

# gaming | industry | news

## Where Are the Games?

Scenes from an industry waiting for something to happen....

“We’re doing OK, I guess,” says a regional manager for a videogame retail chain.

He paused for a moment, then added: “We’d be doing better if we had some new games that people wanted to buy, though.”

We spent a couple of weekend afternoons hanging out at videogame stores from New Jersey to Maine and asked kids and adults which games they were most excited about. They mentioned *Halo 2*, *Doom 3*, *Half-Life 2*, *Grand Theft Auto: San Andreas*, and *The Sims 2*. They’re all interesting games, of course, but they have one other attribute in common: None are out yet.

The videogame industry’s core customers, the fans who go to specialty shops rather than chains for their games, are excited about games they haven’t even seen yet. As for what’s out now, we didn’t find much enthusiasm. During our hour at a GameStop in a mall in southern Maine, a store with the words “We Buy Used Games” was covering one of its two large windows, and every transaction we saw involved a reduced-price used game. With few exceptions (you should hear teenage boys go on about *NFL Street* or *Need for Speed Underground*), there’s little in stores that’s getting fans excited right now. And if the *Final Fantasy XI* preorders are any indication, there is no huge pent-up demand for a PS2 hard drive that we’ve been able to discern.

As we chat with game makers heading to San Jose, CA, next week for the annual Game Developers Conference, they’re talking about new platforms and what they will be able to accomplish when they can manipulate two zillion polygons simultane-

ously. This forward thinking is what makes great games, but we’re years away from seeing those titles. What about now?

Why not ask someone from the one company that would be happy if the current situation lasted a long time: Electronic Arts? (It should be mentioned that the two current games generating teenage enthusiasm, *NFL Street* and *Need for Speed Underground*, are both from EA.) Warren Jenson, EA’s EVP and chief financial and administrative officer, was delivering his usual spiel at a Smith Barney investors’ conference recently when a question about the life span of existing consoles and games snapped him to attention. “The last cycle ended far too quickly,” he acknowledged readily. “We stopped developing for the PlayStation 1 way too early. We left hundreds of millions of dollars on the table. I promise you that is not going to happen again. We will be talking about the PS2 and Xbox in 2010. The installed base is too high.”

Jenson went on to suggest that the current doldrums in videogame sales (for almost everyone else in the industry) would continue until Microsoft and Sony took some aggressive price action. “Console prices need to be \$129 going into the holidays to make a difference for us so that we can expand the market.” Otherwise, he maintained, the latter part of the current cycle would go down in the usual manner.

Jenson also warned that the key to making the next console cycle bigger and longer than this one is innovation. “The next consoles have to be Xbox 2 and not Xbox 1.5, PS3 and not PS2.5. That will ultimately drive our ability to innovate. And early indications are that truly new consoles are exactly what we’ll get.”

That’s good for 2006—and EA is one

of the few companies that can look at the period between now and then without excess anxiety—but it’s still 2004. Early 2004. What will get people into the stores now?

We asked the smartest people in the business, and they all told us the same thing: great games and lower prices. The great games part will take care of itself in the second half of the year when many long-anticipated titles are scheduled to arrive. Lower prices? As our man at Sony puts it, “Either Microsoft or we have to pull the trigger on that, sooner better than later. As soon as one of us does it, the other one will. We both have to do it. I don’t care who goes first. But unless we want the next quarter to be ugly, one of us has to. Now. The games aren’t coming fast enough to pull us through.” ■

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# Go (Far) East, Young Man

Jason Bell and Turbine look across the Pacific and see the future of online gaming

Last month, Atari executive Jason Bell joined online game maker Turbine Entertainment as its executive vice president; his new responsibilities include running the company's new studio in Santa Monica and overseeing its Asian/Pacific business. Prior to working at Atari, he held production positions at Electronic Arts and Kesmai.

Turbine is best known for its *Asheron's Call* online game and is currently developing online games based on *The Lord of the Rings* (for Vivendi) and *Dungeons & Dragons* (for Atari). We spoke to Bell shortly after he returned from a trip to China.

**What does Turbine gain from a having a West Coast presence?**

Sometimes, it's easier to get talent in Los Angeles than in Boston [where Turbine's main office is located]. In my years at Atari and elsewhere, I developed a great network of entertainment executives, so it's good to be near them. And, of course, this puts Turbine three hours closer to the biggest online-game markets in the world.

**You're talking about Asia, of course. What can North American online-gaming executives learn from their counterparts in Asia?**

On one level, they're different beasts. Retail gaming in Korea, China, and Taiwan is extremely problematic because of widespread piracy, so online is the only space game companies there can work in, for the most part. That's a complete flip-flop from

European and American markets. And when it comes to the number of people playing their online games, they are dealing on a scale that dwarfs anything we've experienced in North America. Most important, they are competing on a service level, not just a product level. That's the reason no North American game company has succeeded in a large-scale way in China or Korea. North American companies have a history of drastically underestimating the amount of localization needed to succeed in those markets.

**How did the failure of *The Sims Online* change the online-gaming business?**

The expectations were so high, ridiculously so, within Electronic Arts and outside. *The Sims Online* had a lot in common with many other online games: It launched prematurely and there was not enough gameplay. The basic miscalculation was not realizing that it's not as fun to play as an ant as it is to watch ants play. Because of how *The Sims Online* did, you can see a pull-back from Microsoft, Electronic Arts, and Ubisoft in the online-gaming space. Ubi's decision to pull out of *The Matrix Online* is directly attributable to the failure of *The Sims Online*.

**You've been there for only a short time, but how is Turbine's development approach different from that of companies you've worked for?**

[CEO] Jeff Anderson and the key players in Boston have done a wonderful job culling lessons from *Asheron's Call 1* and *2*. They're not approaching it with the hubris I saw at Electronic Arts and Kesmai. You can't just build a large continuous world and expect people to figure it out by themselves. The key is making it extremely simple and extremely fun, which is extremely difficult. The people here know that. And that humility makes them different from other online players. ■

## EDITOR-IN-CHIEF

Jimmy Guterman

Jimmy\_Guterman@ziffdavis.com

## ZIFF DAVIS MEDIA

500 UNICORN PARK DRIVE

WOBURN, MA 01801

781-938-2639

**ART DIRECTOR:** Rob Schultz

**COPY DESK:** Tom Edwards, Greg Ford,  
Susie Ochs, Maritza Refuerzo

**PRODUCTION:** Carlos Lugo, Michele  
Manousos, Anne Marie Miguel

**CIRCULATION DIRECTOR:** Chris Wilkes  
Chris\_Wilkes@ziffdavis.com

## ZIFF DAVIS GAME GROUP

**SENIOR VICE PRESIDENT:** Dale Strang

**PUBLISHER:** Lee Uniacke

**EDITORIAL DIRECTOR:** John Davison

**BUSINESS DIRECTOR:** Cathy Bendoff

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## CORRECTION

In "Lock Your Assets" (February 20, page 4), we referred speculatively to an upcoming court decision in an unclear way that made it appear that the decision had been made already. We regret the error.

# Saving the Game-Movie Marriage

Warner Bros. Interactive wants a Hollywood ending **By Jason Chervokas**

For two decades, Hollywood and the game business have carried on a flamboyant, tempestuous international affair. Hollywood ached for games' revenue growth and huge gross margins; games yearned for the kind of cultural approval that happens only when Hollywood makes a movie about you.

But the flirtation has resulted in a string of atrocious flicks of little financial consequence—Freddie Prinze Jr. in *Wing Commander*—and has discarded game divisions like Fox Interactive. But people will pay to see Angelina Jolie in a skintight bodysuit, at least once. Is this a marriage worth saving?

It's an interesting question in the wake of the latest Hollywood scramble to get into the game business, touched off when Warner Bros. hired Jason Hall, who was working for Monolith, to head up its new Warner Bros. Interactive Entertainment division. If Warner Bros. can make millions without lifting a finger or paying a dime in development costs by licensing franchises like *Harry Potter* or *The Matrix*, why would the company want to get into game publishing or, worse still, the ever-escalating costs of game development?

The truth is that Warner Bros. left so much money on the table in licensing game rights to *Harry Potter* and *The Lord of the Rings* that it had to do something.

In the wake of the phenomenal success of *The Lord of the Rings* movies, the \$20 million (or whatever high-teens rumor you prefer) EA paid for *Rings* and *Potter* just ain't what it used to be. Heck, each of the last two *Rings* installments banked more than that on their opening days alone. *The Rings* trilogy has grossed more than \$3 billion worldwide in ticket sales already. The two *Rings* DVDs released to date are the top-selling products in the history of the

format. The numbers are almost as strong for *Harry Potter*. When Warner Bros.' bean counters sit down to settle the accounts, the fees paid by Electronic Arts for game rights to *Potter* and *LOTR* are going to look like rounding errors.

That wouldn't matter if Electronic Arts weren't making so much money for every dollar it has invested in licenses. But to the guys in the cash-strapped, debt-burdened media business, Electronic Arts must look like a company of alchemists.

Neither side in the romance between games and movies kisses and tells, so we may never be able to officially report how much a game company paid for a specific media property. But EA does report its royalty guarantees in a lump sum. The figure includes licensing fees, developer payments, and guaranteed royalties. It includes money owed to each of its licensors—not only Warner Bros., but also everybody from NASCAR and the NFL to Def Jam—as well as outside programmers. The figure allows for a calculation—rough, to be sure, but telling—of how much money EA generates in net sales for every dollar it spends on outside content and outside development. (Because so many of EA's franchises involve licensed properties, EA is a good proxy for the industry as a whole.) For its last fiscal year, which ended March 2003, EA spent a little more than \$35.5 million in license fees and royalty guarantees. It reported net sales of almost \$2.5 billion. That means for every dollar EA spent in licensing, it took in an eye-popping \$69.50 in net sales.

To be sure, nonlicensed games are big contributors to EA's sales. And license fees eat into EA's gross margins. In some years when the fees were particularly high (like 2001), EA's sales-to-guarantees ratio was more like \$28.50 per dollar committed. And the cost of development still represents

EA's big nut. Still, that's the alchemy that charms the media guys: turning \$1 of content into \$69.50 of sales.

Job number one for Jason Hall at WBIE will be to capture a bigger piece of the total net sales of every game based on Warner Bros. content. That means not only *Rings* and *Potter*, but also *Superman*, *Batman*, *Looney Toons*, and *Scooby-Doo*, just to name a handful.

But how WB decides to pursue that money is the question. So far, it has been business as usual. In February, the company cut a licensing deal with EA for its upcoming *Catwoman* movie. No terms were announced, but it was the same kind of licensing deal that Warner and EA have negotiated before.

Then, late in February, Ubisoft dropped out of its deal to copublish Warner Bros.' *Enter the Matrix* massively multiplayer online game. That may be a harbinger of things to come. Warner Bros. is now the game's sole publisher, with Hall's former company completing development. While Warner Bros. would be foolish not to continue to rely on EA's ability to produce quality console games on schedule for multiple platforms, the realm of online games remains wide open. There is no reason the company can't roll out its own game. It can also play a bigger role in console-game publishing without much sweat. Warner Bros. already has distribution, retail, and manufacturing relationships for selling DVD-based passive entertainment (i.e., movies), so the manufacturing and sale of DVD-based interactive entertainment present no production or distribution challenge.

The challenge for WBIE will be the shadow cast by *Harry Potter* and *The Lord of the Rings*. These franchises may be to the

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filmed entertainment business what Michael Jackson's *Thriller* was to the recorded music business in the 1980s. *Thriller* has sold a reported 50 million units worldwide—an unprecedented and still-record global number. The album redefined the notion of success in the music business. Its impact was tied to the growth of a new medium, music video, and new media formats, cassette and CD.

At the time, it looked like *Thriller* was the big bang of a new era in music sales. But in retrospect, *Thriller* looks more like the pinnacle of music-business sales, not the start of something big. Changing tastes, changing demographics, and changing technologies have resulted in a continued erosion of music sales ever since.

Home-run-level success for WBIE may well depend on the film-studio side of the house developing more hugely successful film properties. Maybe *Batman* and *Superman* will fit the bill, but duplicating the success of *LOTR* will be all but impossible, and more than one Hollywood marriage has fallen apart in a fight over money. ■

## TAKE-TWO TAKES ITS TIME

**Take-Two Interactive, fresh from restating its past three years of results, announced a lousy first quarter this month: profits down 38 percent from the same period a year ago and guidance for the second quarter lowered. But in a prepayment scheme that the folks in various *Grand Theft Auto* localities would no doubt approve of, two days before stating its earnings, Take-Two announced the October release of *Grand Theft Auto: San Andreas* in a note to consumers on its mailing list, urging subscribers to "preorder now to avoid disappointment." That's right, gamers can pay \$50 right now and let Take-Two sit on the cash for eight months before shipping the game (assuming it ships on time, unlike the Japanese version of *Vice City*, which just got pushed back, one of the reasons the next quarter is looking iffy). Well, that's one way to keep the ship afloat until October.**

# Love the Players,

Communities can make or break an online game. Just ask EA or Interplay

Online gaming communities that serve hundreds of thousands of players are a natural outgrowth of the speed of communication afforded by the Internet and the ever-growing desire of publishers to grab and hold customers by any means necessary, whether for franchise repeats or monthly re-ups in a persistent world. Community development is widely credited in the MMORPG world for keeping players engaged—and paid up—after the allure of the game's mechanics has faded. "When there are so many players online, players will hang back and won't quit the game. They will still be around in the community, and their role will change," says Ryan Findley, founder of independent gaming site Stratics.

Although gaming communities don't serve all players, "Those are the most extreme, most dedicated fans that you have," says Chip Lange, VP of marketing for EA's Sports Nation communities. They are part branding exercise, part self-selecting market-research forum, and part free-for-all. At their best, communities provide a valuable place for gamers to reinforce their interest in a title, as well as a direct look at what makes the vocal minority of players tick. Taken for granted, mismanaged, or expected to act in anyone's interests but their own, communities can become embarrassing liabilities.

Recent dismal failures for publishers both large and small illustrate the problem. Although it was lost in the noise that came with the *Fallout 3* cancellation, an arguably worse PR disaster for Interplay was over *Fallout: Brotherhood of Steel*, the title that did manage to reach the shelves. Eager for a surefire hit with a built-in customer base, Interplay revived its dormant *Fallout* PC franchise with the console title *BOS* and aimed prelaunch hype at eager *Fallout* veterans. But the materials failed to amuse the players, and the resulting torrent of criticism overwhelmed Interplay's largely volunteer community management staff. Eventually, the company shut down all discussion of *BOS* on its site—in effect, engineering its own buzz kill because it failed to

manage the fans it had counted on to boost the game.

Volumes have already been written about the trouble stirred up for *The Sims Online* after the game's underperformance and underbelly were given an extremely high profile through the exile of now-infamous Alphaville Herald operator and University of Michigan professor Peter Ludlow. The site has only become a more effective chronicle of the game's unique foibles. "It's almost always a really bad idea to try to stomp out people discussing your game," says Amy Jo Kim, principal of Socialdesigner.com, a Web community consultancy.

Both of these missteps stem from the same problem: Players did not say what publishers expected or wanted to hear. Short of laying down basic rules of conduct, it proves incredibly difficult to steer any discussion among thousands of individuals, even if they have a common interest in a game. "The player base determines the tone of the player base," says Findley. "The more you try to lock down what players do, the less fun they're going to have."

In Interplay's case, "They were trying to leverage an existing fan base but didn't consider whether that fan base would be amenable to the 'stretching' of the brand," says Dan Magaha, associate producer at Firaxis Games.

"When you have a boring game mechanism, people are going to get into trouble," says Kim of *The Sims Online*. She contends that the Alphaville Herald generated so much buzz simply because it told people how to have more fun with *The Sims Online* experience than they could with the official game rules.

Ludlow attributes the disorder that distresses EA to a shortage of both official oversight and trust in the community to police itself. Setting things right "might require setting up institutions within the game that gamers could use to resolve disputes. It's been done since the days of

# Not the Game

By Jason Compton

MUDs and MOOs,” he says.

Communities are exactly what the name implies—a large, loose collection of individuals who can’t be counted on to have more than a few things in common. The good news is that just understanding that fact is a huge step toward making community management both feasible and rewarding.

Make no mistake—community sites are often chaotic and noise filled, and the costs of digesting and responding to each and every word uttered by your gamers in cyberspace would be staggering. But there is also a growing realization that community management actually requires some genuine skill, not only in communication, but in conflict resolution as well. “You’re basically in the business of being a high-school counselor,” says Ludlow.

Navigate those conflicts, however, and it becomes possible to identify how individuals and groups will move in and out of a community and make their buying decisions. “By recognizing that all gamers will eventually come to the end of their experience with your game, and by making some predictions about when that is likely to occur, you arm yourself with the ability to provide new content...or even to identify a point to introduce that customer to a different game entirely at important moments in that player’s life cycle,” says Carly Staehlin, lead designer at NCsoft Austin.

Staehlin compares managing a gaming community to a lawyer preparing for trial: “You should never ask a question you don’t know the answer to.”

Independent gaming communities represent an entirely different sort of challenge because there are no direct tools to guide discussion or sanction misbehaving patrons. Many publishers will embrace certain fansites run in a levelheaded, respectable manner and often employ a carrot-and-stick approach with advance content and access to developers. “Think of them as part of your ecosystem, not some-

thing to be controlled. They will want to be in your good graces if they love your game, and they will want to keep getting that flow of exclusive information,” says Kim.

Some companies have developed such a trusted inner circle of fansites that they can forgo their own operations. “We don’t run our own sites because we don’t want to compete with fansites for users, and frankly, they do a better job of it than we could,” says Magaha.

It remains to be seen what the American game-publishing market will learn from the Korean experience. “We haven’t started to leverage fansite operators as strongly as PC room operators have in Seoul,” says Staehlin. NCsoft in Korea conducts face-to-face training and outreach sessions with PC room operators since it relies on them to act as the first line of support in the field—just as many fansites are the court of first resort for American gamers. “It’s economically quite infeasible in the U.S.,” she says, “but we can leverage that same mentality through online media.”

Gaming communities are not guaranteed to be self-maintaining grassroots marketing machines. But given the right nudges and the right oversight, they can be revenue positive. “We have found that promoting

the community gives the game a longer shelf life,” says Caryl Shaw, manager of Web development for Maxis. “People who are passionate, the fans, are going to write content beyond anything we’re going to create. You hope they’ll go out and propagate the message.”

Ultimately, the community is an investment. “It’s not altruism,” says Kim. “Setting up an online community is a tactic used to achieve a goal, and it can turn on you.” ■

## UP/DOWN

### Up: Domain name prices

Atari unloaded Games.com to Games Inc. for \$1.125 million. Dot-com bubble pricing is back!



### Down: Console prices

As the current cycle gets deeper into its second half, the only way Microsoft and Sony will move boxes is to cut, cut, cut. Nintendo knows this already, although its \$149 to \$99 GameCube drop was so dramatic that it may have nowhere lower to go as PS2 and Xbox prices fall.



## LETTERS

I read with interest your article “Fewer Smackdowns, More Cuddling” in the February issue.

When David Freeman states, “No one suspected it would appeal to so many women, because there was no precedent for gaming having that kind of feminine draw,” he is wrong. The VZones MMPOG virtual worlds have been around for five years or more and are well documented as being 60 percent to 70 percent female in their player base.

This is, in fact, still true, and in one world, there continues to be an increase in the ratio of its female population—specifically in Seducity, the adult world.

DAVID ANDREWS

Stratagem Corporation, Operators of the VZones and Seducity

<http://www.vzones.com> <http://www.seducity.com>

# Diesel and Woo Jump to Videogames

If the game business is going to look more like Hollywood, it will start with companies like these

By John Gaudiosi

In Hollywood, it's all about relationships. Who you know can go a long way toward getting a TV or movie pitch to the correct ears. The videogame industry isn't structured quite that way, at least not yet, but there are new avenues opening up for game companies to gain immediate Hollywood access to original content. Two recent videogame companies created by A-level Hollywood names are forging ahead, and each is developing several games. If successful, these companies could lay the groundwork for a new type of Hollywood game publisher and open up the door for game publishers and developers to get A-list talent without having to go through Hollywood agencies.

While actors such as Jet Li and Jean Reno have become involved in original videogames, Tigon Studios, the videogame publisher founded by actor Vin Diesel, and Tiger Hill Games, the brainchild of film director John Woo, are taking the relationship to the next level: game companies established by Hollywood A-listers. The impact of these studios' first games on the mass market and hardcore gaming consumers could fuel additional start-up efforts involving Hollywood talent.

There's a large contingent of Hollywood producers, writers, actors, and directors that has grown up playing videogames. The next logical step for some of these celebrity gamers is to become involved in the game-creation process. Woo and Diesel decided to get into game development for different reasons. Woo watched as numerous games used his trademark film action sequences (including the hero diving in slow motion with duel pistols blazing) and decided to get a piece of the action. Diesel wanted to create more of the kind of games that he enjoys playing.

Tigon will be first out of the gate with the sci-fi *Chronicles of Riddick: Escape From Butcher Bay*, a prequel to both 2000's *Pitch Black* and this June's *Chronicles of Riddick* movie from Universal. Tigon will copublish the

*Butcher Bay* first-person shooter with Vivendi Universal Games. The studio enlisted Swedish developer Starbreeze, maker of *Enclave*, to create the game.

Tigon is funding the creation of its games through external developers. In addition to signing an \$11 million contract to star in Universal's *Chronicles of Riddick* movie, Diesel signed a separate deal with Vivendi Universal Games for the *Butcher Bay* game. Cos Lazouras, who was a producer of Fox Interactive's *Planet of the Apes* and *Buffy the Vampire Slayer*, is CEO of Tigon.

"There are a lot of similarities between producing a videogame and a movie," Diesel adds. "The trick in either medium is to enroll the most talented people you can find. I think that gamers are demanding a more cinematic-like experience. I also believe that the talent that exists in Hollywood will be the chief resource to fill these 20-some hours of gameplay."

Tigon is also developing additional games, including original game titles that are not tied to movies. Next up for the company is *Perrone*, the working title given to a *Grand Theft Auto*-style game set in the '70s that follows a cop who's also involved with the Mafia. Tigon is expected to work with a different copublishing partner with this Mature-rated title. Again, Diesel's likeness and voice will appear prominently.

Woo's Tiger Hill is taking a different approach, having signed a multiyear first-look deal with Sega to copublish original games and work on existing properties. Co-founders Woo and Terence Chang serve as co-CEOs of the game publisher, Brad Foxhoven is president, and Lori Tilkin is vice president of the company.

"We put a lot of thought and effort into the structure of John Woo's deal," says Keith Boesky, who set it up before becoming International Creative Management's videogame agent. "It is a great model for

future deals for directors and creators. John's deal provides unique access to publishers who might not be receptive to pitches from Hollywood at large." Boesky says the reason Woo got into games was to launch original IP.

Tiger Hill president Foxhoven says the company's first game with Sega will be announced around E3, but also that a second game with a separate publisher will be announced before the annual game trade show. Tiger Hill is serving as a producer on the games, and the funding will come from the publishers, while the games will be developed by said publishers through internal or external development teams.

While the first game from the studio is still under wraps, it's likely to be one of the three premises outlined on the company's website: "Sinner," which features an assassin murdered on his last job who's offered the chance to avenge his death on Earth if he can escape from 18 levels of hell; "Burglar," in which an estranged son becomes a thief in order to avenge his father's murder; and "Stranglehold," in which two men on opposite sides of the law see their worlds join forces when the son of a cop is murdered.

"As for the three concepts listed on our website, we are committed in our efforts to make them into games," says Foxhoven, who hopes to have the first game out by the end of 2005.

"With games, I am not restricted by a budget that would limit multiple sets or huge action sequences, as I may be on a film," Woo says. "Ultimately, it's a new way for me to tell stories that allow for interaction and open up multiple ways on how a story can progress and resolve. It's all quite exciting."

Tiger Hill co-CEO Chang says the idea is to create games with the hopes of turning them into movies. The company will also

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# The Next Starbucks?

Both enthusiasts and entrepreneurs are banking that the Korean PC Baang model can travel to the United States **By Dean Takahashi**

Visit the Rivalution Network Center for LAN gaming in Milpitas, CA, on any given weekday afternoon, and you'll find standing room only as crowds of high-school students gather to play shoot-em-up games on the center's 36 high-end PCs.

Reminiscent of the arcades of the 1970s, LAN centers are billing themselves as the cool place to hang out with friends and blast away at each other in games. They also hold tournaments and events that keep kids coming back, even though they could be playing in the comfort of their own homes. At night, Rivalution draws an older set of mostly male customers who pay \$3 an hour to play networked games such as *Counter-Strike* and *Battlefield 1942*. There are four gaming centers in Milpitas alone and as many as 50 in the San Francisco Bay Area.

"We think that the time has come for a gaming lifestyle and a place to support it," says Will Huynh, cofounder of the Rivalution chain, based in San Jose. "Sure, you can play at home. But you can see the excitement on someone's face when they're

in a social setting and they're playing against someone in the same room."

These centers are popping up despite the fact that the excitement about Internet gaming in Asian countries failed to spread to the United States more than five years ago. In South Korea, there are tens of thousands of PC Baang gaming centers that emerged to serve gamers who played *StarCraft*, *Lineage*, and a host of other first-generation Internet games. That country was unique in its adoption of gaming, in part because of its cold climate, heavy urban clusters of youths, and love for technology.

When Internet cyber cafés and gaming centers opened in the United States, they fizzled out at first. The U.S. is more spread out, and the same forces that conspired against arcades—the rise of the consoles and home PC Internet gaming, and the then-high cost of providing connectivity—doomed the initial centers.

But LAN centers may finally be catching on in the U.S. Graphics chip maker Nvidia

## NINTENDO HAD SECOND THOUGHTS BEFORE

With all the speculation about Nintendo DS, the double-screen handheld player due later this year, we've seen only a handful of notes acknowledging that Nintendo did this once before, with its apparently forgotten (except by historians) MultiScreen Game & Watch device. Since the Game Boy Advance SP resembles nothing so much as an original Game Boy folded in half, those looking for a possible hint of the upcoming device's design should view images of its apparent precedent at <http://www.gameandwatch.com/screen/multiscreen/index.html>. (Thanks to Game Girl Advance for the tip.)

estimates there are 1,000 gaming centers across the United States. IGames.org serves as the industry's trade association and says it has more than 500 member centers in North America, as well as 400 internationally. That membership has doubled in the

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## Diesel and Woo **CONTINUED FROM PREVIOUS PAGE**

be launching comic books and toy lines in the near future. With all of the international box office success that Woo has had, he does not own the rights to any of his Hollywood movie IP, and games give him the opportunity to own and build on original properties.

"We appreciate and understand the way that videogames are made, and we don't want to force-feed a Hollywood style of production into games," Chang says. "Instead, we want to utilize the Hollywood infrastructure of talent available and add to the game-playing experience where possible, including hiring Hollywood writers and voice actors for the game."

P.J. McNealy, senior analyst at American

Technology Research, says companies like Tigon ensure a better bottom line for Diesel, but that in the game industry, where most Hollywood-licensed games are failures, it's the quality of the game that makes sales. Diesel will certainly bring attention to original IP, which is the current reason game publishers cast games such as *DRIV3R* and *True Crime* with Hollywood talent.

"I'm not sure that having Hollywood stars attached will necessarily make a difference either way to the game's quality, but with the right stars attached, it will certainly boost visibility for the product and help gain all-important distribution at retail," says Simon Price, a UK-based videogame analyst who works with all the

major game publishers.

With both of these companies developing games, the verdict will soon be in. For Tigon, the first true test will come from Perrone, which won't have a Hollywood movie license to ride a marketing wave. Tiger Hill and Tigon are taking things a step further than Jet Li's involvement with Sony's *Rise to Honor* by actually owning the IP they're creating. The fact that Tigon and companies like it will work with multiple publishers also opens the door for a game company to lock in a Hollywood-style first-look deal with this talent, as Sega has done with Tiger Hill. If these projects turn out to be profitable, the videogame industry is going to start looking a lot more like the movie industry very soon. ■

# Playing the Place

Expect to see paid-for products everywhere **By John Gaudiosi**

For decades, Hollywood movies and TV shows have received solid revenue streams from companies for product placement. Videogames, which have a captive audience engaged in interactive entertainment with no fear of channel surfing or “blink and you missed it” product placement, are an ideal medium for this.

In the current age of TiVo, 500-channel cable and satellite services, and Netflix, advertising agencies and product-placement companies are having a harder time reaching the elusive young male viewer with disposable income. Movie ticket sales continue to fall each year, TV networks were hit with record drops in male viewership last fall (as much as 12 percent during prime time), and videogames are being blamed.

That blame has actually helped the videogame industry finally begin to establish itself as the ultimate product-placement stop for major brands and companies.

Some top-tier brands, such as Coca-Cola and Nike, are still vying for dollars from game companies by arguing that their brand brings more value to a game property than vice versa. But according to Jane Chen, VP of strategy at L.A.-based videogame integration shop YaYa, there are big names paying to get into the game. McDonald's, which has worked with Electronic Arts for *The Sims Online* and *NBA Live 2004* and Activision for *Tony Hawk's Underground*, has some new gameplay up its sleeve.

Tim Harris, VP and partner at Play, the

dedicated videogame arm of advertising agency Starcom MediaVest Group, says that McDonald's and three other high-profile clients are working on new ways to integrate products into gaming. SMG Play also has a half-dozen additional projects that it's working on from an investment standpoint.

“When I saw all the press that was generated from McDonald's and Intel being in *The Sims Online* game, I thought it was ridiculous that people weren't doing more than one-offs,” says Harris.

“The majority of things that have been done in games so far, including signs in a stadium or a vending machine with a drink brand on it, are just scratching the surface

## The Next Starbucks CONTINUED FROM PAGE 7

last two years.

“In 1997, we tracked only 45 centers,” says Frank Cabanski, events director at iGames. Most of the centers are individually owned. The centers don't cost that much to create. The average size is 2,000 square feet, and the average number of computers is about 25, in addition to two heavy-duty servers that manage the network traffic. They typically share a T1 line that provides a broadband connection at a speed of 1.5 megabits a second. The typical cost is somewhere around \$150,000.

Other centers have a much different feel. The Liberty Corner Café in Basking Ridge, NJ, has a day job as a children's education center and becomes a LAN center for an older crowd at night. The center, housed in a two-story home, has 16 computers that the older crowd claims at night for *Counter-Strike* and *Call of Duty*.

Rivalution's Huynh, a 25-year-old gamer who plays about six hours a day, got the idea for starting the center while he was a

student at Cal Poly, San Luis Obispo. He had visited gaming centers in the Koreatown section of Los Angeles, which had imported the PC Baang concept from South Korea. Many had folding tables and chairs and were crammed with computers. Huynh wanted his centers to be nicer places where people could gather for a social experience, much like a nightclub for teens or an arcade.

Huynh and his friend Thuan Lee raised money from family and friends to open their first Rivalution gaming center in San Jose, CA, in 2001. They then opened a second company-owned store and began franchising the concept—the clubs resemble a nightclub, with purple interiors and rock videos playing throughout the venue. The centers offer snacks and drinks but no restaurant. Huynh is recruiting owner-managers to Rivalution's team so that it can start franchising across the country.

Companies like Nvidia like the centers because it helps them market their wares to the enthusiast gamer market, which rarely

shows up in a concentrated physical space. Nvidia sponsors more than 200 centers, up from 70 a year ago.

“The game centers have a big influence on the hardcore gamers,” Cabanski says. “That's why the sponsors go to them.”

Of course, there are dangers in starting this kind of business. Every year or so, the centers have to incur the big capital expense of upgrading their computers so that gamers won't be frustrated with the experience. And there are chances that if no good games come out to fuel LAN gaming on a regular basis, the fad could very well burn out.

Huynh is betting on next-generation games such as *Doom 3* and *Half-Life 2* to provide plenty of grist for the centers for years to come. Isaacs says, “Naysayers predicted that once homes got broadband, the centers would go out of business. But we're enduring and passing that test now. People have broadband, but the growth is still happening.” ■

# ment Game

of what can be done,” says P.J. MacGregor of SMG Play.

According to Keith Ferrazzi, CEO of YaYa, which has worked on product placement in videogames for companies such as BMW and Daimler Chrysler, it's taken some time for game makers to find ways to integrate products into games and not spoil the gameplay. Ferrazzi says that game companies now see revenue potential in product-placement deals, which can generate anywhere from \$50,000 to \$1 million, a fraction of the revenue a TV or movie deal can command.

There's a lot of activity in the games space, both in the integration of products and brands into the gameplay and story line of games and in the unique positioning of content with a brand. Electronic Arts worked with Target to provide an exclusive golf course for consumers who purchased *Tiger Woods PGA Tour 2004* at that retailer. Wal-Mart will give consumers who purchase Midway Games' *NBA Ballers* game a free soundtrack CD.

Ubisoft cut a deal with Sony Ericsson to feature a pair of new cell phones in the gameplay of its new *Tom Clancy's Splinter Cell Pandora Tomorrow*. The game's hero, Sam Fisher, will use one phone throughout the game. Another will be featured on a level of the game, and Fisher will have to find the phone and use a picture stored on it to hunt down a bad guy. Bringing things full circle, GameLoft will ship a wireless version of *Pandora Tomorrow* that can be played on the actual phone that Fisher uses in the game.

“We don't do blatant advertising within a game, because gamers want to enjoy the interactive story line,” says Jag Wood, senior promotions manager at Ubisoft. Wood says that in addition to integrating products into gameplay, co-marketing opportunities—especially online—are opened by working with the Palms and

Sony Ericssons of the world.

Activision and Electronic Arts are leading the videogame companies in product placement, thanks in large part to their leading market shares and the consistent annual sales of stalwart franchises such as *Madden*, *Tony Hawk*, and *The Sims*. But according to Julie Shumaker, director of ad sales at Electronic Arts, the strides one game publisher makes with in-game product placement help every game company, especially when 70 percent of every marketer's ad dollar goes to traditional media buys.

“I'm not competing with Activision or THQ for ad revenue, I'm competing with TV or Olympic Games sponsorship,” says Shumaker. “When I talk to potential advertisers, I'm not selling EA, I'm selling gaming as the best way to reach a targeted audience for an extended period of time.”

One sector that definitely has seen the pendulum swing in favor of games is the racing genre. Car companies used to charge licensing fees to get their cars in a driving game, even though Hollywood has its pick of the lot for movies that might feature only a car for a few scenes. Today, according to Chen, car companies pay \$3,000 to \$5,000 to cover the cost of digitization of assets to get their vehicle in a driving game like a *Project Gotham Racing 2* or *Gran Turismo 4*. Those numbers increase when the car is not part of a large field, but is singled out, like the Honda Element, which was integrated into EA's *SSX 3*, or the Jeep Wrangler, which was used in *Tony Hawk's Pro Skater 3*.

With the advent of PlayStation 3 and the next Xbox, along with the online capabilities that these consoles are expected to have out of the box, product placement will grow in the next few years, but not without pitfalls. For examples, companies can't track gameplay habits. While EA can get an idea of how much time a *Madden*

player is devoting to the game, it has nothing to compare that to with the rest of the industry. Advertisers currently use sales data for games, but it's not a large leap to multiply the 4 million copies of *Madden* sold by an average of 100 hours that each player will play to figure out how many times a single gamer will be exposed to a brand that's integrated into the game. Online consoles will give game publishers the ability to quantify impressions with real data, something that's relatively easy to do with television and movies.

Dave Anderson, Activision's senior director of business development, sees a real marriage between consumer products in America and the videogame industry emerging over the next decade. “The key is to deeply integrate the product or brand within the gameplay in a way that gets the brand messaging across while remaining authentic to the gameplay and the story line,” he says.

For its best-selling *True Crime: Streets of LA* game, Activision brokered a deal with Puma to have several characters outfitted in Puma clothes and to have a crime occur at a Puma store, where thieves steal Puma clothes out of a Puma truck. This was above and beyond the Puma-branded signs and bus wraps that were incorporated into the game.

Game companies are also exploring opportunities with advertisers to sponsor hidden cheat codes and soundtracks to give the players rewards for excelling at a videogame, which in turn keeps them coming back for more. The key is to make the marketer feel that his return on investment is worth the price of admission in the digital arena.

“An advertiser is looking to borrow equity from MTV or ESPN when it buys an ad slot,” says MacGregor. “We believe videogames offer great equity to the buyer. It's just a matter of time before everyone realizes this.” ■

# Number One With a Joystick

In the age of Kazaa, videogames might be the best thing the record business has going for it

In part because your editor cut his teeth in the music press, we've been closely watching how the music and game industries are colliding. Over the next several issues, we'll explore several aspects of how the two businesses are affecting each other. In this issue, we start at the top. Steve Schnur's title is Worldwide Executive of Music and Audio for Electronic Arts, which means he's the most important man in the business of game music right now, and he's heavily responsible for the move to use new music by popular performers in games. As he puts it, "There are a bunch of cheesy synthesizer guys lined up outside my office who want to kill me."

**How has the importance of music in the experience of playing a videogame changed in recent years?**

It has changed quite drastically. The videogame industry has come to realize that music is not something you just throw into the background. It's a key part of the emotional content of the game. Right now, we have games that scare you, but one day, we may see a game that makes you cry. Games are like films in that the success of the music has a lot to do with the emotional participation it provides.

**How is music used differently in games now?**

It's getting a lot more credit as people identify its value.

**Where is that value? The importance of music in selling videogames has certainly changed in recent years. Without DMX and Public Enemy and so on, *Def Jam Vendetta* would have been merely a good wrestling game.**

That's your opinion, not mine. The value is everywhere in the game. When you play a game, you spend a lot of time in menus. If the songs being played during those menus are rotated properly, you can make a great impact. And then the impact shows up on the music sales charts, too, for everyone from Blink 182 to Twista. People listen to the songs in *Madden*, and when you talk to them later about the songs, it sticks with them that *Madden* is a good place to discover new songs. People want to discover songs via games.

**How have these changes affected budgeting?** Believe it or not, music budgets haven't changed that much. It's just that the pie is cut differently within the budget. It used to be that 95 percent of the budget was blown on one big song that a developer heard on the radio three years ago. There was very little money spent on original production. Now we find 30 to 40 songs in that same

pie. The trick is to know what to choose and how to make the dollar work.

**Who makes the deals for existing material? Record companies? Artist management?**

Typically, the game developer works with the licensing departments of record companies and publishing companies. But we work with marketing and creative departments, too. If you deal only with the licensing department, you get music only after it's been developed. The key to a successful collaboration is starting early. On their last record, very early on in the recording, when they were tracking just bass and drums, Blink 182 was thinking about which song would work best in *Madden*. And when I think of *Madden 2003*, I think of Good Charlotte. They'd sold 300,000 albums. We were in the studio while they were cutting the record and picked one half-done track that we thought would work. They tell everyone how *Madden* made them a band that sold 3.5 million records.

**Old-timers may think the current moment in joint music-games marketing feels like the music-movie soundtrack bubble in the mid-'80s, which popped quickly. How is this different?**

For one thing, many times, you have songs written specifically for the games. They're not existing hits used to promote something new. Also—and this is the biggest difference—people are discovering bands via games before they hear them on the radio. All the convergence is coming from the game side. ■

## GAMECUBE SHORTAGE: SHORT ON EVIDENCE

It's been widely reported that Nintendo is running out of GameCubes in the United States. According to a Reuters report that was picked up more or less everywhere, the console, which saw its list price tumble from \$149 to \$99 during the holiday season, enjoyed a huge jump in sales (this after a high-profile and embarrassing production stoppage last year), and store shelves are almost bare—nearly 50 percent of retail stores are out of GameCubes already. As a result, Nintendo was said to be working furiously to increase production capacity and divert GameCubes from other territories to the U.S. as quickly as possible.

Now just a cotton-pickin' minute, as Yosemite Sam used to say. The only source in these pieces has been someone on the Nintendo payroll, so we fished around. We called 37 stores in 14 states, both general and specialist retailers that sell GameCubes, and 36 said they had GameCubes in stock. (The 37th said, "I'm pretty sure we have 'em, but I can't leave the register right now.") We visited 11 stores and saw GameCubes at all of them. We called five buyers; none said that they were having trouble acquiring GameCubes. Then we checked a variety of online stores. Most, like Amazon (which fulfills for Toysrus.com), said the consoles were available for shipment within 24 hours. There may be a shortage, but if there is, a lot of people who sell GameCubes haven't heard about it yet.

## UP/DOWN

### Up: PSP support

More and more big players, from EA to Take-Two, are lining up to support Sony's upcoming handheld.



### Down: Whining developers

Jason Rubin told DICE that celebrities get too much attention. Shocking!



# Origin Systems R.I.P.

By Greg Costikyan

*Starting this month, we're dedicating space in each issue for leading game-industry thinkers to let loose. This month, we've asked ace game designer Greg Costikyan, chief creative officer of Unplugged and member of The Themis Group board of advisors, to consider Electronic Arts' decision to close the Austin office of Origin Systems and offer employees there a chance to relocate to EA headquarters in Redwood City. You can find out more about Costikyan at [www.costik.com](http://www.costik.com). The opinions expressed here are his alone. —Ed.*

I recently spoke on a panel at which one of my copanelists was from Electronic Arts. He spoke pretty passionately about the need for innovation in game design.

But EA is about the last place I'd look for it. EA is widely regarded as among the best-managed companies in the industry—and by and large it is, despite such idiocies

as blowing \$150 million or more on EA.com. It has a strategy that works, and it sticks to it; it develops or acquires IP that has a strong following, and it develops it incrementally, releasing new versions and line extensions over time. It develops largely in-house at enormous studios in Redwood City, Los Angeles, and Vancouver, throwing large amounts of money at each title to ensure that they look at least as good, and preferably better than, competing titles aimed at the same well-understood game genres.

What EA has never learned to do—and doesn't have to, I guess—is foster innovation and success among the smaller, semi-independent studios it has acquired over the years: Kesmai, Maxis, Origin. *The Sims* was almost killed several times before Will Wright got it through the system; founder Richard Garriott was forced out after one rocky product launch; and

Kesmai was killed.

EA recently announced that it was moving most of Maxis' staff to the Redwood City facility. Wright and a skeleton crew will apparently stay where they are, which I suspect is a bad move on Wright's part. Essentially, other people are going to have more direct, day-to-day control of his team, and he's not going to be at the motherhip to wrestle up political support.

And, of course, Origin will be closed. Supposedly, the staff is being offered positions in California.... But the institution will just become another part of the EA machine. The last vestiges of Garriott's legacy are being erased. I think that's a loss. ■

*Do you want to defend EA—or would you rather start a fire of your own? Either way, write to us at [@ziffdavis.com](mailto:Jimmy_Guterman).*

## Too Soon to Verify

The latest industry tips, unfiltered

Most of the tips we've received in the past month have been Xbox related. Either the release of the next console from Redmond will be considerably earlier than the ones from Nintendo and Sony, or Microsofties have looser lips than their comrades at Nintendo and Sony. Or both.

The disagreements we're hearing about the new Xbox are over marketing minutiae (will the next console be called Xbox 2 or Xbox Next? Who cares?), while there is consensus on several crucial issues. All our correspondents tell us that internal storage will be of the flash-memory variety. Why no hard disk? Here's what one person, who wants to be identified as "a guy who knows, because I sell games that make the Microsoft games platform a success," tells us: "Having a box that's cool is great. They did that already. Now they want a box that's cool—and that doesn't lose money

every time they push one out the door."

Another sign that Xbox Whatever is close: Software development kits have been sent out. We're told these kits are preinstalled on systems running dual 64-bit IBM Power PC processors. Longtime Microsoft watchers will be amused to learn that those processors are running computers from Apple. The machines run ATI R350 graphics, but as one letter writer tells us, "They've made it pretty clear that the next version will have the R420."

And what of the current Xbox? We've heard from two people in the know that a price cut is close, although they disagree on when it's coming. One person believes it will be before Memorial Day, and the other says "if and when *Halo 2* ever comes out." Both sources speculate that the reduced price will be \$149. Says one: "They've got

to have a little powder left in case they need to drop to \$129 for the holidays." The other: "The \$149 will include a copy of the much-delayed *Halo* sequel."

"I like your newsletter," one source tells us. "But it does seem you jump to conclusions." Us? Well, before you think we jump to conclusions, let us remind you that the Informa Media Group, in its report stating what the videogame business will look like in 2010, has predicted that PlayStation 3 will decimate the next-generation Microsoft and Nintendo consoles. It doesn't mention who's going to win the off-year congressional elections in 2010.

*Do you have a crystal ball? Follow the lead of your colleagues: Sign up for an anonymous e-mail account and write to us at [@ziffdavis.com](mailto:Jimmy_Guterman). We can't do it without you. ■*

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