

CTM Insider:

Gaming Goes Online

Speak & Spark, Sept 9, 2008, USC, with Dennis Self, CIO, Electronic Arts



The gaming industry is in the process of morphing itself, as gaming moves online. The transition from packaged products and console-based gaming to online gaming creates numerous challenges for the industry. Game designers, producers, and their IT departments have new hurdles to leap yet tremendous opportunities for market share and profits await them if they get it right.

Dennis Self, CIO of Electronic Arts, headlined this Speak & Spark workshop before a full crowd of industry executives who participated in wide-ranging discussions about the future of gaming. Issues raised included the new demographics of Internet gaming, the investments of time and dollars required to create online games, the need for new methods of marketing distribution, and the new revenue models that will be required.

Innovation is now the only game for gaming companies to play in town. The industry is seeing innovation everywhere, from game graphics with their increasing sophistication in demonstrating movement (Dennis showed a video race car spinning out and leaving a wake of billowing smoke behind that was so lifelike the audience was practically choking), to innovation in distribution channels and revenue models.

Some Basic Facts on Gaming

Dennis presented a quick review of some interesting gaming statistics:

Gaming

- 58% of Americans play video games vs. 89% who watch primetime TV and 4% who go to movies in theaters
- average age of a gamer is 29 in the U.S., 25 in Europe, and 21 in Asia,
- 40% of Europeans play games;
- 35% of game players are women, with many of them over 40 (who play online Pogo)
- 32% of games sold are for players under 18;
- 32% of US. Gamers play on a mobile device

- Strong future for gaming, predicted to be a \$40 billion industry by 2010, with online gaming representing \$11 billion dollar
- Other growth opportunities exist in mobile gaming;
- Nintendo, Asia; Asia is the leader and online games are the leading function in countries where they can't afford to buy a console.

The Issues and Discussions

Here's a synthesis of issues raised, discussed, and debated.

Will baby boomers and GenXers change rules of the game?

Several points were made on how different generations will influence the gaming industry. For example, we see women moving away from console games to online games, and women over 40 becoming devotees of online Pogo, with incredible spikes in usage of pogo.com after work hours and after the kids go to bed. Women are transitioning from casual players to serious game players.

Millennials especially will disrupt traditional game designs and revenue models, as this generation demands real time gaming, interactivity, and a sense that playing games makes them part of a community. This adds a burden on producers to ensure they can provide the infrastructure needed to support vast communities of simultaneous users. (One audience member asked whether new software might be created like Skype that doesn't require servers, e.g., where users play over a VOIP-like environment.)

Millennials also want to have a say in the defining the rules of games, and in making games respond to them, so it's a different breed of game that will need to be invented. For example, companies are seeing this already in market demand for customized games according to cultures or personal taste. Gamers in Asia want to see different cars than gamers in the U.S. or Middle East. The representation of people needs to be culturally appropriate. One approach is what Dennis called "scaffolding" where game designers set up the framework for the game and then let users create pieces to alter the games to their tastes, and even market their creations to other users. This is being done for the Electronic Arts game, Spore.

What will be most successful business models?

Online revenue models are in flux, with numerous models in use and being analyzed. The subscription model is of course proven and already extensively used.

One revenue generation method is growing: micro-transactions. While a small transaction here and there for a gamer to buy a "just-in-time" solution or piece they need may seem trivial, put together billions of transactions and a producer can end up with hundreds of millions in profits. One audience member said 80% of his company's revenues in Korea result from micro-transactions, and it may have to do with the fact that game cafés are very popular in Korea where kids go after school so subscriptions don't work in that environment, but micro-transactions do.

Meanwhile, on the customer side, there may be a disruptive effect created by the dominance of social networks. Customers now think they are powerful, and are gaining leverage to affect pricing. One audience member indicated that gamers in Asia have such tight communities that they are forming “unions” to use their mass buying power to negotiate with producers for better pricing.

Another audience member talked about a concept in Korea where gamers use the same name / avatar across multiple games (from one producer, and perhaps eventually from many, so the question becomes “who owns the customer?”) But this might reinforce the customer power disruption, since when gamers sign on for a group of games and bring their friends along, it adds to their negotiating power.

Other revenue models brought up included:

- Skill-based public tournaments in which gamers pay fees to compete with others. The appearance of gambling needs to be avoided, but if it is skill based, it doesn't differ from a chess match or golfing competition.
- Auction or trading model, where users earn chips so that they can trade to win prizes from sponsors.
- Paid product placement inside games -- but the consensus was that blatant product placement might go one step too far for gamers who may already be paying a subscription fee and micro-transactions.

The best conclusion framed by Dennis is to “follow the money.” Wherever people are making money, it may be worth imitating.

What are the required core competencies?

It takes enormous resources to produce online games, as the price of development has risen. There is a movement in industry for distributed development, where a large gaming company becomes a general contractor that outsources work to dozens of sub-contractors in low-cost locations. It's become a Hollywood model now, with the competency being the ability to manage this.

One of the primary key competencies is maintaining the security of the games. No one can afford to have a game that costs hundreds of millions to develop get hacked 3 days before it is about to be released. Another issue is who controls customer data. Since game companies are partnering with online companies like Facebook and movie studios, the question is how to handle the customer data.

What is the impact of Web 2.0?

Web 2.0 will bring monumental change, such as:

- **Need to build games for multiple platforms** – Users may play the game online in the morning, then want to play it on their mobile phone as they take the

bus to work, then come back to playing it later in the day on their laptop. The game has to track user's progress across all these platforms.

- **Users are also producers** – Web 2.0 gives users the tools to participate and so games need to allow them to produce their own content. It was pointed out that though that users are often ignorant about storytelling, so they may need help. But one should expect users to participate in content creation, even selling their creations on eBay.
- **Everything is Beta** – whereas Microsoft's approach is to develop something to death, the speed of Web 2.0 requires companies to take the position that everything is beta. Let consumers decide what works and what is worth keeping.

Will the industry disaggregate?

It's possible, in the sense that all content creators can go directly to their users in the online marketplace. Small shops can get around the enormous expenses that large game producers have to develop and market games.

Conclusions

Online gaming is going to disrupt the gaming industry in a big way, from the design of games from individual or family based to large scale gaming communities. Users will become more engaged in the process, becoming content producers in their own right, while also becoming a potentially strong force dictating distribution and pricing models. But if you are interested in gaming or in making money, take it from today's speaker, Dennis Self, CIO of Electronic Arts: "If you're a creative or strategy type, gaming is the place to be!"