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News

Next-Gen Game Landscape Extends Beyond the Console

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It might be too early to call the video game console a dinosaur, but more than one industry expert thinks the release of next-generation consoles this year might signal a new epoch in the game industry.

One of these experts, GameDaily (gamedaily.com) founder Mark Friedler, says those in the entrenched game industry—whether console manufacturers, game publishers, network service providers, or retailers—will have to display a new nimbleness and creativity in attracting customers or risk losing even hardcore players to other pursuits.

“What is the world’s most massive multiplayer game?” Friedler says. “It’s eBay—it’s competitive, there’s a community, they’re involved. So I think the element of gaming, in terms of what is a game, is really dynamic and shifting. I’m not saying all games need to be Internet-enabled, but it’s a huge driver, a huge benefit.”

Game competition

In fact, in a recent editorial series on GameDaily’s site, Friedler pointed out differences in the competitive landscape since the last generational change in game infrastructure. When Sony introduced the PlayStation 2 in 2000 and Microsoft followed in 2001 with the Xbox, they didn’t have to contend with the explosion of socially interactive Web sites that go beyond eBay and its fairly obvious winner-loser auction model:

“Last year there were only 10 million people on MySpace, this year it’s 100 million,” Friedler wrote. “If you don’t think this is competing for the same entertainment time as a game then you’re fooling yourself.” Friedler proposed getting a new perspective on games by viewing them as media. “The key words of successful game products (like World of Warcraft) and new platforms (like Xbox 360) are community, participation, and engagement,” he says. “As games involve users more, they grow more attached and participation drives community,

which in turn builds value. Think about ABC's *Lost* series and the almost rabid communities built around that and the fierce loyalty it's driven."

Should game industry executives and developers fail to correctly divine the shift in the next generation of players and infrastructure needs, the ramifications will go far beyond missing out on selling billions of dollars worth of games to teenaged boys. They might find themselves on the sidelines of a network enabling more and more end users to create and collaborate with each other, using software and platforms supplied by those industry figures who "got it."

"People worry about gaming for a variety of different reasons," says Gilman Louie, partner in the venture capital firm of Alsop Louie Partners and a game industry veteran with stints as Hasbro Interactive's chief creative officer and Games.com's general manager. First, he says, "it appeals to a new generation of users, so whoever does offer a great gaming experience captures a significant amount of mindshare you can sell a lot of stuff to." Second, because games push hardware harder than any other applications, they're good predictors for what future applications will look like. Louie calls gaming "a bellwether for where technology is going, so from an engineering point of view, you'd better pay attention to games, especially games that have large multiplayer components, because those are great predictors for how people will relate to each other in the near future."

Time and money

One of the biggest questions surrounding Sony's PlayStation 3 debut later this year is whether the console's cutting-edge hardware capabilities will justify its expected major price hike from existing consoles. Industry predictions, not disputed by Sony, call for the PS3 to cost almost US$600. Although the gaming experience on the PS3 is expected to be top of the line, Friedler and others wonder whether gamers—or their parents—will be willing to part with that kind of money in a world featuring so many more collaborative—and cheap—online alternatives. Sony's competitors, Microsoft and Nintendo, haven't followed Sony's lead in upping the retail cost ante. Microsoft's Xbox 360 debuted last year at $400 and Nintendo's next-gen game platform, the Wii (pronounced "we"), is expected to debut at around $229 later this year.

"From a more holistic point of view," Friedler says, "I'm not aware of a technology-based business where the price of hardware goes up, and the price of software goes up, and demand and profits go up." In fact, it's the opposite. He thinks the threat to the game industry isn't the inherent uncertainty in guessing whether people will now buy more, and more expensive, games for next-gen systems. Instead, the threat is in the other online media activities, which are attracting ever-larger numbers of users.

If Friedler's hypothesis is correct, then an ever-increasing community of game creators, platform makers, and network providers is going to try turning gamers' time into money. In so doing, they'll need to leverage network capabilities to attract a much larger demographic than the adolescent males to whom gaming has traditionally appealed. In practical terms, more companies will have to offer more easy-to-play games, and last-mile service providers will have to offer potentially lucrative game destinations for subscribers to grow core broadband business and ancillary subscription revenue.

Industry initiatives

In fact, within the past three months, major industry players such as Verizon and Microsoft have announced major game-based initiatives. In May, Verizon announced its purchase of a minority stake in Super Computer International, a provider of high-performance game-server hosting solutions, gameplay-related services, and fully integrated gaming portals. In announcing the SCI deal, Verizon said a primary focus of the relationship would be the deployment of a next-generation, online game browsing and messaging platform. Called PlayLinc, it will support a variety of gaming platforms, messaging tools including IM and VoIP, dynamic server launching, server browsing, team management, buddy tracking, player invitations, and on-game controls.

Microsoft made its own headlines in August when it announced the release of XNA Game Studio Express, a free developer's kit the company claims "will democratize game development by delivering the necessary tools to hobbyists, students, indie developers, and studios alike to help them bring their creative game ideas to life while nurturing game development talent, collaboration, and sharing that will benefit the entire industry."

Microsoft's move might bear out another of Friedler's observations. Specifically, he sees the "casual" games, often available for free online and simpler to play than a big-budget shrink-wrapped game, as a potential wedge that network providers might use to capture new gamers—and associated revenue—on a variety of platforms beyond the console. The PC obviously represents a huge market. "It's the most connected device on the planet," Friedler says. "It will be years before Xbox or any other device gets up to that number. So how do you make PC games that are going to be cool and adopted by a lot of people? I think the casual game guys—PopCap and Mumbo Jumbo, for example—they've got it.

Friedler cites Korea as an examplar of the future market. "It's all about getting the game free online and then paying for different iterations," he says. "They build robust businesses around that. I'm not saying by any stretch the retail market is going to go away, but if I were a publisher, I would position my product to include both channels, and not one or the other. They have to ask themselves how to make this an online experiential play as well as a retail play."

Fatten the pipe to fatten the coffers

Mike Goodman, senior analyst at the Yankee Group, says the discussion over distribution method is really just beginning, and games are just one component of it.

“It applies to every form of content out there—music, movies, games, you name it—it touches on this debate,” Goodman says. “Fundamentally, I believe we’re going to move to a digital environment, but it’s not going to happen in the next five years. We’re in the transition right now; music is the most advanced of any service, but there are also very powerful forces that are going to slow this down, like the roughly $7 billion in software revenue being sold in retail. If I’m a publisher, the last thing I want to do is anger retailers who could say, ‘Well, the heck with you. I’m not going to carry you,’ or ‘I’ll give you bad shelf space.’ So it’s going to be a slow painful process.”

Yet the economics of online distribution are becoming increasingly clear to industry veterans, and the benefits for both creators and players are compelling. “Under the online model,” Louie says, “there’s more investment up front in creating your digital backlot and in doing a better job of creating tools. What’s cheaper will be that on the day of launch you don’t have to create 200 hours of great game play. You’re creating maybe 20 hours and two weeks later, maybe another 20.” Louie acknowledges that some game vendors might think ongoing creative releases too expensive, but he sees more profits in online distribution. For example, under current game economics, an Xbox game might retail for $49.95. According to Louie, $15 to $20 of that list price goes to the retailer and $20 to the licensor of the box. “So you have $10–12 left over,” he says, “and out of that you have to pay developers, marketing costs, and overhead. It’s a pretty slim margin. Now go to this model; well, you get to keep the retailer’s cut because you’re selling this on the Internet. You still have to pay the hardware guy, but just the licensing fee. So, you can charge a lot less per hour of game play than if you were charging for a boxed game, and we think from an end-user point of view, you’ll have a better experience at a lower cost.”

From a network provider’s standpoint, however, whether the entire industry will have to take steps similar to Verizon’s stake in SCI is still open to question. Yankee Group analyst Goodman says much of the networking economics will depend on how quickly issues such as the Net neutrality debate, currently under way in the US Congress, and IP peering agreements between broadband providers iron themselves out. Those issues are nowhere near being answered.

Louie also says that engineers on the “serious” side of computer networks would be foolish to ignore the implications of the next-generation game infrastructure until the transport issues are resolved.

“There’s a new generation of engineers out there realizing there are a lot of aspects of gaming that apply to the enterprise,” he says. “Things like virtualized services, 24/7 virtual operations, social networking, and the technology enabling just-in-time manufacturing probably look a lot more like a game than a Web-based services architecture you see in a normal enterprise today.”

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