Electronic Arts Inc. - Company Profile, Information, Business Description, History, Background Information on Electronic Arts Inc.

1450 Fashion Island Blvd.
San Mateo, CA 94404
U.S.A.

History of Electronic Arts Inc.

Electronic Arts Inc. (EA) is one of the world's leading publishers of video and computer games software. Better known video game companies, including Sega, Nintendo, and Atari, manufacture video game players but produce games only for their proprietary equipment. Electronic Arts, on the other hand, produces software for various manufacturers' hardware, whether computers, video game consoles, or CD-ROM players, and EA has specialized in just software. EA has experienced rapid growth in a swiftly expanding world market, with earnings increasing 60 percent annually between 1989 and 1994.

Electronic Arts was founded in 1982 by three former managers of Apple Computer: William M. (Trip) Hawkins III, who was a marketing director at Apple and at age 26 became head of the new enterprise; William Bingham (Bing) Gordon, who became the company's director of marketing; and Tom Mott. Both Hawkins and Gordon earned MBAs from Stanford University. The decision was made to form a company that specialized in developing and marketing software games for home computers at a dinner with four other friends at Hawkins's home. EA started with a team of 11 people and $5 million in capital from private investors.

EA was flexible from the beginning, developing its software for whatever computer hardware was most popular at the time, usually then producing multiple versions of programs to run on different systems. EA's first product, shipped in May of 1983, was a software game for the Atari 800 game player, but shortly thereafter the market shifted to the Commodore system. EA readjusted quickly, and in October 1983 it shipped six more games for the Commodore 64 computer. In 1984 its 'Skyfox' computer game, designed for the Apple II computer, became a best-seller. Two years later EA began producing games for the new Commodore Amiga, which turned out to be a very popular computer. By 1990 EA was investing an additional 50 percent of each product's development costs to retool the software so that it could run on a different hardware system.

Games software in the early 1980s was still a very new industry, as personal computers were not yet widespread. Thus, EA took a fresh approach to designing software, modeling the development and production more on the entertainment industry than on the software industry. Instead of hiring computer programmers, EA hired software graphic arts designers and project managers it called producers. Ideas for new computer games often came from freelancers, who proposed game scenarios just as independent scriptwriters submit their scripts to Hollywood studios. If an idea was approved by an in-house committee, the project was assigned to a 'producer.' Later, more of the ideas were developed in-house, but EA continued to consider its software developers artists.

Like movie studios, EA produces many games to increase the chance of a success. Since 1984 EA has also acquired marketing rights to software packages developed by smaller outside companies through its Affiliated Labels program. EA even began contracting celebrities, especially sports stars, whose names and images were added to the software. These have included football star John Madden, basketball

Unlike many of its competitors, who use third-party distributors, EA took the strategic approach of establishing its own sales force. EA's salespeople sell directly to such retailers as Egghead (/knowledge/Egghead.html) Inc., Toys 'R' Us, Wal-Mart and Target. In addition to permitting better control over sales and inventory, use of the sales forces has also helped EA keep better track of consumer trends.

Early on EA began selling its software overseas. In 1986 $1.5 million of its $30 million in revenues were from international sales. In 1987 EA established a manufacturing facility--which became part of what is known as EA Europe--in Langley, England. EA President and CEO Hawkins had begun to spend more time exploring strategic growth plans, particularly international expansion, and in 1987 much of the day-to-day administration of the company was turned over to his newly-hired senior vice president, Kenneth Zerbe. EA went public in September of 1989 with a market capitalization of about $84 million. Sales that year were $63.5 million, and net income had shot up from $1.3 million in 1988 to $4 million in 1989.

Having developed its software to run on a variety of computers, by 1986 EA had become the leading supplier of entertainment software in the United States, but this market was limited. In the late 1980s video game cartridges, which run on special players connected to television sets, were proving to be a more lucrative industry because most consumers had television sets but not computers at home. In 1989 the video game market was estimated at $3.4 billion in sales, as compared to $250 million for floppy disk computer games. It also comprised mostly children and teenagers, rather than the young adults who used computers. This market was dominated by the Japanese company Nintendo, with its own and compatible cartridges accounting for 80 percent of 1989 U.S. video game sales. Although EA had begun producing software for some cartridge game companies, it did not develop games for Nintendo's systems. EA was unwilling to abide by Nintendo's conditions, which would have involved agreeing not to provide the same games to Nintendo's competitors, such as Sega.

EA made its major move into the video game market by gambling on an unreleased game player from Sega. EA did not merely revise, but designed entirely new games for Sega's Genesis machine, which in 1989 was the first 16-bit video game player available to the U.S. market. The 16-bit players were almost twice as fast as the existing 8-bit machines. For the Genesis player, EA worked on eight to ten projects, each costing about $250,000, for a total product development investment of $2 million to $2.5 million. EA shipped its first games for Sega's Genesis in June of 1990, although sales of the machines did not really take off until 1991. Nevertheless, a quarter of EA's 1990 sales were from games for Genesis. The success of the Genesis, in fact, was partly due to the great popularity EA's sports games. EA was soon producing about 35 percent of the games that could run on Sega's Genesis, allowing EA to get a jump on the software competition in developing games for 16-bit machines.

The successes of Genesis spurred ever higher sales for EA. EA's net revenue increased 54.8 percent from $113 million in fiscal year 1991 to $175 million in 1992, largely due to a 215 percent increase in sales of cartridge games for the Sega Genesis (/knowledge/Sega_Genesis.html), which totaled $77 million in fiscal year 1992. The following year, EA's total net revenues were up another 70.4 percent to $298 million, with sales of Sega games up 117 percent to $167 million.

It was also in 1990 that EA changed its position and began making games for Nintendo's 8-bit player for the first time. Nintendo did not introduce a 16-bit machine, the Super Nintendo Entertainment System (Super NES), to the United States until June of 1991. At this time, however, Nintendo reversed its policy and began letting software developers revise games they sold to competitors to also run on Nintendo machines. Thus, EA suddenly had a broader market for the 16-bit games it had developed for Sega.

In December of 1990 Lawrence Probst, who had joined the company as vice president of sales in 1984, took over Hawkins's post as president. Six months later Probst also assumed the position of CEO, which had been held by Hawkins, who remained as chairman and leading shareholder. In 1991 EA, originally incorporated in California, was reincorporated in Delaware and became Electronic Arts Inc.

EA quickly established itself as the leading independent developer of video games for 16-bit players. In fiscal year 1992, EA's sales of software for video game cartridges overtook its sales of software on floppy disks for personal computers for the first time. The following year 56 percent of EA's worldwide revenues were from Sega format games, while 18 percent was from Super NES games.

EA capitalized on its leadership in sports games by introducing the EA SPORTS brand name in 1991. Over the years, EA had purchased licenses for team and league names and logos from the National Basketball Association, the Professional Golf Association, the National Hockey League (/knowledge/National_Hockey_League.html), the National Hockey League Players Association, and the Major League Baseball (/knowledge/Major_League_Baseball.html) Players Association. Some of EA's most popular games were 'John Madden Football,' 'NHLPA Hockey,' 'Bulls

distributed EA's games for the Japanese market and several other Asian countries. During the year following the establishment of EA Victor, EA's sales in Japan increased 140 percent. EA also established a manufacturing facility in Puerto Rico in 1992. Meanwhile, EA Europe had expanded its activities beyond manufacturing to include the translation of EA titles into up to seven languages and their distribution in 31 European and Mediterranean countries. EA Europe also developed original software games itself, and European sales doubled in both 1992 and 1993 before declining in fiscal 1994. International sales accounted for about one-third of EA's revenues in 1993.

In 1992 EA acquired Origin Systems Inc., a leading computer games developer based in Austin, Texas, with net revenues of $121 million. Origin was best known for its Ultima series of fantasy role-playing games in personal computer diskette and CD-ROM formats. These story games complemented EA's offerings in action, flying and driving simulation, and strategy games. EA subsequently diversified into educational games software for children, a category also known as 'edutainment.' In December of 1992 the EA*Kids brand and division was launched to provide software for children aged 3 to 14. Learning games introduced in 1993 included 'Ping and Kooky's Cuckoo Zoo,' 'Eagle Eye Mysteries,' 'Peter Pan: A Story Painting Adventure,' and 'Scooter's Magic Castle.' EA*Kids has also created versions of its software for schools. In April of the following year EA signed an exclusive long-term licensing agreement with the Children's Television Workshop (/knowledge/Sesame_Workshop.html) to produce interactive multimedia software featuring the *Sesame Street* characters. A 1994 plan to merge with Broderbund Software, which was later cancelled, would have further expanded EA's involvement in the edutainment field. Part of the reason for EA's move into educational software was the aging of the company, whose employees were having children themselves.

Although EA has usually stayed out of developing hardware for running software games, it did introduce an innovative device in 1993 called a 'Four-Way Play Adapter.' It was the first device on the market that allowed up to four players, rather than just two, to simultaneously play a competitive game on a Sega Genesis game system. EA has also devised special performance-enhancing computer chips inside game cartridges.

An even more significant contribution to hardware development was EA's leading role in establishing a joint-venture technology company, 3DO Inc. 3DO was set up to license technology to hardware developers for the next generation of video game players, the 3DO Interactive Multiplayer (/knowledge/3DO_Interactive_Multiplayer.html), which has a 32-bit RISC microprocessor (/knowledge/Microprocessor.html) and a double-speed CD-ROM drive. EA was the largest of the original shareholders of 3DO, with approximately a 20 percent share. Other participants included Time Warner Inc.'s Time Warner Enterprises unit, Matsushita Electric Industrial (/knowledge/Panasonic_Corporation.html) Co., Ltd., MCA, AT&T, and two venture capital firms. EA helped develop 3DO's system software, and Hawkins, who was the driving force behind venture, became CEO of the new company, while remaining chairman of EA. The 3DO Interactive Multiplayer permitted quality of sound and graphics that was unmatched for video games played on a television set. In 1993 EA was one of the first companies to introduce games for the 3DO format, which would hopefully become the new standard for video games.

In addition to the 3DO CD player, EA began developing more products for the PC and Macintosh CD-ROM formats. Its first CD-ROM games were introduced in 1992. With the emerging base of computers with CD-ROM drives in homes, CD-ROM software was expected to be the fastest growing category in the mid-1990s.

As equipment became more advanced, EA pursued its Hollywood model of entertainment software publishing even further, developing more sophisticated software. In the fall of 1993 EA formed its Advanced Entertainment Group, which brought together animators, musicians, photographers, writers, and film makers. Through this venture, live actors have been filmed in Hollywood sound stages, and the videotaped performances have been digitized and integrated into the software. EA also began joint projects with Colossal Pictures, creators of the MTV (/knowledge/MTV.html) show *Liquid Television.* Advanced Entertainment Group Senior Vice President Stewart Bonn explained in a company brochure: 'We want to create a place where artists and craftsmen from various disciplines are inspired to gather and collaborate on exciting new forms and images.' The resulting multimedia software combined CD-quality digitized stereo sound, full-motion video, and 3D-modeled animation. The more creative and realistic software helped extend EA's video game market beyond children and teenagers to adults.

To create these highly sophisticated games, EA increased its already deep investment in research and development. In 1994 the company was investing 14 percent of its revenues in R&D, up from around 12 percent the previous two years. EA's innovative development techniques have included its Artist Work Station, a computerized means of efficiently designing software and adapting it for multiple platforms. EA also came up with new ways to merge computer animation and live-action video. In 1993 the company formed a special group to oversee software development for the 32-bit hardware format, involving both the creation of entirely new games and the extensive redesign of existing games. Each new game for the 32-bit machine cost over $1 million to develop due to their complexity. Even if the 3DO were not to become the standard, the 32-bit system was expected to be the next trend, as Sega and Nintendo began developing 32-bit game players. Always looking toward the future, in the mid-1990s EA had other plans in the works, including interactive movies, travel-based entertainment, and access to its software through interactive cable television.

Principal Subsidiaries: Origin Systems; Electronic Arts Puerto Rico Inc.; Electronic Arts Canada Inc.; Electronic Arts Ltd. (U.K.); Electronic Arts Pty. Ltd. (Australia); Electronic Arts GmbH (Germany); Electronic Arts S.A. (France); Electronic Arts Victor, Inc. (Japan; 65%).

Additional Details

- **Public Company**
- **Incorporated:** 1982 as Electronic Arts
- **Employees:** 1,065
- **Sales:** $418.29 million
- **Stock Exchanges:** NASDAQ
- **SICs:** 7372 Prepackaged Software

Further Reference

Forbes, January 22, 1990, pp. 106-107.Shapiro, Eben, 'Jury Still Out on Video Games: Electronic Arts' Prospects Studied,' *San Jose Mercury News,* June 24, 1991, p. 11E.

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