

**Student Questions:**

*It seems like it's a hits driven industry. Is it like the pharmaceutical industry?*

The pharmaceutical industry is pretty different from the games industry. The games industry is a hits driven industry and franchise. You're only as good as the last great thing you did, and there's surprisingly little loyalty if you mess up more than once. Consumers aren't patient if they blow \$40 on a game that wasn't any good.

*Most development groups aren't capable of being publishers. What are some barriers?*

- Publishers have a distribution network
  - It's not open to everyone for various reasons
    - Limited shelf space. PC DVD's aren't the same as consoles, etc. Games, as compared to other media such as TV, print, etc. simply aren't as mature. Also physical box that holds games is larger than the carton for DVD's.
    - Distributors do not want to set up accounts for unproven newbies. Who will guarantee them the ability to return product?
    - Economies of scale.

**A Word on Distribution**

Distribution has historically been very expensive. Every little hiccup that distribution finds costly is injected down the line. The ultimate domino to fall is the content provider—the developer. What's happened is that there's been a push back. There's a movement to electronically handle a lot of the distribution process because it lowers manufacturing costs.

Cable is trying to get into games. What is the cable industry's biggest problem? It's the *churn*, which is the number of people who change their subscription from period to period. Say a person has the platinum package with HBO, Showtime, etc, they realize after a period that it isn't worth it. This person downgrades to a cheaper plan. Months later, the person downgrades again or gets another provider. The cable industry pays license fees to HBO and others, and it is a pain for the cable industry because the average churn is 25%. It costs the cable industry a huge amount of money. Anything that lowers churn and does not cost an excessive amount of money is good.

To change gears, the average *churn* for an MMOG (Massively Multiplayer Online Game) is 10%. If you can get past the first 60-90 days, you're in for a year. People get invested in television shows like *The Sopranos* but they aren't nearly as invested as gamers with MMOGs. 90% of people stay with that particular MMO (Massively Multiplayer Online). MMO's are now an opportunity for the cable industry.

## **MMO on cable**

Cable companies automatically have an advantage in two way digital broadband over satellite because satellites add an extra 400-500 milliseconds for each transmission since satellites are roughly 22,000 miles away. Also, cable distribution is available for 70% of people. The other 30% don't have access because it can't be justified economically. To build the infrastructure, the cable industry has to deem it a good investment to rationalize the expenditure. Satellite companies are beating up the cable distribution systems for that remaining 30% of people. Cable companies are now being forced to breakup their preset program lineups. Congress has required they allow you to pick and choose so you can better control your costs. As a result of their troubles with *churn*, they're trying to improve themselves through digital services, DVR's games on cable. You'll get relatively high speed with broadband depending on the architecture. If you look at the graphic cards that are coming, you'll get some insight into real time graphics that will let you simulate some pretty amazing things in the near future. It's for these reasons that cable companies are looking to games to solve some of their problems.

## **Changing Distribution Methods**

The games industry has an alternative distribution method being waved in front of them (cable distribution). This is the equivalent of how people used to get dairy products delivered to their door. Untreated dairy products spoil quickly. In the old days the factory delivered their products to your door soon after they were produced. No one gets milk delivered any more with a few exceptions. For all intents and purposes, people have been trained to go to the new "general store" which we now call a supermarket. It's the same thing here once removed but in reverse. You go to a Best Buy, or Circuit City to get a game, but soon this won't be an issue. The manual will be available online and the game will be available online, etc. Why choose brick and mortar if download is available? People accept different distribution methods when they perceive value—whether that value be time, money or merely convenience. That is why the dairy industry had to change their model and that is why data-based products will eventually shift to digital distribution.

## **Presentation**

*How long should the presentations be?*

You have 30 minutes as your window, including Q&A. Why are you making the presentation? The real reason is because you want to get the hypothetical investment money. The professor would rather have 5 minutes of very tight, interesting material than 30 minutes of nonsense. You're not required to use up the whole time window.

*Is there a specific budget we ought to have?*

We've tried not to set an arbitrary budget. The budget for an MMOG is very different from a budget for a small, casual game. Having said that, you have the flexibility to ask for whatever money you think you need, but you have to be prepared to defend your numbers. If you are "guesstimating", you need to offer some foundation.