

As a highly successful independent operator in an increasingly consolidated market, UK computer games developer Lionhead is a rare species indeed. How has its creator, Peter Molyneux, pulled it off? Matthew Stibbe finds out

Playing by the rules

Vital statistics

Name: Lionhead Studios

Sector: Computer games

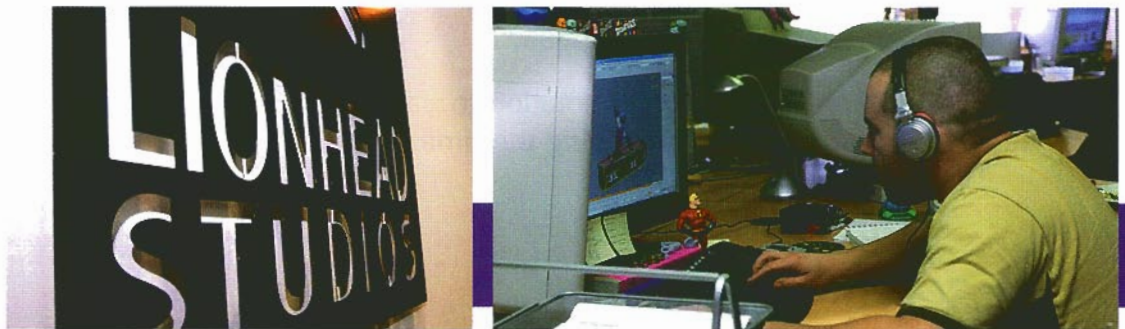
Description: Founded in 1997, the company's first game, *Black & White* for PC, was released in 2001 and worldwide sales have now topped more than two million copies. Its second game, *Fable*, for Xbox, has sold more than 1.4 million copies worldwide, making it one of the top-selling Xbox titles of all time

Staff: 223

Turnover: around £11.2m to year ended March 31, 2005.

Profit: Breakeven, up from £3m last year

Releases: Three are planned this year: *Fable 2*, *Black & White 2* and *The Movies*



It may not be game over, but the UK computer games industry isn't in the best of health. Eidos, recently the target of rival acquirers and owner of the lucrative *Lara Croft* and *Championship Manager* licenses, is the country's largest publisher. But with falling sales, delayed product launches, and heavy operating losses, it is seeking a *Tomb Raider*-style escape. UK independent developers aren't faring much better. About a third have closed their doors in the past four years. As Margaret Robinson, editor of *Edge*, a leading games magazine, says: "We had a page unofficially reserved for that month's closure notices."

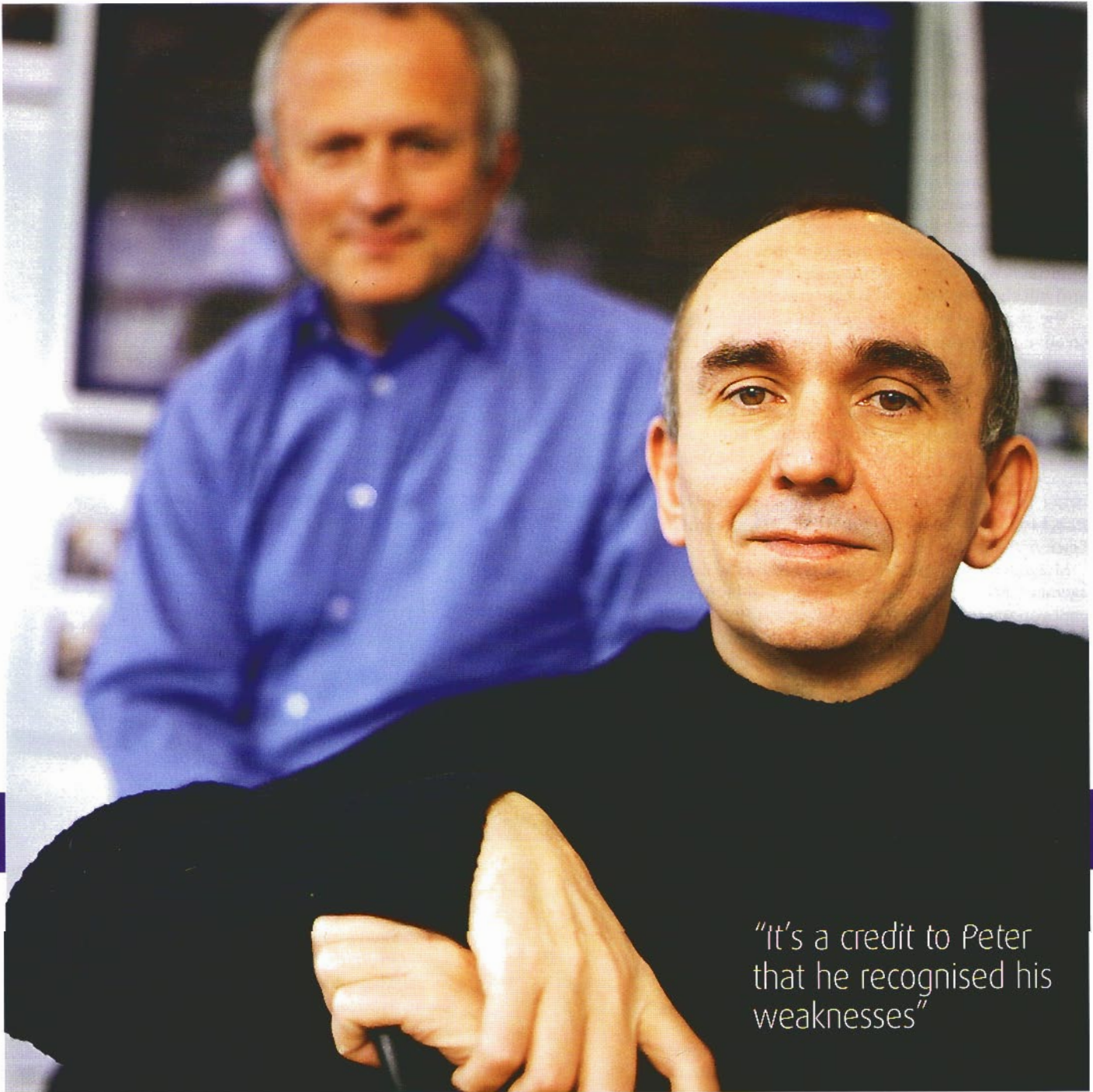
Despite this, demand for games software has never been greater, spurred by a battle for hardware supremacy between Sony and Microsoft. But Japanese and US publishers are starting to clean up in a consolidating market and UK players are struggling to maintain the consistency of the 1990s.

There are some notable exceptions. Lionhead Studios is run by Peter Molyneux, the John Lennon of computer games. Where Lennon inspired a genera-

tion of bedroom rockers, Molyneux fired up a generation of bedroom programmers. Softly spoken but never publicity-shy, he and his crew have created 10 worldwide hits, with cumulative sales of 20 million. This year he was awarded an OBE in the New Year Honours List for services to computer games.

Unlike other games that focus on role-playing or thumb-twitching action, Molyneux is the inventor and leading exponent of the "god game", which is as much about creating your own rules as getting the high score. For Molyneux, the genre has deep psychological roots. "My parents owned a toy shop, which meant I got the games that were rubbish or with bits missing, so I had to make up the rules myself," he says. "Imagine playing Monopoly without any money."

In his first hit, *Populous*, the player is a vengeful deity with a pixelated population to command. Recent releases include *Fable*, where the player controls a hero in a Tolkienesque fantasy world and, in *Black and White*, a return to his god-game roots, where the player controls the destiny of an entire people. His latest



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design, *The Movies*, casts the player as a Hollywood mogul, part-director, part-chief executive.

Molyneux sold his first company, Bullfrog, to publisher and industry giant Electronic Arts (EA) in 1995. After two years building up EA UK's in-house development capability, he left to start his second company, Lionhead Studios. At each stage in his career he has had to balance creativity against commercial pressures, orchestrate talented staff and make good decisions in difficult circumstances. Sometimes he must feel like he is living inside one of his own games.

The result is a big reputation, the respect (and envy) of his peers and publishing deals with some of the biggest names in the business: EA, Microsoft and

Activision. "Lionhead would comfortably fit in the top tier of European game development companies," says Nick Gibson, a director at Games Investor Consulting. "It has a formidable track record."

Lionhead is an independent developer. It designs original games, programs them in-house and sells them for a royalty to publishers that manufacture the discs and boxes and sell to retailers. Importantly, it retains ownership of the intellectual property in the characters and game designs, so sequels can be created. This level of independence is increasingly rare—Molyneux reckons that within a few years there may be only five truly independent developers left worldwide.

The landscape is changing for developers and

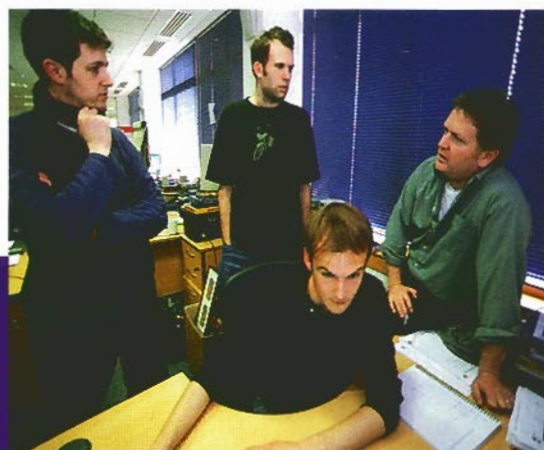
The John Lennon of computer games: Lionhead boss Peter Molyneux (right) with Peter Murphy, finance and business development director, in the background

publishers alike. This year Microsoft will launch the Xbox 2 and Sony the PlayStation 3. These are the next generation consoles that will shape the industry for the next five years. Because of rising production values, a would-be blockbuster will require a team of 100 people and a development budget of about \$10m. So publishers will concentrate resources on fewer games and will choose predictability over creativity.

The switch to the next generation demands new creative and managerial skills. "We're looking for movie-quality computer animation," says Molyneux. But this has a price. "As we head into next-generation development and costs [double], the need for cost-controlled, risk-mitigated development solutions is going to rise exponentially," says Gibson. Lionhead has cancelled two projects to concentrate on fewer, better titles and is building consistency around its franchises. Two of its next three titles are sequels: *Black & White 2* and *Fable 2*.

Molyneux recognises the need to bolster the management team and focus a good proportion of his energies on the creative side, which is what he likes best.

"It's a credit to Peter that he recognised his weaknesses," says Peter Murphy, Lionhead's finance and



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business development director, and former finance director at National Lottery operator Camelot. Molyneux brought him in last year to raise finance and inject some much-needed business rigour. Murphy also brought in an undisclosed sum in venture capital last year.

He accepts this is an expensive source of funds but cheaper than taking publishers' advances once the reduced royalties are considered. Lionhead's pedigree and the growing market made the investment attractive, but Murphy admits the games industry is still "a risky, hit-driven business".

Lionhead looks to a mix of games for different systems to mitigate this risk. It has three titles in full production

and aims to incubate several prototypes at any given time. Also, says Murphy: "We have brought in further management talent, structure, planning and process and laid it over the huge talent pool we have here."

On one level the games business is thriving. UK retail sales have doubled in the past six years, according to analysts Screen Digest, and the UK market is larger than the French and German markets combined. Investors see opportunities in mobile phone and internet games.

But Lionhead's experience is not typical. "The statistics support the view that the UK developers' influence in the global games market is waning," says Games Investor Consulting's Nick Gibson.

Besides the fact that fewer games are being commissioned, the dollar exchange rate pushes up costs for US publishers. Then there is lack of funding, short-termism, lack of scale, government indifference and a brain drain to North America. But there are still successful UK development companies out there. "People with their own intellectual property and people in mobile are doing well, but times are tough," says Fred Hasson, co-founder and CEO of the Independent Game Developers Association.

Peter Molyneux, once the role model for heroic start-ups, now champions structure, size and sequels. A high score means playing by the new rules. ■

At a glance

- In 1995 Molyneux sells first company Bullfrog to Electronic Arts and spends two years building up EA's in-house development capability before founding Lionhead
- Cancels two projects to focus on fewer, stronger titles and builds consistency around franchises; brings in new finance director who raises venture capital and implements new management, planning and process structure
- Maintains independence in an increasingly consolidated market
- Sales hit 20 million; awarded OBE for services to computer games industry, 1995