The State of Play

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Resum: La indústria dels videojocs canvia constantment. Qui juga a videojocs; per què i on són els jugadors; què passarà en el futur amb aquesta indústria multimilionària tan complexa?

Paraules clau: videojocs, jocs en línia, consola, PlayStation, Nintendo, Xbox.

Resumen: La industria de los videojuegos cambia constantemente. ¿Quién juega a videojuegos? ¿Por qué? ¿Dónde están los jugadores? ¿Qué deparará el futuro a esta industria multimillonaria tan compleja?

Palabras clave: videojuegos, juegos en línea, consola, PlayStation, Nintendo, Xbox.

Abstract: The videogames industry is in a constant state of change. Who are the main players, why are they where they are, and what does the future hold for the fractious multi-billion dollar industry?

Keywords: videogames, online gaming, console, PlayStation, Nintendo, Xbox

1. Introduction

Videogames have long been big business, but with the latest generation of consoles, the industry is slowly gaining mainstream acceptance. Videogames are making the leap from enthusiast's hobby to a form of entertainment for all.

However, the games industry is spread over various platforms that can be confusing to the layman. Just as movies can seen in theatre, on DVD, television and the internet, so too do the console, the PC, handheld systems, and mobile and online games all compete within the same marketplace, with companies and franchises spread out amongst them. The industry is further complicated by its cyclical nature, where popular formats are made obsolete by newer machines every five year or so.

This cyclical nature also makes analysis of the industry difficult. With a number of machines recently launched, industry watchers are still waiting for the dust to settle to see who will control the videogames market. 2006 was another record year for the industry, and 2007 will see the release of new titles in some of the biggest franchise names around – Grand Theft Auto, Metal Gear Solid, Halo, Mario. Screen Digest predicts that global spending on software will reach $13.9 billion by 2009.

However, not all is well within gaming. Publishers are worried about the spiralling costs required to develop a top-drawer title, while many gamers are increasingly cynical, decrying what they see as a lack of innovation - both trends only likely to worsen during this generation of consoles.

2. Enter the Dragon: A Brief History of Videogames

The videogames market is 35 years old this year, and has been broadly dominated by three major companies – Atari, Nintendo and, most recently, Sony. To understand the current state of the videogames industry, a brief history lesson is in order.

The roots of videogames are most often traced back to Pong, an arcade version of ping-pong which became popular in 1972. Simplicity itself, Pong barked a single line of instruction ('Deposit Quarter. Avoid Missing Ball for High Score') and overnight gave birth to a new industry. The company which created Pong, Atari, was a real flash-in-the-pan, going from massive success to utter failure in the space of a decade.

Atari created the games industry as we know it in 1977, with their cartridge-based Atari 2600, and by 1980, Atari was making $2 billion a year in profits (Scheff, 1993). Yet Atari proved to be a poor industry leader, flooding the market with poor quality titles and cheap rip-offs, most famously making more copies of the 'E.T.' game than there were consoles in existence to play it on. By 1984, the bottom had fallen out of the games market, and Atari stock was worthless.

Atari's fall from grace was so complete that many in the industry assumed that, like Rubik's cubes or yo-yos, videogames had been just another fad. However, the 'great videogames crash' was just the beginning. Atari's place as market leader was taken by the Japanese company Nintendo, whose Nintendo Entertainment System (NES) became the most sought-after product in stores when it was launched in 1985.

The NES gave gamers exactly what they wanted – high-quality, original titles on a powerful yet affordable machine. By 1990, there was an NES in a third of American homes (Scheff, 1993). Nintendo was making more money than every major US movie studio combined, and more profit than any of them.

Despite gradually losing market share to Sega, Nintendo dominated the industry for a decade first with the NES, and then its more powerful successor the Super NES. However, Nintendo also engineered its own downfall. The Sony PlayStation began life as a CD drive add-on for the Super NES, but after the deal with Nintendo collapsed, Sony went it alone.

Released in 1994, the PlayStation was famously declared 'more powerful than God' (Poole, 2000) and was an almost instant hit. Arguably the key to the PlayStation's success was the way it targeted a new audience and ruthlessly marketed the PlayStation towards them. Sony set out to target an audience that wasn't interested in wholesome games like Mario, pitching the PlayStation as a hip entertainment machine to young adults with a large disposable income. Nintendo's response, the Nintendo 64, was delayed, used expensive cartridges which stored less data than CDs, and had a much smaller catalogue of games.

Sony went on to dominate the industry for over a decade, brushing aside competition from Sega's Saturn console and the Nintendo 64 to sell more than 100 million units (Poole, 2000). Sony followed that success with the PlayStation 2 (PS2), which featured vastly improved graphics and a DVD drive, signalling the start of Sony's desire to create a multimedia platform for the living room. Following the failure of their Dreamcast console, Sega dropped out of the hardware business altogether, and Nintendo continued to falter, with the Gamecube late to the race again. Nintendo ended up finishing in third place in to an unexpected newcomer – the software giant Microsoft.

Microsoft's bulky but powerful Xbox brought online gaming to the living room. By the end of its lifespan, the Xbox had radically changed console online gaming. However, the console proved unpopular in Japan, and had an unusually short shelf-life of only four years as Microsoft sought to beat Sony to the market for the 'next-generation' of consoles.

3. Press Pause: The Current State of Play

The videogames industry is at an unusual juncture. Three consoles – Sony's PlayStation 3, Microsoft's Xbox 360, and Nintendo's Wii – are competing for an industry where overheads are increasing and profit margins getting thinner. After ten years of being the industry leader, Sony's position is for the first time looking threatened.

The PlayStation 3 was slow out of the blocks, beaten to the market by the Xbox 360, and humbled at launch by the unexpected success of the Wii. Although Sony's brand-name alone used to sell premium products, the company has stumbled, coming late to the flat-screen TV market and allowing Apple to dominate portable music. Sony is now aiming to recover that lost ground, but now it is their videogames business which is dragging profits down, not vice-versa.

The PlayStation 3 launched in November 2006 at an unprecedented $599, far more than the Xbox 360's $399, and over twice as much as the Wii's $250. Much of that price point is accounted for by the Blu-ray drive, a proprietary high-definition format which Sony hopes will be the successor to the DVD. The console has sold around 4 million units to date, a respectable figure but less than half that of the Wii (Sanchanta, 2007). However, Sony has a number of exclusives, such as spy game Metal Gear Solid 4 and the role-playing game (RPG) Final Fantasy XIII, which almost guarantee the PS3 a certain degree of success.

While many of the PS3's failures are of its own making, Microsoft this time offers a sterner challenge. The Xbox 360 launched in November 2005, a full year before the PS3, and has sold almost 9 million units (Sanchanta, 2007). Much of Microsoft's success is based on their Xbox Live system, which allows players to play games against each other online. The Xbox Live service is subscription-based, and Microsoft has recently started a service to download movies and TV shows in a similar fashion to Apple's iTunes store.

However, the Xbox 360 is often seen as a 'gamer's console', and how much mass-market appeal it can generate is questionable. Many of the Xbox 360's hit games are graphics-intensive games that fall easily into genres such as shooter or racer. Games that differ from this template can enjoy a mixed reaction from Xbox owners, as evidenced by the disappointing sales of Viva Pinata, an innovative game which bears similarity to the Sims, but which failed to make an impact in sales charts despite strong support from Microsoft.

Meanwhile, Nintendo have turned their backs on the battle for the living room. With their two previous attempts at creating high-powered graphics machines falling flat, Nintendo now says that advanced graphics technology is not necessary to make fun games. The Wii, ridiculed on the Internet before launch for its inferior processing power and unusual name, has been a shock

success, selling over 9 million units since its launch in November 2006, surpassing the total sales of the Xbox 360 despite being a year late to the market (Sanchanta, 2007).

The key to the Wii's success is its motion-sensing control system, which abandons the traditional two-handed control pad in favour of a remote control-like device which can sense its position in 3-D space. As the popular promotion campaign showed, it can used as anything from a tennis racket or a fishing rod, to a sword or a gun, but whether it is anything more than a fad remains to be seen.

These three companies are the gatekeepers, but much of their success depends on their relations with large games publishers – companies independent of the console manufacturers, who may publish games on one or all of the consoles. Attracting the key brands that these companies hold can make or break a console.

Chief amongst these is Electronic Arts, the largest publisher in the world, who publish such games as the Sims, Need for Speed and Medal of Honor, and own the rights to a dizzying array of licences, such as FIFA, NFL, Harry Potter and the Lord of the Rings. Attracting EA games to a console can make or break manufacturers, as their licensed games are regular chart-toppers.

However, one franchise they don't hold the rights to is Grand Theft Auto (GTA), an innovative and violent series published by Take Two Interactive, and perhaps the best-known game series in the world right now. The series has attracted much criticism – and thus publicity – for its violent gang-related content, which requires the user to steal cars to succeed and allows them to gun down or run over pedestrians.

Nevertheless, the game is also praised for its innovative free-roaming nature, which has revolutionized how game worlds are created. The new GTA will appear on both the Xbox 360 and the PS3 later this year, and will no doubt be one of the biggest-selling games of the year, but also epitomizes the controversy over violent content that continues to dog the industry's mainstream reputation.

Unsurprisingly, the industry is also dominated by Japanese companies. The major Japanese publishers include Nintendo themselves; Sega Sammy, the former console manufacturer who publish Sonic; Namco Bandai; Konami, publishers of Metal Gear Solid and Pro Evolution Soccer; and Capcom, makers of Resident Evil.

One thing that has worried publishers is the rising cost of developing games. Namco Bandai President Takeo Takasu declared last year that a PlayStation 3 must sell 500,000 to a make a profit (Masaki, 2006). In the era of the Super Nintendo, a best-selling game could be made for considerably less than $1 million; nowadays, the budgets seem to belong more in the realm of Hollywood studios, such as the $40 million spent on Capcom's latest shooter Lost Planet (Steiner, 2007). It is likely that the 'wow factor' needed to attract gamers to big PS3 and Xbox 360 titles will result in more consolidation as smaller publishers struggle to survive in an increasingly competitive environment.

However, the demographics of gamers are changing rapidly. Games not focused on the hardcore players are starting to become at least as successful as big-budget epics – often for a fraction of the price.

The unprecedented success of Nintendo's DS handheld system is a case in point. A handheld system like the venerable Game Boy, the DS was widely expected to be trumped by Sony's lavish PlayStation Portable handheld at launch. However, unlike Sony, Nintendo used the DS to target what the industry calls 'casual gamers' – sometime-players, who enjoy games but are not committed to buying the latest smash-hit. In Japan, Nintendo aggressively targeted women and

older generations, two groups that have been all-but ignored by publishers, and it has paid off handsomely, with almost 50 million units sold worldwide (BBC News, 2007).

The key to the DS's success, as well as having a library of games that attracted both the hardcore and the first-timer, was its ease of use. The control pads on home consoles had simply become too difficult for novices, with the Xbox 360 featuring two sticks and 12 buttons. By contrast, all many games on the DS required was a swoosh of the pen across its touchscreen – something anyone can do.

At a time when budgets are running highest, publishers can make an even bigger splash with small, innovative and easy-to-play titles. As more and more 'casual gamers' have a taste of games, it may be the hardcore RPG and shooters that will make way for this more populist type of gamer.

4. Future Shock

The games industry is in a constant state of flux, and that the major players of today can be nobodies tomorrow. However, while the future sales of consoles and games may be difficult to predict, there are two new, closely-linked markets that will go a long way to determining the future of the industry. The first is the expansion into new markets in Asian countries, especially China; and the second is the expansion by all industry powers into online gaming.

The intense popularity of online games amongst teenage boys in China has made headlines for the wrong reasons, but has made publishers take notice. China and South Korea have been overrun by massive multiplayer online role-playing games, or MMORPGs, virtual worlds where players team up with other players from the around the world to fight or explore. These types of games are attractive to publishers as they generally require a monthly subscription – providing an instant revenue stream, especially important in countries where piracy is rife. In markets like South Korea, this fee is often paid by the internet café where gamers go to play.

However, rampant piracy still plagues any attempts to gain a foothold there, and given that manufacturers make a loss on the machinery and profit on the games sold, China can still be a loss-making market despite its massive user-base. The country's notorious bureaucracy and regulation are also a problem for publishers, as evidenced by the government's recent decision to limit the amount of time spent by youths on online games by forcing developers to include a system that reduces in-game rewards the longer users play.

It's not just China where online games are making waves – World of Warcraft, a fantasy MMORPG, has been one of the biggest-selling games of recent years in the West, and claims to have an 8 million active user-base of players (Kurs, 2007). Another making headlines is Second Life, which is less a game and more of an interactive community, allowing users to make their own avatar and explore an online virtual world chatting with other users. Second Life has attracted attention because of its real-world connections, allowing players to make actual money from businesses in the game, and may represent a new form of online interaction.

Online gaming is also extremely important in the console market, and Second Life is one of the inspirations for Sony's Home network, the PS3's answer to Xbox Live. Xbox Live is unquestionably the market leader, and the service which at last brought online gaming to consoles. Players can chat online with their friends as they play, teaming up for co-op games or fighting against one another. Sony are also keen to make online a crucial element of the PS3 service, planning downloads and integration with the PSP. While the Wii is designed to be permanently connected to the Internet, Nintendo remains unconvinced of the online business model and remains standoffish.

However, online connectivity does offer a very appealing monetary incentive to publishers. An always-connected game opens up the possibility of in-game advertising, where the latest Hollywood blockbuster is pictured on the side of the streets the player fights on in the latest shooter. Online 'micro-transactions' offer an innovative, if rather cynical, way for publishers to broaden their profit margins. These are the small payments, anything from a few cents to $5, charged by publishers to make small updates in-game – a new map to play in, for example, or a different costume for the player's avatar.

5. Conclusion

That the videogames industry will continue to grow is not in dispute. The question is in what fashion, and with what players. It is not clear if the industry can support three major manufacturers, with Microsoft in particular losing billions on the Xbox project in the hope of a future pay-off. Gaming's cyclical nature also makes it difficult for publishers to commit massive resources to new consoles with a tiny initial user-base, and publishers are also starting to feel the stresses of growing development teams, times and budgets.

While graphics and sound continue to improve, the difference between each successive generation is getting harder and harder to discern, to the point where it can be difficult to tell the difference at first glance between a first-generation PS3 game and a cutting-edge PS2 one. Furthermore, gameplay is not evolving at the same pace as graphics or sound, with games often falling back on the same situations, themes and franchises, leaving many gamers increasingly cynical about what they see as the lack of innovation in the industry.

At the same time, there is a wealth of new opportunities and battlegrounds, and while this generation is likely to see some consolidation amongst developers and publishers as budgets grow, new areas such as online and mobile games offer new avenues for publishers. Most analyses, including a recent one undertaken by Screen Digest, points to a narrow victory for Sony in the current round of wars. However, it warns that popularity is likely to be split by region, and that the days of PS2-style dominance by one company is over - indeed, the gaming market stretches so far that no one company could hope to control it all.

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