

# European Interactive Games

The 2005 state of the industry  
report



screendigest



**European Interactive Games:  
The 2005 state of the industry report**

Published March 2005 by  
Screen Digest Limited

**Authors:** Nick Gibson (Games Investor Consulting Ltd) & Ben Keen  
**Editors:** Nick Gibson (Games Investor Consulting Ltd) & Ben Keen  
**Additional research:** Dan Cryan, Kerri Davies, Marc de Gentile-Williams & Nick Parker  
**Layout:** Fintan MacCarthy & Leander Vanderbijl

All rights reserved. No part of this publication may be reproduced, transmitted, or stored in a retrieval system, in any form or by any means without the prior written permission of the publisher, nor be otherwise circulated in any form of cover or binding other than that in which it is published and without a similar condition (including this condition) being imposed on the subsequent publisher.

Copyright © Screen Digest 2005

# screendigest

Screen Digest Limited  
Lymehouse Studios  
30/31 Lyme Street  
London NW1 0EE  
**telephone** +44/20 7424 2820  
**fax** +44/20 7424 2838  
**e-mail** editorial@screendigest.com  
**website** www.screendigest.com

**Screen Digest** is the pre-eminent source of business intelligence, research, and analysis on global audiovisual media. Screen Digest the journal has been published for more than 30 years and is read in over 40 countries. First and foremost, Screen Digest is a research company and publishes a rapidly growing number of major business reports on media markets.

The company also offers continuous online research services providing searchable access to a vast database of global audiovisual market research information. In addition, Screen Digest provides a strategic consultancy service and has undertaken a wide variety of bespoke projects on behalf of numerous national and international organisations.



**The Entertainment and Leisure Software  
Publishers Association**

167 Wardour Street  
London W1F 8WL  
*telephone* +44/20 7534 0580  
*fax* +44/20 7534 0580  
[www.elspa.com](http://www.elspa.com)

**ELSPA** was founded in 1989 to establish a specific and collective identity for the computer and video games industry. Since then, the membership has steadily grown from 12 to over 100 today, to include all companies concerned with the publishing and distribution of interactive leisure and entertainment software.

ELSPA works to promote the interests of all its members as well as addressing issues that affect the industry as a whole. The strength of ELSPA has been proved to lie in its ability to communicate information of value to its members and provide clear guidance, influence and activity in addressing important issues which affect their business individually or the entire industry.

Printed by Screen Digest

# Contents

5	List of tables and charts	24	Consolidation - background
7	Introduction	24	Consolidation - characteristics
	<b>1 Executive summary</b>	26	Consolidation - who benefits and the future
9	The market	26	Specialisation
9	Development	27	Adverse exchange rates movement
10	Development investment	27	The rise of Eastern and Central Europe
11	Employment	28	Outsourcing
11	Exports and balance of trade	29	Middleware and development tools
12	Industry trends	30	Games tools
	<b>2 Industry structure and workings</b>	31	Growing government involvement
13	Development	31	Mergers and acquisitions
13	Publishing	33	Alternative finance
14	Distribution	33	Business models - the search for a new model
14	Retail	33	The standard model
15	Technology platforms	33	Deductions
15	Games industry cycle	35	Royalty rate
17	Investment in the games industry	36	The development business model in practice
17	Public markets	37	Alternative development business models
17	Private equity markets	39	European independent development companies to watch
18	Investment incentives	39	Climax
19	UK investment incentives	39	The Creative Assembly
20	Intellectual property	40	Digital Illusions CE
20	Internal IP	40	Crytek
21	External IP licensing	41	Eurocom
21	License costs	41	Evolution Studios
	<b>3 Developers</b>	41	Free Radical Design
23	Market size	41	Funcom
23	Market composition	41	Lionhead
24	Development trends	42	Rebellion

<b>4 Publishers</b>		<b>6 New distribution channels</b>	
45	Market size and composition	95	Online PC gaming
45	Publishing trends	97	MMOG over-supply
46	Control of risk	97	The resurgence of the casual games market
50	Consolidation	98	Europe key to casual and hard-core market growth
53	Mergers and acquisitions	98	Digital distribution
54	The decaying Japanese market - isolated incident or ill omen?	98	Online console gaming
55	Content trends	99	Diversifying online console business models
56	The connectivity content imperative	100	The battle for online console customer ownership
56	Console software publishing longevity	101	Communications enablement
57	Next generation console prospects	101	Mobile gaming
57	Online piracy	102	The mobile games value chain
58	Publishing business models	104	The mobile games business model
61	Alternative development funding		
62	Other publishing costs		
62	Product promotion		
63	Manufacturing costs		
64	The publishing business model in practice		
64	Publisher pricing		
65	Publisher overheads		
65	Ancillary revenue business models		
68	First-party versus third-party publishing		
76	Publishers to watch		
<b>5 Distribution, retail, peripherals and middleware</b>			
83	The distribution market		
84	Distribution trends		
84	Distribution business models		
85	The retail market		
86	Retail market trends		
88	The retail business model		
89	Peripherals		
89	The peripherals business model		
90	Middleware		
92	Middleware business models		
92	Criterion loses its independence		

# List of tables and charts

	<b>1 Executive summary</b>	40	Funcom
9	Europe total: software sales annual value (€m)	40	Lionhead
10	UK: software and hardware sales annual value (£m)	40	Rebellion
10	Number of UK game development studios	43	Reported operating revenues of selected European developers (000 euros)
10	UK game development investment (£m)	44	Reported operating revenues of selected European developers (000 euros) (continued)
11	British cultural industry balance of trade		
11	Employee numbers		
11	2003 british cultural industry exports compared*		
	<b>2 Industry structure and workings</b>		
15	Console hardware cyclicalilty	50	US video games market, publisher market share by value
16	Games company market capitalisation 21 Dec 04	51	UK leisure software publisher market shares
18	Investment in privately held western games companies since 2000	57	EA development expenditure as a percentage of sales
	<b>3 Developers</b>	60	Publishers models
23	Development composition	65	Activision 2003 releases UK launch price retention
24	2002 UK charts' top 15 independent developers (by products' £gross)	65	Electronic Arts 2003 releases UK launch price retention
24	2003 UK charts' top 15 independent developers (by products' £gross)	68	1st party vs 3rd party new releases PlayStation 2 in the UK
35	Developers models	68	3rd party publishers PlayStation 2 in the UK
38	Independent development model	68	1st party vs 3rd party volumes PlayStation 2 in the UK
	SWOT' analysis	69	1st party vs 3rd party ave volumes PlayStation 2 in the UK
40	Climax Group	69	1st party vs 3rd party ave selling prices PlayStation 2 in the UK
40	Creative Assembly	70	1st party vs 3rd party new releases Game Boy Advance in the UK
40	Digital Illusions	70	3rd party publishers Game Boy Advance in the UK
40	Eurocom	70	1st party vs 3rd party volumes Game
40	Evolution Studios		
40	Free Radical Design		
	<b>4 Publishers</b>		

	Boy Advance in the UK	78	SCi
71	1st party vs 3rd party ave volumes	78	Majesco
	Game Boy Advance in the UK	80	Reported operating revenues of selected European publishers (000 euros)
71	1st party vs 3rd party ave selling prices		
	Game Boy Advance in the UK	81	Reported operating revenues of selected European publishers (000 euros) (continued)
72	1st party vs 3rd party new releases		
	Nintendo GameCube in the UK	82	Reported operating revenues of selected global publishers (\$m)
72	3rd party publishers Nintendo GameCube in the UK		
72	1st party vs 3rd party volumes		
	Nintendo GameCube in the UK		
73	1st party vs 3rd party ave volumes		
	Nintendo GameCube in the UK	86	US retailer market share
73	1st party vs 3rd party ave selling prices	86	US retailer market share
	Nintendo GameCube in the UK		
74	1st party vs 3rd party new releases		
	Microsoft Xbox in the UK	95	<b>6 New distribution channels</b>
74	3rd party publishers Microsoft Xbox in the UK		Western world market: Retail vs non-retail sales
		96	MMOG market forecast
74	1st party vs 3rd party volumes	101	Europe: mobile games download revenue
	Microsoft Xbox in the UK		
75	1st party vs 3rd party ave selling prices	102	Mobile game content M&A transactions
	Microsoft Xbox in the UK		
76	Publishing SWOT analysis	103	Mobile game content company funding
77	Electronic Arts		
77	Ubisoft	103	Total fundraising by mobile game content companies (\$m)
77	Midway		

# Introduction

This report marks a new chapter in Screen Digest's research relationship with the Entertainment & Leisure Software Publishers Association (ELSPA). Since 1998, we have been working with ELSPA to produce a series of definitive reports on the market for leisure software. This State of the Industry report is designed to be a companion volume to these Interactive Leisure Software: Global Market Assessment & Forecast reports. It is focused on the structure and dynamics of the industry, with a thorough analysis of the changing factors affecting the key players throughout the games value chain.

After a chapter detailing the industry's overall organisation and workings, the report is structured according to the composition of key industry sectors and the relevant players in each - developers, publishers, distributors, retailers, manufacturers of peripherals and middleware providers. Each section describes the business models and terms of trade that operate together with the key trends and market drivers affecting the future of the companies concerned. We close with an overview of the primary new distribution channels—particularly and online and mobile—that are opening up fresh opportunities for the games industry.