%
Must see a prototype	33%

In some contradictory statements, the majority agreed that independents were an important source of new original IP (only one publisher, working on lower value platforms, refused to consider publishing third party game IP). All publishers considering third party games as viable said that they must own the IP to fund its development and publish it. Here is Codemasters on working with independents:

*We want to be a magnet for talent, and we won't turn away emerging talent. Talent is unpredictable. It doesn't matter what marketing research you get, if someone walks in with a good idea, and we love it, they are entitled to own a part of the new IP, share royalties and risk. Having said that, we must see a prototype before we'll sign a game.*  
**Rod Cousens, CEO, Codemasters**

Some publishers said that independents' game ideas were rarely if ever funded. A number said that they would not fund anything until they had seen a prototype, because the ability to produce a high-quality game was as important as a great game idea.



# The industry survey

## Business models

### The impact of the advance model (Question 10)

Interviewees were asked to describe the impact of the predominant commercial model in the industry, the advance model, on their company. Publisher head offices were not asked this question, but acquired studios were. The responses were graded (1 = strong disagreement to ten = strong agreement) and the following is a selection of the most common responses.

**Table 28: Impact of the advance model**

	Total	Independents	Publishers
Publishers invest less time, effort and money in new original IP	9.5	9.8	8.7
Publishers want to own the most successful IP	8.7	9.5	6.7
Post-advance royalties are rare	5.5	7.5	0.0
Reduces our ability to invest in new original IP	4.6	6.4	0.0
Post-advance royalties are non-existent	2.5	3.4	0.0
Impossible to do a current generation game without a publisher	1.8	2.5	0.0



## The industry survey

As we have seen, independents strongly believe that publishers downplay games which they do not own, but from these results it is clear that acquired, formerly independent studios strongly agree with them. Here is Revolution on the problem:

*IP owned by developers is inevitably exploited more aggressively and it therefore assumes a greater value. If ownership of the IP is taken by the publisher, the likelihood of it being effectively exploited is greatly reduced.*  
**Charles Cecil, MD, Revolution**

Most reiterated that publishers want to own the most successful IP, and several said that this was a sign of the times, suggesting that the climate had changed over the last few years. Although there is a spread of results about the frequency of overages, the two strongest opinions voiced were that overages are rare or non-existent. Almost no-one said that overages were routine or even patchy, which reinforces the key finding of *Monograph 3, Commercial Models* that production costs have driven up break-even points over the average game's unit sales.

### Deal examples (Questions 11-13)

Interviewees were asked for examples of average deals, and the following results were recorded. They come with a strong proviso because they are hypothetical rather than actual deals, because they span different platforms and because production values and commercial terms vary so much between companies and games (particularly in the definition of what constitutes a net receipt). Publishers were asked what sums they would pay out as advances, whereas independents were asked what sums they would receive.

Only a low proportion responded (31 per cent) with estimates of their break-evens.

More (61 per cent) responded when asked about the level of advance and royalty share of net receipts, although no publisher head offices answered that question (eg acquired studios gave historical numbers).

**Table 29: Average deal terms**

	Total	Independents	Publishers
Unit sales break-evens	700,000	800,000	300,000
Advance	NA	£3,916,667	NA
Revenue share of net receipts	21%	20%	26%

Break-evens are higher for independents because they get a much lower share of gross revenues with which they have to recoup their advance before breaking even. Publishers have lower break-evens because they receive a higher share of gross revenues. The level of advance for independents reflects their work on more expensive current generation games. Revenue share levels are also fairly accurate as approximate industry averages for console games – the levels indicated for publishers represent the respondents' status as formerly independent studios with strong IPs that allowed better revenue share. For more accurate indications of standard advances, break-evens and revenue shares for different platforms, see *Monograph 3, Commercial Models*.



# The industry survey

## New commercial models (Question 14)

Interviewees were asked whether they see any new models emerging from the marketplace that might vary or replace the traditional advance recoupment model. The following is a selection of the most common responses:

**Table 30: New commercial models**

	Total	Independents	Publishers
Project financing vehicle being planned / in use	60%	63%	57%
Sell direct to consumer	53%	75%	29%
Royalties start from publisher break-even point	47%	63%	29%
Advertising-funded development	13%	13%	14%

Top in overall popularity was the suggestion of using some form of non-publisher project financing of single purpose vehicles in which the developer's IP resides to avoid the advance recoupment model and simply rent a publisher's services. This model was suggested by several publishers and indeed a couple were utilising alternative financing like completion bonds to free up cash flow. Here is Rebellion on completion bonds:

*We have self-financed parts of our development before, and we like the game bonding model. Roles are simplified – the developer develops, the bank finances, the insurer insures and the publisher publishes. We may get slightly lower margins but it means less risk for all parties and it's good for everyone.*

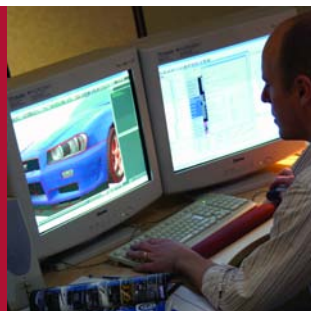
**Jason Kingsley, CEO, Rebellion**

Many independents and formerly independent studios agree that selling games directly to the consumer represented a viable alternative to the standard commercial model in the industry. Most relied on Xbox Live Arcade (or its PC and console competitors) as the distribution channel of choice.

A number, just under half of respondents (including, significantly, two publisher head offices), agreed that royalties paid to independents when the publisher had broken even were a viable and fairer alternative for independents. A couple of companies had optimism about advertiser-funded gaming but they were not echoed more widely by the sample.

## Best commercial models (Question 15)

Interviewees were asked which were the optimal commercial models for third party development deals. The following is a selection of the most common responses, and respondents were not limited to one response:



# The industry survey

**Table 31: Best commercial models**

	Total	Independents	Publishers
Royalties at publisher break even	54%	63%	40%
Variable rate royalties to speed recoupment	46%	50%	40%
Self-funded (in part)	46%	50%	40%
All development funded in advance, higher share of net revenues	23%	13%	40%
Some development funded in advance, higher share of net revenues	23%	25%	20%

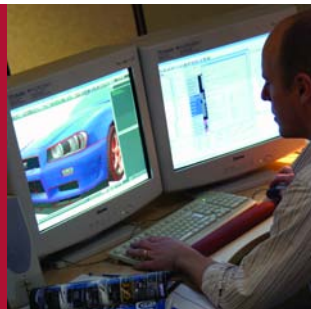
Half of respondents agreed that royalties at publisher break-even point were the best kind of deal and these results were the same for independents and for non-independents. Independent studios were keener on variable rate royalties (royalties based on revenue share percentages that vary depending on pre-recoup, post-recoup or some other sales milestone and are designed to speed recoupment) and self-funding than publishers. However, both variable rate and self-financing deals are certainly seen as viable by a reasonable number of our sample, including a few publisher head offices. In joint fourth place comes the model based on strong, branded IP which led several studios to claim bullishly that this is the best model. However given the paucity of strong independent IP, it is unlikely that these respondents would agree that this model is viable for every studio. The other fourth placed model was that where a self-funded prototype delivers a higher share of net receipts.

**Reasoning behind the best commercial models (Question 16)**

Interviewees were asked for the reasoning behind their choice of optimal commercial models for third party development deals. The following is a selection of the most common responses:

**Table 32: Reasons for best commercial models**

	Total	Independents	Publishers
Fastest route to royalties	46%	75%	0%
Strong IP allows better negotiating position	23%	13%	40%



## The industry survey

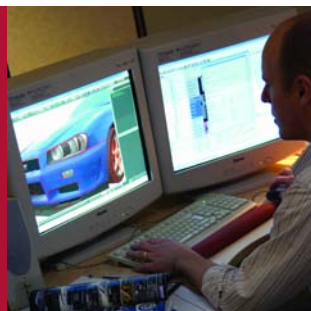
The need for faster recoupment was stated by two-thirds of independents, and those independent or acquired studios with experience of using strong IP in their negotiations cited it as strong leverage in getting better deals in the past.

### Types of deals struck (Question 17)

Interviewees were asked for the proportions of types of deals struck in terms of their total revenue over the last three years. Too few publisher studios or head offices responded to make the data meaningful or indicative, and their responses are not listed here. The following lists responses from independents in their entirety:

**Table 33: Types of deals struck**

	<b>Independents</b>
Licence work, advance, low share of net receipts	33%
Own IP, advance, net share of net receipts	22%
Licence work, advance, variable rate share of net receipts to speed recoupment	21%
Licence work, all advance, no revenue share	9%
Own IP, partly self-funded, reduced advance, higher share of net receipts	6%
Licence work, advance, share of net receipts at publisher break-even	4%
Own IP, advance, variable rate share of net receipts to speed recoupment	3%
Own IP work, advance, share of net receipts at publisher break-even	2%



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For independents, the most frequent deals are clearly for licence work (which is dominated by the traditional advance recoupment model and to a lesser extent variable rate revenue share) which totals 67 per cent of revenues. Traditional publisher-funded, advance recoupment deals for own IP represent 23 per cent of an average independent's revenues from our sample. Deals involving own IP (funded mainly in the form of advances) represent over a third of independents' revenues, the majority of own IP deals are struck with the traditional advance recoupment models, with under 15 per cent of total revenues coming from more equitable – deals like variable rate revenue sharing – that speed recoupment.

### Access to finance (Question 18a)

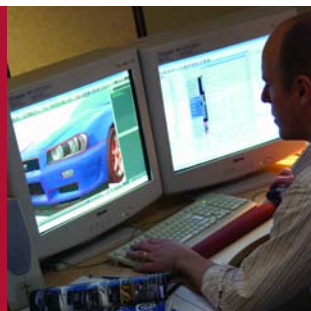
Interviewees were asked which sources of financial assistance they had accessed during the lifetime of their companies, and those who answered the question (85 per cent of the total sample) responded thus:

**Table 34: Access to finance**

	Total	Independents	Publishers
R&D tax credits	92%	100%	75%
Publisher advances	75%	100%	25%
Grants	42%	50%	25%
VC / angel and other unlisted company investors	42%	25%	75%
Debt	42%	50%	25%
Listing & public funds	33%	25%	50%
Completion bonds	33%	25%	50%

R&D tax credits are clearly popular with games companies – although as we see in Question 32 (page 112) the extent to which they provide relief is questioned by a quarter of the total sample. Here is Rebellion on the value of R&D tax credits:

*R&D tax credits are very, very important. We can do real R&D and it won't cost a fortune. We have our battles with HMC&R over what constitutes R&D but it's very useful.* **Jason Kingsley, CEO, Rebellion**



## The industry survey

Independents also appear to have no trouble accessing work from publishers, which is undoubtedly the largest source of finance for such companies. Interestingly, over half of respondents have accessed local grants, with two-thirds of independents having done so. Venture capital funds have not been accessed (and indeed are viewed with suspicion) by independents, but equity investment is a critical source of capital for publishers. Debt is apparently not popular with publishers (although almost all are understood to have either short-term credit or factoring facilities) but half of independents had used some form of loan. Completion bonding, which has risen in profile and popularity in recent years, has been used by over one-third of respondents.

### Ease of access to finance (Question 18b)

Interviewees were asked about the ease with which they accessed the following sources of finance over the lifetimes of their companies. The responses were graded (1 = easy to ten = very difficult) and a selection of the most common responses follows:

**Table 35: Ease of access to finance**

	Total	Independents	Publishers
R&D tax credits	6.5	7.9	4.3
Publisher	6.2	7.4	4.0
VC / angel and other unlisted company investors	4.3	3.1	6.3
Grants	3.6	5.3	0.8
Debt	3.5	3.3	4.0
Completion bonds	2.1	1.9	2.5

The results indicate that independents find it easiest to access R&D tax credits (which given their role as creators rather than distributors of games, is no surprise), publisher funds and grants (which are normally of insufficient size to provide anything other than minor ancillary financial assistance for most independent developers). Independents find it difficult to access other sources of finance such as venture capital, debt and completion bonds. Publishers find it easiest to access R&D tax credits, publisher funding (in this case when studios were once independent) and venture capital. Completion bonding is difficult for everyone. One publisher called for publishers to work together to finance new games IP. Codemasters made the following call to the industry:

*We'd like to see publishers working together to create a fund for developing new IP in the UK. The fund could act like a private equity company and fund UK development. **Rod Cousens, CEO, Codemasters***



# The industry survey

## Innovation

### Innovation practice – idea capture (Question 20a)

Interviewees were asked about the process of harvesting new game IP in their studios. The following is a selection of the most common responses:

**Table 36: Idea capture methodology**

	Total	Independents	Publishers
Top people meet to generate & propose ideas	36%	50%	17%
Formal request for ideas	36%	38%	33%
Creative individuals informally pitch their ideas	36%	25%	50%
R&D team create new ideas	21%	0%	50%

Most new game IP generation occurs from the top down in independent studios, a practice dismissed by one senior executive at a major global publisher as delivering lower quality games. Senior managers and executives discuss ideas and then propose them to their peers. Equally popular was the formal request for ideas from the ranks, which occurs more often in publisher studios where innovation from within has become more important in recent years. In joint first place is the ad hoc practice where individuals fight from the ranks to present their ideas without a formal process. Some companies confine innovation to an R&D team that formally harvests ideas from within the company and then builds them into viable concepts.

### Innovation practice – idea filtering (Question 20b)

Interviewees were asked about the process of filtering ideas once they have been generated. The following is a selection of the most common responses:

**Table 37: Idea filtering methodology**

	Total	Independents	Publishers
Team assigned to investigate and cost idea	64%	63%	67%
Stage & gate process assesses cost & viability	57%	50%	67%
Market research	36%	50%	17%



## The industry survey

A more uniform response towards how ideas are filtered. Most companies have a team that works up concepts and then presents them to a board of executives for discussion and green lighting. Some of these companies have an evaluation process where the game concept must meet certain criteria such as cost limits, viability, fit and in some cases enthusiasm of those presenting the ideas. Market research at the concept stage is also a part of some companies' filtering processes. Some, such as Team 17 see market research as critical to the success of future pitches:

*We have seen lots of companies innovating without testing the market or their potential partners first, something that Team 17 always does with new original IP. Rushing ahead like that leads to poor business decisions. You need to understand how publishers work and the fact that it's a global market, and look at how and where the game will be distributed on what platform before starting full production.* **Martyn Brown, Studio Director, Team17 Software**

### **Innovation practice – implementation (Question 20c)**

Interviewees were asked about the process of moving from filtering to implementation. The following is a selection of the most common responses:

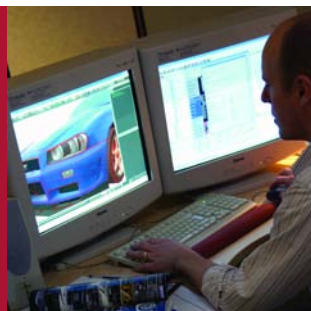
**Table 38: Idea implementation methodology**

	Total	Independents	Publishers
Small team takes ideas on an ad hoc basis	64%	50%	83%
Prototype is developed	50%	50%	50%
Concept is taken to publishers for feedback	21%	38%	0%

In over 60 per cent of cases, the game, once green lit by the studio, is taken by a small team to the next stage, which in some cases is a prototype, and in the remainder is a concept, to show to a publisher.

### **Innovation practice – innovation strategy (Question 20d)**

GIC is thus in a position to describe companies' innovation processes as follows:



# The industry survey

**Table 39: Innovation strategy**

	Total	Independents	Publishers
Periodic	50%	63%	33%
Formal assessment	50%	50%	50%
Informal	43%	50%	33%
Continuous	36%	25%	50%

The picture that emerges is that slightly more than half the sample conducts innovation for new game IP sporadically, with a more continuous process adopted by most of the remainder. The output of this process of innovation is reviewed formally by half our sample and on a more ad hoc basis by the other half.

**Other comments about innovation (Question 21)**

Of the other comments about innovation that GIC captured, only one was repeated by a number of respondents:

**Table 40: Other comments on innovation**

	Total	Independents	Publishers
XBLA is a good opportunity	71%	88%	50%

There was a generally strong opinion that Xbox Live Arcade offered good opportunities for companies, particularly among independents but also among publisher studios.

**Innovation in technology (Question 22)**

Interviewees were asked whether their innovation process differed greatly for technology as opposed to games IP, and The following is a selection of the most common responses:

**Table 41: Technology innovation**

	Total	Independents	Publishers
Continuous process	77%	75%	80%
Dedicated team	62%	63%	60%
Driven by games in progress	54%	50%	60%
More formal	54%	50%	60%

For three-quarters of our sample, the innovation process is one that iterates every working day, unsurprising given the numbers of staff dedicated to creating and maintaining technology that were indicated in Question 9 (page 92). Many reported having a dedicated team working on tools, engines and middleware full time. In just over half the sample, that innovation process is driven by games development in progress. One example is a game engine that progresses as a game is developed. Just over half the sample described an innovation process that was more formal than that for games IP.



# The industry survey

## Skills and recruitment

### Skill sets (Question 23)

Interviewees were asked which skill sets they needed to recruit to keep creating new original IP. The following is a selection of the most common responses, which were graded (between 1 and 3) in order of preference:

**Table 42: Most important skill sets**

	Total	Independents	Publishers
Design	1.43	1.75	1.00
Project management	1.07	0.88	1.33
Programming	0.86	0.88	0.83
Art	0.36	0.63	0.00

Design tops the list of skills, although several companies added the proviso that they were unimpressed with the quality of graduates from degrees in games design. The design skills required are in gameplay and level design. Project management comes in second place and reflects the increased complexity of the production process. Programming underpins all games development and it is significant that this everyday skill is given over twice the emphasis as art. Below the top four, a wide range of other required skills were mentioned by individual companies, including looking outside the industry for new skills and creative leaders and the need to find people passionate about games.

### Ease of recruitment (Question 24)

Interviewees were asked how easily they can access new staff. The following is a selection of the most common responses:

**Table 43: Ease of recruitment**

	Total	Independents	Publishers
Good – fair amount of talent if you know where to look	40%	38%	43%
Poor – very difficult to find talent	27%	25%	29%
Medium – can be difficult but no problems filling roles	20%	25%	14%
Excellent – lots of talent and easy to find it	0.0%	0%	0%



# The industry survey

The results reflect studios at the higher end of games development in the UK, and 40 per cent have no problem finding candidates. However, nearly 50 per cent report some level of difficulty in finding staff, and this position is expected to be worse for games companies than for less high end companies. Many complained of a lack of more experienced staff, and several reported unease about headhunting, particularly concerning salary inflation. Here is Sony Worldwide Studios on recruitment:

*With regards to recruitment, there are lots of candidates but really good people are always hard to find. We consistently need more high end programmers, and good designers. We also need a new generation of scriptwriters and will need to expand our search outside the industry. When it comes to a brain drain, if anything we're seeing an influx of talent into the UK from Europe.* **Shawn Layden, Vice President, Sony Computer Entertainment Worldwide Studios Europe**

### Additional comments on recruitment (Question 24b)

Some interviewees commented on recruitment as follows:

**Table 44: Other comments on recruitment**

	Total	Independents	Publishers
Have links to universities	47%	50%	43%
All staff need better project management and communications skills	20%	25%	14%
Need to acquire more studios	20%	0%	43%
Seeing influx of talent from Europe	13%	0%	29%
Low-quality graduates from games degrees	13%	25%	0%
No headhunting	13%	25%	0%

A number of companies have formal links with university courses, mostly in their studios' locale. These range from getting involved with degree courses through internships, workshops and lectures, to milk runs to hunt for new hires.



# The industry survey

One fifth of respondents reported that all their staff need better communications and project management skills. A handful commented that the UK is “draining brains” from Europe, and that university degree courses were producing low-quality graduates. A handful of publisher head offices simply said that growth is best obtained by acquiring promising studios. A number of independents were vociferous about not using headhunting.

## Investment in skills and training (Question 25)

Interviewees were asked what steps they took to induct and train new staff. The following is a selection of the most common responses:

**Table 45: Investment in training**

	Total	Independents	Publishers
Mentoring	60%	63%	57%
In at the deep end	47%	38%	57%
Established training path for new hires	27%	13%	43%
Dedicated academy and training staff	13%	13%	14%

The most common methodology for training new hires is to appoint (or allow new staff to find) mentors who guide them through the six-month induction / probationary period. Over 40 per cent adopt a more Darwinian ‘sink or swim’ approach of throwing new hires into work immediately, assuming that staff will learn most effectively on the job. A more refined version of that is establishing a path for new hires to work their way through lower end tasks towards actual games development, but only one-fifth of respondents utilised this method. A handful run formal academies with dedicated training staff, one of which (EA’s) has received much press and turns out scores of staff every year.

## Company valuations (Question 29)

Interviewees were asked what percentage of any company value lay in their company’s various key assets. Independents but too few publishers responded to make splitting out the results useful, but since those who responded included recently acquired studios as well as independents, the aggregates are useful and thus are reported here:



# The industry survey

**Table 46: Company valuations**

	Total
IP	31%
Production team	26%
Technology	24%
Contracts in hand	5%
Management	5%
Reputation	4%
Knowledge of outsourcing	4%

IP takes the largest share, but by no means dwarfs the values of the production teams and technology. In part this may reflect the market for acquisitions where, as we have seen, publishers buy companies for their resource as well as for their IP. However, it is also the natural response of managers of successful companies involved in a creative industry, who say that high-performing teams are extremely important in terms of creating IP. Technology comes in third place, and in previous questions we have seen its importance to developers working for hire.

## IP creation in the UK

### The state of IP creation in the UK today (Question 30)

Interviewees were asked how they viewed the state of the development market and new original IP in the UK today. These questions produced the most kaleidoscopic of responses, and we cannot list them all here, but the following is a selection of the most common responses:



# The industry survey

**Table 47: IP creation in the UK today**

	Total	Independents	Publishers
Independents have a hard time getting distribution for new original IP	93%	88%	100%
New platforms are opening up opportunities for new original IP	83%	81%	86%
New original IP is shrinking	57%	69%	43%
New original IP creation in the UK is weak to nearly non-existent	43%	38%	50%
Work for hire dominates, reducing new original IP	40%	38%	43%
Publishers buy promising developers to reduce revenue sharing	30%	13%	50%
Publishers buy new original IP rights quickly but share revenues with independents	27%	38%	14%
Poor access to capital means less original IP creation	27%	25%	29%
Consoles are too expensive for new developers to work on new original IP	27%	38%	14%

There was strong agreement across the board that independents struggle to get new original IP distributed in the current market, with publisher head offices clearly saying that it is very hard for independents today. Here is Blitz on barriers to entry for new original IP:

*The cost of the new generation of consoles is staggering. There are no developers able to fund such a game alone. In fact, few can afford to put £1 million into a game prototype when you need an additional £5-6 million from a publisher to finish the game. Publishers want to see prototypes before agreeing to fund a full game. The sheer cost makes it hard to bring new original IP to market. **Philip Oliver, MD, Blitz***

Many independents voiced their opinions that publishers raise barriers to entry for new original IP, and that new original IP that does get funded and published tends to under-perform. Another strong opinion is that new distribution channels, particularly those catering for casual games on current generation online consoles, offer all games companies opportunities to see their products distributed more widely. Publisher studios and head offices were very keen on new platforms while independents saw opportunities to specialise in creating new original IP for new platforms that made the most of them. In third place, a medium strength opinion was that IP creation is in decline in the UK, under pressure from rising development costs, publisher risk aversion to new third party IP and their concentration on producing fewer games with higher production costs.

Almost as strong an opinion was that IP creation in the UK is almost non-existent, and this opinion is stronger in publisher studios and head offices. Here respondents pointed to a lack of AAA IP coming out of the UK, particularly new original IP from independent studios.



## The industry survey

Work for hire is cited by some as a reason why new original IP fails to break out – simply because independents are too busy on the treadmill of working on somebody else’s IP to create their own. Some see the cost barrier to entry for current generation consoles as a driving factor behind the lack of new original IP. Publisher head offices are keen to say that they need the independent sector to generate new original IP, and, while no independents stated this directly, it is likely that this is a given for most companies. Finally, some cited the lack of access to finance as a major barrier towards being able to deliver IP.

### The state of IP creation in the UK in five years’ time (Question 31)

Interviewees were asked how they think the development market and level of new original IP being derived in the UK will look in five years’ time. Again, these questions produced many responses, which cannot be listed here, but the following is a selection of the most common responses:

**Table 48: IP creation in the UK in 2012**

	Total	Independents	Publishers
Independents struggle to get new original IP published	77%	63%	93%
New platforms offer opportunities for new original IP	73%	88%	57%
Very few original new original IPs will break through	43%	44%	43%
Lots of new IP will come from independents and publisher studios	27%	25%	29%
Lots of platforms and publishing partners bring opportunities to independents	23%	44%	0%
Publishers will buy new original IP rights fast but will share revenues with independents	23%	25%	21%



# The industry survey

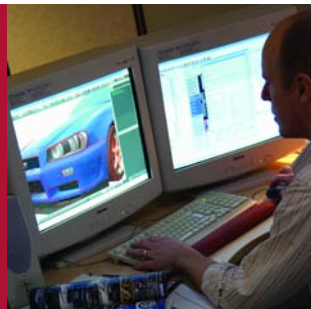
**Table 48: IP creation in the UK in 2012 (cont)**

	Total	Independents	Publishers
The UK faces terminal decline	23%	6%	43%
Some new original IP will come from independents, but mostly will be owned by publishers	20%	6%	36%
Level playing field of current generation consoles makes things easier	20%	38%	0%
Most developers do work for hire but fail to retain IP	20%	13%	29%
Most of the good creative forces will remain publisher-owned	20%	0%	43%

The general tone of responses was that the prospect for IP creation in the UK looks fairly bleak. Here is Revolution on the problem:

*The problem with all the work for hire that currently dominates most studios' revenues is that it's heavily influenced by price. As Eastern Europe gets more experienced, we'll come under heavy competition from studios that can undercut our rates for work for hire while generating high-quality products. So if we don't generate new original IP, the UK's games industry will be in trouble.*  
**Charles Cecil, MD, Revolution**

Most (including a strong majority of publishers) agree that independents will continue to find it difficult getting new original IP published, although this pessimism is slightly offset (driven by a strong majority of independents) by the expected rise in new platforms such as direct to consumer digital distribution. Many believe that new original IP will struggle to break through from independent UK studios, and that, without intervention, the UK's games development market is in terminal decline. Again, a wide spectrum of opinion is found but the strongest themes are that publishers will acquire the rights to the best IP via acquisition or negotiation, and that their studios will be where most of the creativity occurs. Although some chinks of light are proffered by a few respondents about the number of platforms opening up opportunities for independents to specialise, on the whole respondents are gloomy. Not that respondents are short of ideas about how to remedy the situation. Here's Codemasters on the future for UK IP:



## The industry survey

*It's been a tough few years for new IP. However, I see developers becoming less despondent. They should form strategic alliances, collaborate to use art and animation from a single source offshore and then rent the publisher. I see more collaboration and consolidation coming. If we don't innovate (and I don't mean more sequels), the industry will face terminal decline.*

**Rod Cousens, CEO, Codemasters**

A small number think that the best developers will remain those in publishers' hands and that most work for hire developers are not creative and will fail to retain IP.

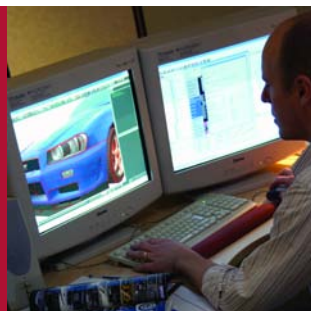
### Government assistance

#### How can government help? (Question 32)

Interviewees were asked how the government can help the industry. The following is a selection of the most common responses:

**Table 49: How can government help?**

	Total	Independents	Publishers
Tax breaks to encourage investment in games development, particularly early stage	87%	88%	86%
Prototype fund, with commercial rules	60%	63%	57%
Help with protecting start-ups when they're most vulnerable	27%	13%	43%
Anything to help British companies reduce the cost of their bids for work	20%	25%	14%



# The industry survey

**Table 49: How can government help? (cont)**

	Total	Independents	Publishers
More consistency and generosity with R&D tax credits	20%	13%	29%
Mentoring from industry experts	13%	0%	29%
Academy	13%	0%	29%
Help protect the larger companies not just the small ones	13%	25%	0%

The sample speaks with a very strong and unified voice in asking for tax breaks for encouraging investment in games development, often for the earliest and riskiest stages of a game's development where access to external finance is almost impossible, but also for games production in general. Here is Swordfish (Vivendi) on tax breaks:

*Tax breaks for early stage prototypes are needed to provide stimulation for new original IP to be generated by independents. After publishers become interested, then financing is not too difficult, because there are enough sources available. But the initial hurdle – creating working prototypes – is often too high for most independents. Fred Gill, CTO, Swordfish*

Most frequently cited as justification for this request were: the effect that the current government's tax breaks for film production had on the UK film industry; and the rise of Canada (and other territories) that have begun to attract key companies and staff away from the UK, thanks to generous government incentives for both the emigrating employees and the employing companies. Slight variations existed for respondents' ideas about tax breaks, but with most focused on trying to encourage investors to put risk capital into early stage or prototype games, and all involved the need to level the playing field against massive subsidies from competitor territories.

Fairly close behind tax breaks is a call for a prototype fund. Many (fearing a new breed of professional grant-winners who lack market viability) thought it should work along commercial lines, with profit sharing reinvested back into the fund, and a panel comprising industry experts, especially from publishers, who would help allocate funds. Mention of the Great Canadian Games Competition won broad approval as a model. Here is Team 17 on prototype funding:

*It's very difficult to protect developers who in the early days of their new original IP can get beaten up in negotiations with publishers. If there were funding available to ring fence the developer at the prototype stage, it might stop them being forced to sign away the rights to the IP. You'd need a good industry panel to judge which projects are worthy of getting support.*

**Martyn Brown, Studio Director, Team17 Software**

Less well-supported ideas were the need for funding to protect start-ups in the earliest stages of their lives when they are most vulnerable (either to financial collapse or to selling their IP rights for low cost), and the need to extend R&D tax credits to encompass more of the development process than it does now.



## The industry survey

Finally there were additional requests for more help mentoring early stage games companies by those with specific experience in the games industry; a games academy to furnish high-quality graduates with hands-on experience of games development via internships; and a call from larger, more established games companies to assist them rather than just protect the start-ups.

### Government support in other territories

#### Government aid in other territories (Question 33)

Interviewees were asked which territories they were aware of offering aid to the games industry. Their most common responses were as follows:

**Table 50: Government aid overseas**

	Total	Independents	Publishers
Canada (Québec)	100%	100%	100%
France	67%	63%	71%
Australia	47%	38%	57%
Singapore	20%	25%	14%
Switzerland	13%	0%	29%
China / Hong Kong	13%	25%	0%
Malaysia	13%	13%	14%

Canada is the clear winner, with 100 per cent of respondents aware of the drive of Québec and BC to tempt companies to locate or relocate there.



# The industry survey

France and Australia come in second place, and the remainder have much lower profile for respondents.

## Setting up subsidiaries overseas (Question 34a)

Interviewees were asked whether they had set up new studios in new territories. The following is a selection of the most common responses:

**Table 51: Setting up overseas**

	Total	Independents	Publishers
Have done already	33%	25%	43%
Maybe	27%	25%	29%
No	27%	38%	14%
Acquired studios in new territories	7%	0%	14%
Intending to do so	7%	13%	0%

Forty per cent of respondents operate studios overseas. One-third of respondents have already set up a subsidiary, nearly a quarter are considering doing so, and one either acquired a studio in new territories or intends to set up overseas. Clearly, these questions are predictable for international publishers, but both UK publishers and a number of independents have announced that they are expanding overseas. Here is Eutechnyx on overseas expansion:

*In five to ten years' time, we think that the UK will still be the home of good project management, technology and creativity, but mass production will take place in Asia. That's why we have opened production offices in Hong Kong and Western China. Darren Jobling, Director of Business Development, Eutechnyx*

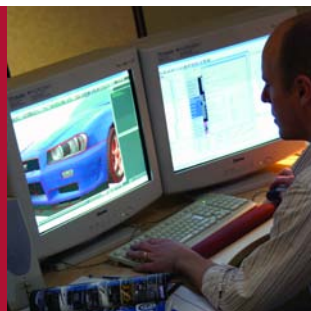
## Subsidiaries' locations (Question 34b)

Interviewees who had already set up or were considering setting up subsidiaries in new territories were asked where they had set up their new studios. The following is a selection of the most common responses:

**Table 52: Locations of overseas subsidiaries**

	Total	Independents	Publishers
Canada	47%	38%	57%
Australia	13%	0%	29%
China / Hong Kong	13%	13%	14%
Malaysia	7%	0%	14%
Eastern Europe	7%	0%	14%
US	7%	13%	0%

Again, Canada is the clear first choice in terms of attracting UK-based companies to locate, relocate or acquire studios overseas. Australia and Hong Kong are second choices, based on the language match.



# The industry survey

## Success of locating overseas (Question 35)

Interviewees who had already set up subsidiaries in new territories were asked how their new studios had fared. However too few were in a position to respond to give meaningful data.

## Government assistance received (Question 36)

Interviewees who had set up overseas (40 per cent of total respondents) were asked what governmental assistance they had received either overseas. The following are a selection of the most common responses:

**Table 53: Government assistance received**

	Total	Independents	Publishers
Tax credits	40%	50%	33%
Grants	40%	50%	33%
Canadian salary subsidies	40%	0%	67%
Canadian tax free income for foreign experts	40%	0%	67%

Although the sample is small, tax credits and grants have clearly been available to some respondents. Several have benefited from Canadian salary and income tax assistance. Among others, lomo had some strong comments about R&D tax credits as implemented in the UK:

*R&D tax credits are a good starting point but they need to be consistently implemented, more generous and come with better guidelines.* **John Chasey, VP Global Games, Infospace**

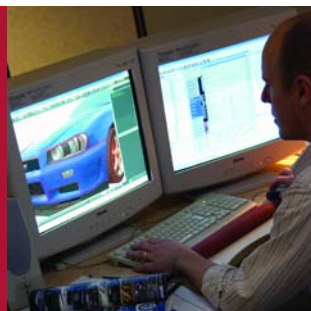
## Benefits of locating overseas (Question 37)

Interviewees were asked what the perceived benefits of setting up in new territories were. The following are a selection of the most common responses:

**Table 54: Benefits of locating overseas**

	Total	Independents	Publishers
Cost	87%	75%	100%
Shelter from the weak dollar	20%	38%	0%
Access to talent (Canada)	13%	13%	14%

The clear driver for opening up subsidiaries or studios overseas is cost. Beneath that headline, respondents were impressed by both lower salary costs, higher subsidies against salary costs available in markets like Canada, income tax incentives for foreign experts, generally lower cost of living (including leasing real estate) and the wealth of incentives available for a number of territories. Some studios, mostly independents whose margins are getting hammered by the strength of the pound wanted shelter against the weak dollar.



# The industry survey

A couple of respondents were enthusiastic about the amount of talent to be found in Canada.

## Risks and benefits of locating overseas (Question 38)

Interviewees were asked what the perceived benefits of setting up in new territories were. The following is a selection of the most common responses:

**Table 55: Demerits of locating overseas**

	Total	Independents	Publishers
Cost isn't everything, it's about creativity	20%	25%	14%
Difficulty of managing remote offices and communications	20%	13%	29%
Quality of staff	20%	13%	29%
Competition for staff	20%	0%	43%

The strength and unity of response and opinion were much reduced compared to this question's immediate predecessor, and a range of opinions was voiced. Some raised concerns about a lack of creativity found in new markets, and said that cost isn't everything when it comes to games development.

Others (mostly those who had already set up in territories) voiced concerns about the difficulty of managing staff at a distance and communications problems which had added to the costs of locating overseas. Quality of staff was also suggested as a major issue, particularly in newer markets or, as another group said, after the best had been taken by Ubisoft and Electronic Arts in Canada. Several mentioned the wage inflation found in Shanghai for experienced staff.

## Impact of overseas government aid on UK industry (Question 39)

Interviewees were asked about the impact of aid schemes such as those offered in Canada, France or elsewhere on the UK games industry. The following is a selection of the most common responses:

**Table 56: Impact of overseas government aid on UK industry**

	Total	Independents	Publishers
No level playing field, UK less competitive	73%	75%	71%
UK companies will slow their growth, stop hiring	40%	50%	29%
New original IP will falter in UK	33%	25%	43%
Talent is more important than cost	20%	13%	29%
Brain drain	20%	13%	29%



## The industry survey

Over two-thirds of respondents felt that the UK was much less competitive than competitor territories. They cited the lack of government support, higher salary, property and living costs as putting the UK at a severe disadvantage to territories where each of those factors is either lower or subsidised. Many publishers spoke about man month costs in the UK as being a critical decision factor against continued expansion here. Others emphasised the key finding in *Monograph 3, Commercial Models* about the crisis in financing games production, saying that financing production is the single most important issue in games development, whether seen from the cost of production or the availability of financing – both of which are significantly assisted by Canadian provinces bent on building large games industry hubs. Here is Eutechnyx on the uneven playing field:

*If you go to a trade show, you'll see French games companies with €250,000 worth of working demos for new original IP funded by by French government grants. The British companies lity of funding in France and other parts of the world makes the playing field uneven for UK companies. The French and Canadians therefore have a huge competitive advantage, and they raise expectations from publishers who begin to expect to see full working prototypes. So, we need a commercially focused prototype fund which helps developers create new products, and takes a percentage of revenues to plough it back into other new exciting IP projects.*

**Darren Jobling, Director of Business Development, Eutechnyx**

Half of independents and 40 per cent of the total sample think that the availability of aid in other territories will, if unaddressed by the UK government, result in UK companies slowing their growth as they expand overseas. One third, and importantly over 40 per cent of publisher studios and head offices, think that this will slow or stop the creation of new original IP in the UK.

A bullish minority believe that the talent is here and that higher costs will not impact the UK's development industry. This opinion was backed up by the example of Hollywood whose high costs have not seen its relocation over the border to Vancouver<sup>219</sup>. A number of respondents said that talent would move to Canada.

### Brain drain (Question 40)

Interviewees were asked whether a brain drain of UK talent overseas had occurred. The following is a selection of the most common responses:

**Table 57: Brain drain**

	Total	Independents	Publishers
Yes	87%	88%	86%
Maybe	7%	0%	14%
No	0%	0%	0%

This question received a high number of responses (93 per cent of the sample) and almost all respondents agreed that a brain drain had occurred (although a couple of respondents claimed that the UK drained talent from Europe, see Question 41). Several said that they had already seen a brain drain in action, such as Kuju:

*We have already lost staff to Canada. Jonathan Newth, CEO, Kuju*

<sup>219</sup> This argument fails to acknowledge the success that Vancouver has had in drawing film and TV production to British Columbia following tax breaks, making it one of the largest such locations in the world.



# The industry survey

## Beneficiaries of a brain drain (Question 41)

Interviewees were asked which territories had drained talent from the UK. The following is a selection of the most common responses:

**Table 58: Beneficiaries of brain drain**

	Total	Independents	Publishers
Canada (Quebec)	47%	50%	43%
US	33%	50%	14%
Canada (Vancouver)	27%	38%	14%
To UK from Europe	13%	0%	29%

The most popular location for draining talent from the UK was perceived to be Canada, which 53 per cent of the total sample<sup>210</sup> thought had drained talent to either the east or west coast. A number said that they had already lost staff to Canada, all of those to Montreal. One-third expected the USA to benefit, with several mentioning that a fair number of US studios and publishers were run by British people. Two respondents said that their UK studios were filled with talent from across Europe.

<sup>210</sup> Respondents could nominate more than one location.

## Impact of globalisation

### Impact of outsourcing and globalisation (Question 42)

Interviewees were asked what impact, positive or negative, the practice of outsourcing has on UK companies and games IP, and what measures were taken to exploit opportunities or protect against the threats of globalisation. The following is selection of the most common responses:

**Table 59: Impact of globalisation**

	Total	Independents	Publishers
Build game abroad, create it here	73%	75%	71%
Cheaper costs	67%	50%	86%
Enables team to scale up and down as required	33%	38%	29%
Cheap labour will tempt publishers but managing outsourcing is a key skill	20%	25%	14%
Strengthen processes	20%	38%	0%



# The industry survey

**Table 59: Impact of globalisation (cont)**

	Total	Independents	Publishers
Use more contractors, emulate film model	20%	13%	29%
Outsourcers were used initially, now they have opened subsidiaries	13%	13%	14%

Outsourcing has been firmly embraced by 87 per cent of the total sample, for whom it is standard operating procedure. Within this came a range of response, the most popular of which was the idea that games should be originated and designed in the UK (architect role) but produced overseas (builder role). Two-thirds of respondents reinforced the earlier finding about the primacy of production costs by saying that the main driver was cheaper costs in other territories. One-third wanted the flexibility to scale production up and down as their production pipeline demands. Others spoke about the need to understand how to manage outsourcers, the role that outsourcing plays in strengthening production processes, and the need to work from smaller core teams and build temporary large production teams using contractors and outsourcers. A few said that they started using outsourcing but decided to open subsidiaries in the Far East. Only one respondent rejected outsourcing as destructive of IP, skills and position in the value chain, with a disastrous impact on the UK's ability to create new original IP.

## Closing questions

### One measure to help UK companies (Question 43)

Interviewees were asked to choose one measure to assist UK companies in creating new games IP:

**Table 60: One measure to help UK companies**

	Total	Independents	Publishers
Tax breaks to incentivise investment in and development of new original IP	60%	50%	71%
Fund for incubating games companies or IP	20%	13%	29%
Prototype fund	13%	25%	0%

Again tax breaks were high on the list, although the emphasis was lower due to some companies discussing how unlikely such tax breaks are. Here is lomo (Infospace) on the need to make the playing field more level again:



## The industry survey

*A major USA publisher said recently that the UK had a brilliant reputation for games design, innovation and high-quality products, but that the Eastern Europeans are winning hands down on cost. Can grants solve this problem? Probably not, since they could simply prop up poor quality companies. However, tax incentives would help, as they do in Canada and France. This kind of assistance makes for an uneven playing field for our industry and we need to even that out. Any tax break should not be a blank cheque. It should be for original IP developed and retained by UK companies, providing an incentive for UK firms to be chosen for new original IP.*

**John Chasey, VP Global Games, Infospace**

Several companies thought that a fund, perhaps sourced from the Lottery or publishers could be set up to incubate new games companies. A few thought that a prototype fund would be their single choice.

### **Trends that will impact the creation of new game IP (Question 44)**

Interviewees were asked what impact, positive or negative, the practice of outsourcing has on UK companies and games IP, and what measures were taken to exploit opportunities or protect against the threats of globalisation. The following is a selection of the most common responses:

**Table 61: Trends that impact IP creation**

	Total	Independents	Publishers
Going direct to consumer digitally	40%	75%	0%
Online communities and user-created content	20%	0%	43%

With this very open question, a surprisingly large number of respondents (three-quarters of independents) cited going direct to consumer as a revolutionary change in the industry, opening up new distribution channels for independents. In parallel to that, some thought that the YouTube / MySpace phenomenon of online communities and user-created content would change the way games companies interact with consumers. Again, a wide array of opinions were expressed, including:

- The weak dollar is causing havoc to UK developers
- Microsoft's new "open source" games coding toolset, XNA, will bring innovation just as such initiatives did with older platforms like Commodore Amiga



## The industry survey

- Advertiser funded games are going to revolutionise the industry for developers
- Publishers and their investors need to be focused on quality as opposed to quarterly targets
- Developers must look to alternative sources of finance to retain stronger control of their IP
- Major media companies such as Fox and Warner Brothers will soon enter the games industry
- Ubiquitous computing means ubiquitous gaming, thus presenting opportunities for new original IP from independent games developers



# UK Trade & Investment



UK Trade & Investment (UKTI) is the government organisation that helps UK-based companies succeed in an increasingly global economy. Our range of expert services is tailored to the needs of individual businesses to maximise their international success. We provide companies with knowledge, advice and practical support.

We also help overseas companies bring high-quality investment to the UK's vibrant economy – acknowledged as Europe's best place from which to succeed in global business. We provide support and advice to investors at all stages of their business decision-making.

We offer expertise and contacts through a network of international specialists throughout the UK, and in British Embassies and other diplomatic offices around the world.

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[www.uktradeinvest.gov.uk](http://www.uktradeinvest.gov.uk)



## Partner organisations

### TIGA

T i g a

Tiga is the national trade association representing the interests of UK games software developers.

Our objective is to keep the UK as one of the top most important global centres for business and creativity.

UK is the fourth largest producer of games software. UK is the third largest retail market for entertainment software worth £1.37 billion (£2.3 billion inc hardware).

Tiga has 157 members, 130 of which produce part or all of a game, and is funded mostly from subscriptions.

#### Our principal roles are:

- To interface with government and ministers on all issues that affect the sector across a wide area: R&D, finance, skills and education, employment, trade, and industry profile.
- To help develop and implement strategies for the sector that make the UK the place of choice to do 'games' business with our members.

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[www.tiga.org](http://www.tiga.org)



# Partner organisations

## ELSPA



ELSPA (the Entertainment & Leisure Software Publishers Association) was founded in 1989 to establish a specific and collective identity for the British computer and video game industry.

Since then, the membership has steadily grown from 12 to nearly 60 companies, including almost all the major companies concerned with the publishing and distribution of interactive entertainment and leisure software in the UK. ELSPA works to protect, promote and provide for the interests of its members.

### The association's key policy areas are:

- Economic importance and fiscal support
- Age ratings
- Anti piracy
- Use of games in education and the workforce for skills development
- Health and wellbeing
- Convergence

ELSPA has always been dedicated to informing consumers about age suitability ratings, clarifying misconceptions about the games industry and promoting the industry to the press, public and retailers. The launch of the consumer and press website [www.askaboutgames.com](http://www.askaboutgames.com) continues to build on this work.

ELSPA also plays a key role in two of the UK's largest video game festivals – the Edinburgh Interactive Festival and the London Games Festival. For further information please contact:

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# Partner organisations

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Founded in 2003, Games Investor Consulting (GIC) is a specialist games research, strategy and corporate finance consultancy, with 11 consecutive years' experience, an extensive contact network and an in-depth understanding of both the games and finance industries. With a portfolio of over 40 international clients, GIC typically consults at board level on market assessment, corporate strategy, market entry and development, fundraising, investment and acquisitions. GIC also provides specialist analysis of the games industry, authoring or editing a broad range of research reports published by Screen Digest. GIC covers all facets of the rapidly growing global games industry but has particular specialisation in online gaming and digital distribution; outsourcing and production, tools and middleware; current and emerging commercial models; media convergence; and company, technology and content IP valuations. GIC provides:

### Research and strategy consulting services

- Market Data: GIC tracks the global games industry, maintaining extensive databases covering the industry. GIC has surveyed over 200 games companies

- Research and Strategy Consulting: GIC provides market forecasting, competitive intelligence, market entry and growth strategy planning, and company, market and IP due diligence
- Investment Support: Market validation, opportunity identification and introduction, due diligence, games company and IP valuation

### Corporate finance consulting services

- Mergers and Acquisitions: GIC assists both buyers and sellers find and transact with targets
- Private Equity Fundraisings: GIC maintains strong links to the venture capital community
- IPOs and Public Market Fundraisings: GIC helps clients achieve public market listings

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