

News

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## The Console Transition: A Publisher's Perspective

**A LucasArts exec discusses the changes the video-game industry must undergo due to the latest hardware evolution**

The video game industry is going through turbulent times.

Is anyone surprised?

The transition to new console platforms has always had this effect. And significantly increasing the development cost of a video game from an average of \$5mm-\$10mm for the current generation, to an estimated \$15mm-\$25mm for the next generation of console hardware, doesn't hurt either.

This is probably the single biggest variable hovering over the industry landscape right now. That, and waiting for next-gen consoles to hit critical mass in terms of an installed base.

As a result, some publishers (and not a few developers) are going to have a hard time affording the high development cost, sharp learning curve, and long lead time necessary to master next-gen game development.

One side effect will be that software publishers are likely to find themselves moving away from niche genres. There is simply not enough unit volume in many genres to support increasing development costs.

Those niches that survive are likely to limit themselves to the PC platform (where many of them reside already), or migrate to handhelds (where development costs are lower).

The net effect will be publishers trying to create more blockbuster titles (because that's the only business model that will cover a publisher's next-gen development cost), or stretch genre boundaries to appeal to a wider audience.

Either way, it's going to be a tough row to hoe.

Who then will come out on top in this next cycle?

Certainly companies that have either strong IPs, established franchises, or an ability to create new IPs, will do well.

But even the well financed giants offer no guarantee of success in a hit driven business with minimal back end revenue streams and no assurance that your next "big" game will be the breakout hit necessary to please Wall Street.

Of course the ugly secret in the industry is that there are always a few video game companies that take it in the neck during a platform transition, and the coming cycle will be no exception.

The recent purchase of Pandemic and Bioware by Elevation Partners, two developers who have been both fiercely and vocally independent, are only the latest signs that industry consolidation is happening.

As a result, the middle and bottom tier of publishers and developers are likely to shrink even further through acquisition, roll up, or even bankruptcy, as we've already begun to see.

But being a front-runner is no indication of on-going success in this business. Previous industry stalwarts such as Atari and Edios, two names that seemed unassailable a hardware generation (or two) ago, are struggling and are only the latest in a Darwinian shakeout.

And that's just been the last 12 months. The trend will accelerate in 2006.

Off shoring? Sure it will happen next year. It's happening now. Nothing accelerates outsourcing faster than a \$25mm development budget, thank you very much.

Hopefully, one positive side effect will be fewer, better quality titles supported by substantial marketing dollars.

But it could just as easily go the other way as Hollywood's blockbuster model has shown. How do lots of titles, with narrow windows of opportunity, all struggling to break from the pack, sound?

Kind of sounds like now; only more so.

Regardless of whether quality improves, the days of publishers stuffing the channel with numerous, undifferentiated, and indifferently reviewed titles, are over.

Publishers won't be able to afford it for one thing, and retailers won't provide the shelf space for another. Heck, retail is going through its own consolidation if you hadn't noticed.

Some people are hoping that the industry will develop an "indie" model similar to the low cost, high quality wave of movies that gave Hollywood fits a few years ago. Certainly the video game industry was born out of a low cost "indie" model with developers working out of their garage and packaging their product in sandwich bags.

Unfortunately, small will not be beautiful in our future world at least not on next-gen consoles.

Any indie movement will have to grow on the PC (where an absence of royalties may help offset the decline in PCs as a gaming platform), or handhelds (which is my bet).

The new generation of handhelds, however, have yet to prove themselves anything other than ports for console titles. Nevertheless, all it takes are a few passionate code warriors driven by a vision and more beef jerky than man was meant to consume, and the next big thing could be born.

William Goldman said about the movie business: "Nobody knows anything." And certainly the same thing could be said about the video game business.

But one thing you can be sure of is that when the next big thing is invented one of the big boys will step in to buy it.

In the meantime, fasten your seat belts.

To quote another movie: "it's going to be a bumpy ride."

Whether it's a Happy New Year remains to be seen.