

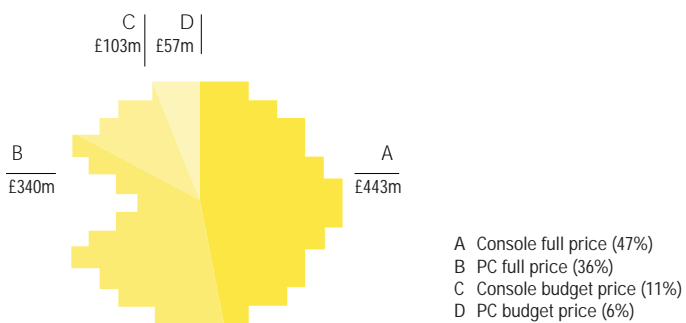
SECTION 08 INTERACTIVE LEISURE SOFTWARE

INDUSTRY REVENUES

UK owned companies had revenues estimated at around £1.2bn in 1997 of which £417m was derived from exports.

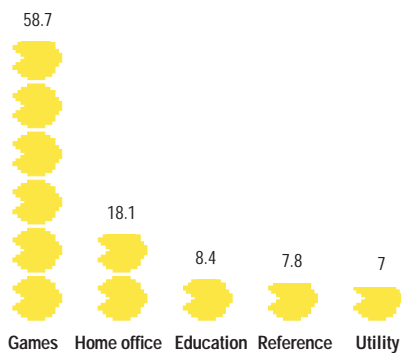
UK MARKET

Software Value by Format (UK)



The UK interactive leisure software market was worth £944m¹ in 1997, up from £200m in 1989. The value of software sales for the first six months of 1998 was 65% up on 1997. Sales are confidently expected to surpass £1bn in 1998/99.

PC SOFTWARE GENRE BY VALUE (%)



Software available for the PC covers all genres, while console software currently comprises games only. There are, however, moves to introduce non-games software for consoles.

Consumers of games tend to be young and male with high disposable incomes, the average age of users varies according to the hardware used:

PC Games	29 years old
PlayStation	22 years old
Saturn/Nintendo	late teens ²

In addition, there is a clear distinction between PC-based games users and console users. Purchasers of console software buy more games than PC users. Average sales for the former in 1996 were 21,000 per title, as opposed to 2,500 per title of PC-based games.³

¹ Source Screen Digest

² Source dedicated consumer magazines

³ Source Screen Digest

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BALANCE OF TRADE

1997	
Exports⁴	£417m
Imports	£192m
Balance of Trade	£225m

The UK enjoys a future balance of trade in interactive leisure software of around £225m, making this sector one of the best performing of the creative industries.

Britain is renowned for its innovation and the quality of its games – British developed games are estimated to account for up to 30% of world sales.

Most of the multinational leisure software publishers base their European headquarters in the UK. Some 75% of games software for all formats distributed in Europe emanates from the UK. A UK base also gives overseas companies direct access to UK talent. As a result, many of the games developed in the UK are published by foreign companies.

In 1997, for the first time, Europe overtook the US in the value of leisure software sales across all formats throughout the world.

EMPLOYMENT

The industry employs around 27,000 people in the UK.

INDUSTRY STRUCTURE

The UK industry is noteworthy for the significant numbers of independent software developers – over 150 – which produce much of the software in which publishers invest.

Games can take up to three years and millions of pounds to develop. Many of even the best small UK software companies are finding it increasingly difficult to compete due to shortage of investment other than from foreign sources, especially the US. As software development and publishing companies grow, they tend to be acquired by foreign firms.

INTERNATIONAL CRITICAL ACCLAIM

British games enjoy worldwide success. Three out of the top ten selling games originated in Britain, and it is generally accepted that only Japan rivals the UK for creativity and quality.

SECONDARY ECONOMIC IMPACT

The console hardware market is worth £284m. Sales are largely dependent upon the quality and marketing of the software available for each platform.

UK leisure software developers are at the cutting edge of digital technology. Many of the disciplines used in the development of computer and video games are subsequently used for the creation of special effects in TV/film and in establishing virtual 3D environments for commercial, medical, civil and military use.

POTENTIAL FOR GROWTH

The console games market has in the past been highly cyclical due to the development of successive generations of console hardware. A slump in the early 1990s was due to consumers awaiting the roll-out of new technology. Since the huge success of the PSX Playstation from Sony (a 32-bit system) consumers seem to have reached a plateau of satisfaction, and the market for 32-bit software has grown strongly. The new generation of 64-bit systems led by Nintendo has, conversely, experienced relatively slow sales. The next cycle, expected to start with the launch of new platforms from 2000, is not expected to have such a dramatic impact on growth rates as development during the 1990s.

The PC-based games market has grown far more steadily, hamstrung, to some extent, by rapid obsolescence of hardware and problems with configuration and incompatibility.

Increasing links with global media industries offer opportunities for British firms to develop games on the back of film or broadcasting rights. Successful developments of this kind include games based on the film "The Lost World", on Formula 1 and on football.

⁴ This figure includes only revenues from the sale of software the rights to which are held by UK-owned companies

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Changes in delivery mechanisms for PC games are also important for future growth: DVD-ROM, on-line distribution and network games played on-line (although the latter may be less successful in the UK given that local phonecalls are not free, as they are in the US).

The global market seems set for continued rapid growth over the next two years. Britain's reputation for innovation and excellence will continue to be an asset, but further investment will be necessary if this reputation is to be maintained.

GROWING THE SECTOR – POINTS FOR CONSIDERATION

Key issues for the sector include:

- combating piracy, which currently loses the UK industry an estimated 25% of its revenues
- raising more investment in the UK to support start-ups and software development and minimise the acquisition of British firms by foreign competitors
- fostering continuing innovation in a highly competitive consumer market
- providing the necessary training to combat skills shortages in the industry
- exploiting the opportunities offered by convergence in technologies and the liberalisation of the communications industries
- taking opportunities offered by development rights for films, sports and merchandising