A 'Recognizable' and 'Rewarding' Business Plan

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Setting the Stage

The story of Activision begins back in 1976, at the headquarters of the video game pioneer Atari. Atari had been doing fairly well for itself. It had risen from obscurity to major success by producing coin-operated arcade games such as Pong.

Atari's sales had bounded past the $20 million mark and the future looked bright. Atari was working on producing the Atari VCS 2600, a home video game console system to bring the arcades into the living room.

Apparently, though, Nolan Bushnell, Atari's founder, decided it was time to sell the company. He sold it to Warner Communications for $28 million. He stayed on for about two years as chairman, but was eventually squeezed out by management (Levering 6).

In a 1983 issue of *West*, Bushnell told reporters that Warner had wanted to demote him to vice chairman, "I didn't want it. I want to be in the thick of things." Warner installed Raymond Kassar, a textile mogul, as the new head of Atari. Bushnell was reported in *West* as saying, "When he made Kassar chairman, I told Manny [Warner honcho Emanuel Gerard] he was the wrong man. I didn't think Kassar could get along with the engineers. He couldn't get down on the floor with them. You've got to have enough faith in them to say, 'I don't know what you're talking about; here's some money, go show me (Levering 7)." In fact, Bushnell had quite the rapport with his engineers as described in David Sheff's Game Over, and was probably one of the main keys to Atari's early success (145).

Bushnell's perception of Kassar was right on the money. In the same issue of *West*, Hubner and Kistner describe a meeting between Kassar and four of Atari's top game designers: Larry Kaplan, Dave Crane, Al Miller and Bob Whitehead:

"The designers found Kassar at his desk, wearing a well-tailored suit. They were, as usual, in jeans. The four had a lot on their minds. They wanted Atari to treat them the way Warner treats recording artists. They felt their games had played a large role in the company's success, and they asked Kassar for royalties on them. They wanted recognition, too. Musicians got their names and pictures on record albums; why couldn't theirs be put on game cartridges?" (Levering 7).

"Kassar called us 'towel designers,'" Kaplan recalled. "He said, 'I've dealt with your kind before. You're a dime a dozen. You're not unique. Anybody can do a cartridge.'" Five months later Crane, Miller, and Whitehead left to form Activision with recording industry veteran James Levy.

The First Third-Party Video Game Designer

In leaving Atari and forming Activision, those four programmers did more for the cause of video game design than perhaps any other event in history: they created the first third-party video game company. Arnie Katz writes, "If video game design has a patron saint, it must be James Levy (18)." The recording business veteran is recognized as the driving force behind the four programmers. He led the exodus from Atari and became the head of this new company. With his leadership, independent publishing of software titles for already established systems became a reality. Wanting some of the market share, other independent publishers soon followed Activision's lead. Bidding for design services heated up, and pay and opportunity for designers exploded (Katz 18).

Levy created Activision with four top Atari designer-programmers – David Crane, Alan Miller, Larry Kaplan, and Robert Whitehead. Steve Cartwright was a valuable late addition to the team. These five programmers and their leader were instrumental in developing great games that led to Activision's success.

Warner-owned Atari was not amused. They saw Activision as a thief. Atari wanted to make all the money from its 2600, including all the software. Management at Atari fretted about how Activision would divide the market and steal their profits (Katz 18). A similar fear was described as being held by Nintendo's management in Sheff's Game Over.

Atari began a brutal campaign against Activision. They wanted to kill this new company off and discourage others from following Levy's lead. Atari threatened legal

action. There were rumors that Activision cartridges damaged 2600 consoles. Atari even

attempted to strong-arm journalists by hinting that coverage of Activision titles would

result in the loss of a future supply of Atari cartridges (Katz 19).

Robert Jung writes of a lawsuit between Atari and Activision that happened

shortly after Activision was founded in April of 1980, "Atari sues Activision, alleging its

members violated non-disclosure agreements." Atari's bullying and legal efforts were in

vain, though, for "Nearly everyone else in the industry immediately recognized that

Activision was a huge, positive step forward for video gaming (Katz 19)." Jung writes

that by 1982, the lawsuit had been settled, and Atari would allow Activision to develop

third-party video games in return for royalties. Soon after this ruling, dozens of

companies including *Apollo*, *US Games*, and *Imagic* began making games for the Atari

VCS. They saw that Levy's business model was a winner.

In fact, although Atari's management did not foresee it, the increase in software

and promotions from these new companies actually raised consumer interest and

expanded the entire market. This proved to benefit Atari enormously. When Activision

jumped into the market in 1979, the Atari 2600 had only a slight lead over its nearest

console competitor, the Odyssey.

NAP, the maker of Odyssey, barely noticed Activision's impact on Atari's sales. It was

too busy congratulating itself on keeping tight control of its own cartridge supply.

Activision rapidly increased the Atari 2600's software base, and literally blew open the

market. By late 1981, *Electronic Games* magazine reported that the 2600 had pulled

away from the Odyssey and become the dominant system. The 2600 sold more than 26 million machines, while the Odyssey stalled short of the 2 million mark (Katz 19).

Recognition

Ultimately, Activision split from Atari because of discontent. The programmers were unhappy with the management for several reasons, as can be seen in the opening excerpt. One of the major reasons for the split was discontent over recognition: "Musicians got their names and pictures on record albums; why couldn't theirs be put on game cartridges?".

Evidence of this discontent over improper recognition can be found throughout Atari's early history. A common game feature known as 'Easter Eggs' was developed directly as a result of Atari's lack of proper crediting for programmers. Originally, 'Easter Eggs' consisted of the designer-programmer's secretly encoded initials. The initials were buried somewhere in the code so that they would appear at a select spot during game play. The practice started as a protest against company-enforced anonymity for game creators (Katz 36). In fact, one of the most famous early Atari games of all time, *Adventure*, had quite an extravagant Easter egg hidden in it. Steve Bloom writes, "Warren Robinett, tired of Atari's policy of no author credit for game designers, decided to sign his game, *Adventure*, in an obscure secret room in the program. He never even told his fellow designers about this for the fear of word getting out and he being reprimanded." Bloom's closing remarks are the real kicker, "He too left Atari shortly thereafter." Burying a name or initials gave designers a way to identify their work in the

absence of proper crediting and more importantly shows us that this lack of recognition was a real problem being felt by many of the programmers of the time.

When Activision's founders left to start their own company, after being angered by Atari's policy of anonymity, they wanted to make sure that their programmers would get the proper recognition they deserved (Hunter). As a result, one of Activision's business tactics was to merchandise its programmers in a similar manner to the way in which other creative industries merchandise their stars (Katz 19). For example, a record label feeds off its recording artists' fame and Activision hoped to develop a similar scenario. Activision made sure to display the designer's identity in all the packaging. There would often be a note from the designer along with a picture. One of Activision's most successful early games, *Pitfall!*, was no exception. There was an entire page in the packaging that consisted of David Crane's picture and tips on game play (Pitfall Manual).

This had a tremendous impact at the time, as some designers "became so famous they were stopped in the streets for autographs by game aficionados, and collectively received around 12,000 fan letters a week." (Hunter). This approach, never before used in the video game field, helped set Activision apart as a unique and pioneering company. It

also helped make Activision seem like more of a family company, because parents and kids could associate with the programmers and not just a huge corporation. Activision's games have been described as having a specific feel to them, called "house style." It is defined by addictive play-action with cartoon-style graphics and a family feel. Making sure consumers knew who designed each title helped establish this style further (Katz 19).

Royalties

The founders of Atari were not only unhappy with their lack of recognition, but also with the lack of any sort of reward system for high-selling games. In an interview with *Cyberroach*, John Marvin, one of Atari's early programmers, sums up the founders feelings, "Activision was basically started by some Atari people that wanted royalties and they wouldn't give them, they were called 'The Gang Of Four', four programmers and they decided we'll give ourselves royalties and they started their own company."

The 'Gang of Four' felt they deserved royalty payments for two main reasons. First of all, their games were big hits. They were grossing huge profits, yet the people who were inventing these highly profitable games were not seeing any of the money.

Second, programming games for the Atari 2600 was not easy. As Arnie Katz writes in Inside Electronic Game Design, "It took top programming ability to tailor games to the 2600's eccentric configuration (17)." Atari's configuration was eccentric because it required a clever tactic known as bank-switching in order for the machine to run 8K games (17). The Atari 2600 was originally designed to run 2K cartridges, but

subtle tweaking allowed it to run 4K cartridges within a year. The public loved the

increase in complexity and size of the games that resulted, and began to expect further

advances in memory. Soon after, it was discovered that the 2600's two memory banks

(physically separate sets of memory chips) could be used in rapid alternation to execute

the program code. Bank-switching allowed the machine to run 8K cartridges. Now, only

programmers with the proper technical know-how could create games for the 2600 that

would sell. This further established programmers as an elite group that needed to be

compensated for their special skills. This is also a significant reason why the first third-

party software developer had to come from the inside.

Marvin pointed out in his interview that once Activision started offering royalties,

"the whole industry started paying royalties." This shows Activision's groundbreaking

position in video game history yet again. They set the standard for the industry. These

royalties made a huge difference in the lives of programmers, for they now had the

opportunity to get rich off a royalty percentage. The design process back then was quite

a bit different than it is now. The creation of a game was generally done by one person

working alone (Katz 26). A programmer would conceptualize, code, score, and debug a

cartridge all by himself. Thus, they did not have to share their royalty percentage with

anyone else.

Activision's business plan of including recognition and royalties paid off. It is

highly likely that these attractive perks lured some of the best talent away from Atari.

These two perks also probably affected the quality of the games being produced, for

designers would actually be rewarded monetarily for a successful game. Likewise,

having their name associated with a poor game nationwide could seriously hinder the sale

of future games, and as a result programmers would strive to make every game a good game.

Activision definitely produced some great games. David Crane was Activision's first celebrity designer-programmer. His *Freeway*, gave Activision an early hit. It was a clever twist on the classic coin-op *Frogger*, only with a chicken crossing the road (Katz 19). Larry Kaplan designed the classic *Kaboom*. Like most Activision entries, *Kaboom* didn't try for depth and complexity. It was very visually satisfying with a classically simple, yet addictive, play-mechanic.
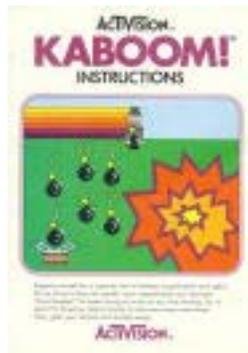
The basic premise behind this game was also lifted from a coin-op. This shows one of the main design characteristics of the time, that there was very little inventiveness in the home video game market. Most ideas were "borrowed" from the ideas of already established arcade games (Katz 20). Crane also designed Activision's biggest hit, *Pitfall!*, in 1982. The video game sold well over a million copies and put the fledgling company on the map (Hughes). Interestingly enough, this was one of the few home video games whose concept was not ripped off a pre-existing arcade.

More important even than the creation of great games, Activision's business strategy of recognition and reward helped set Activision apart from their competition.

The business plan was probably the single most important reason why Activision survived the Great Video Game Crash – well almost.

The Great Video Game Crash

The complete collapse of the video game market in 1984 is known as the Great Video Game Crash. Almost overnight, the industry was turned upside down. Cartridges and home consoles just would not sell. The companies that were able to survive did so just barely. Activision was right in the thick of the market when the crash hit. In fact, Activision was a principal player in the crash. It did not cause it per se, but it definitely contributed.

The single most important cause of the Great Crash was an over-saturation of the market with bad games. Activision played a part in this over-saturation, for after it entered the market, several other companies followed. By December 1982, Geoffrey Wheeler, editorial director of Game Merchandising magazine, announced there were 400 game cartridges on the market. Soon, the market would be flooded with games (Ainsworth).

During the boom years (1979-82), companies thought they could sell anything, and they were right. They developed a false sense of security, and started to think of themselves as video game marketers, not entertainment producers. They worried less about the content on the cartridge and more about how it was packaged. Ray Kassar's policies at Atari are perfect examples of this. He downsized development and emphasized advertising and promotion (Katz 20). As shown above, he underestimated

the programmers' worth. This emphasis on marketing and a general apathy towards the development aspects of the game had two effects. First, it caused programmers to leave Atari, causing the creative talent to slowly disappear as Al Alcorn described in his lecture. Second, it made for bad games with a lot of hype. When consumers realized the games were awful, they became less trusting and less likely to buy games. Eventually, there was a huge surplus of games, and all of a sudden, the prices crashed.

With unfinished games already pre-sold into retail outlets, Atari had to ensure that there would be sufficient staff to get them out the door. To keep from losing still more creative people, Atari instituted royalty payments in 1983 for designers and programmers. Until then, in-house personnel were salaried employees who didn't directly benefit from the games they invented (Katz 39). The day Atari's first batch of six-figure checks came in for the programmers was a great day. Atari had come full-circle and had to adopt Activision's model of royalty payments. Lack of proper game crediting remained a problem for years to come, but from then on, video game designers had the same kind of participation in the success of their creations as computer entertainment software authors (Katz 39).

But, Atari's move was too little too late. Consumers' confidence in the video game publishers had already been shattered (Katz 39). Also, there were no more design innovations to be had. The hardware's capabilities had been maxed out (40). Without research and development, the games had nowhere to go. Graphical and memory progress had stopped and the public had lost interest.

Activision survived because they were not tied to any one particular console. Similarly, console sales did not make up any of their revenue. The only way they lost

money was when their games didn't sell. Naturally, they switched away from consoles and began to program games for home computers. They also turned their efforts to acquisitions. They began to acquire companies that were struggling in the crash.

In 1987, Activision purchased Infocom, the leading adventure game developer and publishers of the Zork series (Timeline). James Levy was still the CEO of Activision at this time, but he was soon replaced by Bruce Davis, who did not get along so well with Infocom (Wilson). Eventually Infocom became just a label, and Activision went through a radical reorganization (Holder). Mediagenic was formed as the parent company of Activision and Infocom. Mediagenic nearly avoided bankruptcy and had to be supported. It landed in Chapter 11 Bankruptcy Court protection in 1990 (Borden). In 1991, 26-year-old University of Michigan dropout Robert Kotick and his partners bought a controlling stake in Mediagenic for $500,000 and changed the name back to Activision. Kotick is currently the CEO of Activision and now owns approximately 15% of the company (Borden 150). 1991 was a year of complete overhaul, for in an email correspondence with Maryanne Lataif, the current Vice President of Corporate Communications for Activision, it was revealed that "no one currently working with the company was employed by Activision prior to1991." Barely escaping bankruptcy and performing a complete overhaul of personnel, Activision was extremely lucky to survive the Great Crash.

Where are they now?

In many ways, Activision is still the same company today as when it began in 1979. Activision is valued today for its "broad market penetration across platforms, its high-profile licensing deals, and its aggressive internet strategy (Philpott)". The broad market penetration was definitely established when Activision was still just a fledgling company since it produced games for a variety of platforms. Today this is especially true, as Activision has games currently on the market for the Sega Dreamcast, Nintendo 64, Playstation, Playstation 2, Game Cube, and Xbox to name a few (Activision.com).

The games are the key to the company's success, though. Activision's games are of the highest quality and entertainment value, and have huge fan bases. For example, Activision has distributed Quake II and III,

Civilization II, and Soldier of Fortune. One of the real ways Activision is making its mark though is through licensing. It has licensed such famous titles as *Spider-Man*, *X-Men*, *Toy Story 2*, and *Blade* (Hughes). Similarly, Activision has focused on licensing actual athletes to gain a market niche. They have chosen to concentrate on extreme sports stars such as Tony Hawk and Kelly Slater (Takahashi 122).

These tactics have made Activision highly successful recently. In 2000, Activision was ranked by *Fortune Magazine* as the 87th fastest growing US company

("*Fortune's* 100..." 106). It has solidified its place as the No. 2 independent publisher of video games behind Electronic Arts (Borden 150). Lastly, very few video game developers can boast a product list that includes titles for the ancient Atari 2600 and the newly released Microsoft Xbox. Activision is one of the few companies that has been able to weather the ups and downs of the video game industry since its inception. Its business model of recognition and reward was the key to its creation in 1979, and has helped it survive over the years to reach its perch at the top of the video game industry today.

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