The 5 Year Cycle of the Gaming Industry

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- A JoWooD company
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- www.wingssimulations.com

Who are we?

- Founded 1996 by Teut Weidemann
- 17+ years experience
  (Lucky bastard: first Development Director in germany)
- Over 35 titles since 1985
- Last titles: Panzer Elite, a historic tank simulation
- Wings was merged with Jowood AG in mai 2000 (went public in june 2000 on the Vienna Stock Exchange)
- In Devleopment:: Söldner and *******

What the hell I am talking about

History repeats itself. The history of consoles too.

So:

- Learn from mistakes someone did in the past
- Learn from specific developments of the past
- Here: Historical periods show regular similarities. So you can predict some developments and prevent big catastrophies

History of Videogames

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Sorted by year and brand:

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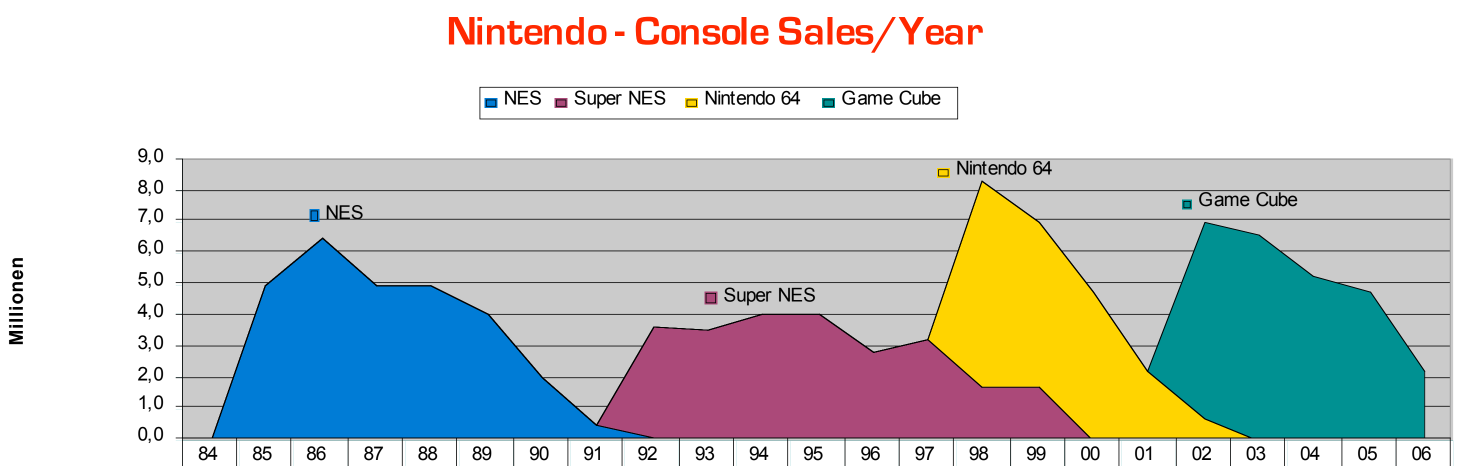
Sidenote: Atari VCS 2600: 1980 …

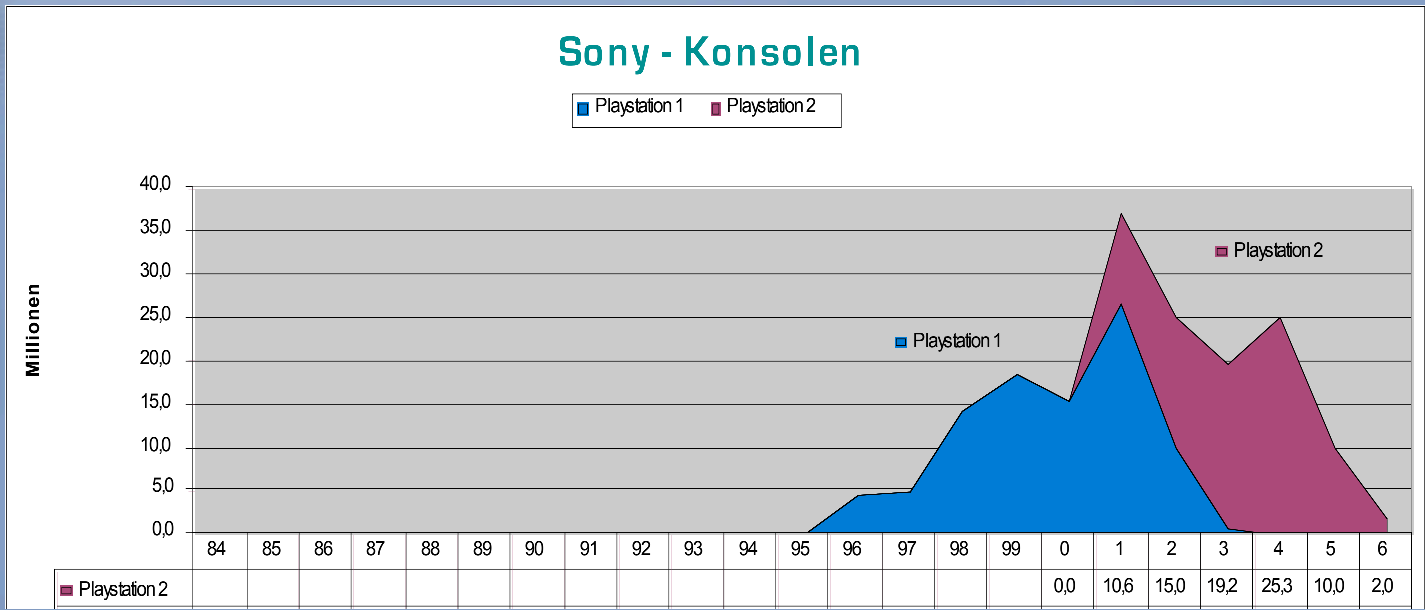
Nintendo Sales:



	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06
Game Cube																			6,3	6,6	5,3	4,8	2,2
Nintendo 64															6,6	5,3	4,8	2,2	0,7				
Super NES									3,5	3,5	4,0	4,0	2,8	3,2	1,7	1,7							
NES	0,0	5,0	6,5	5,0	5,0	4,0	2,0	0,5	0,1	0,0													

Numbers are sales per year, not consoles in total
Source: "Famicom Tsushin", 1995 – 2001
(dank an Winnie Forster)

Sony Console Sales:



WINGS WINGSSIMULATIONS

JoWooD Productions

Historical Overview:

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Rough cycle attributes:

Year 1: Release of the new Generation (usually Japan first))
- Launchtitles usually from the big Publishers or Developers
- First generation of software Technology
- Creating original IP or Content usually at this time (Halo, Mario, etc.)

Year 2: First hot Christmas
- Second generation of technology and titles
- First sequels or launch titles
- Now most publishers and developers move to the new platform

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Year 3: Golden Times, Massmarket, Competitor to TV, Movies
- Too many titles
- Usually big licenses or IP‘s sell
- Huge advertising budgets
- „Awareness“ of games generally very high now

Year 4: Oversaturation, Downpricing, Shows its age
- Even more titles, Shelfspace becomes very tight
- Less and less products sell even more (hit driven market)
- IP‘S and Brands from year 1-3 sell better than new brands
- Internal anouncement of the next generation of consoles

Year 5: Budget Console, On Sale, Official anouncement of the Next Generation
- Console as budget toy
- Publisher/Developers stop producing for the current, move to the next generation
- Current console shows it age: 6 year old technology

Year 6(1): Release of the Next Generation
- See Year one

Publisher Behaviour during the Cycles

Year -1: Internal anouncement of the Next Generation
- Evaluation, Deasl
- Big Publishers and Developers start projects and technology

Year 0: Start of Development
- Buying Dev Kits ($10.000+!)
- Revenue of current generation on decline (which is in Year 5)

Year 1: Next Gen Launch!
- Format Risk: market share, which wins?
- Development of 2nd Generation Technology

Year 2: Money comes
- Revenue rises
- Fight begins: Marketing Budgets rise

Year 3: #1 Revenue are Consoles for bug Publishers
- Marketing on all media (TV, Cinemas)
- Some titles as widely known as TV or Movies
- Important year for savings for investments on the next gen

Year 4: Oversaturation, Pricewars, Console shows its age
- Revenue sinks
- Less and less new titles are being developed (sequels only)
- Internal anouncement of next gen

Year 5: Budget product, Sale, Public Anouncement of Next Gen
- No new products on current generation
- Even less revenue on current generation, back catalogue sale

Consequences of the Cycle

Development Cycles Synrconisation harder and harder
- PSX1 9-12 months development time
- PSX2: 15-24 dev time compared to 5 year life cycle

Entering Console market is hard (Timing!)
- Bad Years: no chance
- Good Years: no chance at all (References? Sequels? Experience?)

Marketing budgets very high

Brands bind customers: Final Fantasy, Tekken, etc., but how to establish?

Investment at console change very high: Devkits, Technology

Lower investments into new PC products:
- Publisher go conservative
  - More sequels, less originals (See release lists currently)
  - Less risks: to sign new products is hard

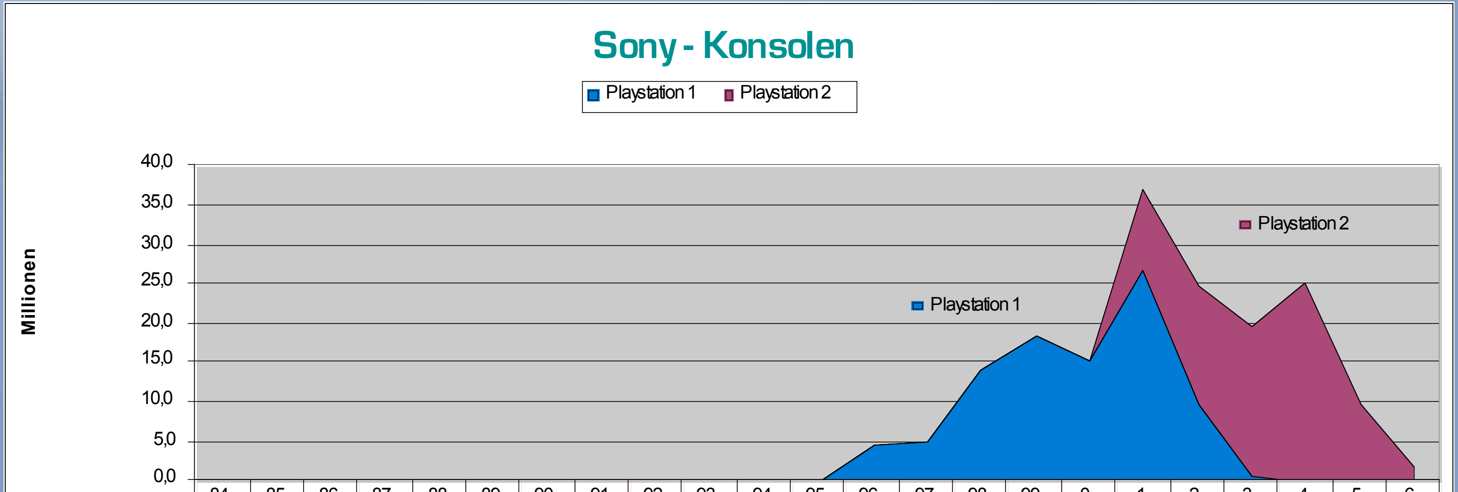
Market suffers through transition period:
- Less marketing spend
- means less advertising
- means special interst magazins die (see dying magazines and webites in the year 2000)

AND:

-Outside Investors always come too late

Why?

Investors are driven by turn over:



	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	0	1	2	3	4	5	6
Playstation 2																	0,0	10,6	15,0	19,2	25,3	10,0	2,0
Playstation 1													4,5	5,0	14,3	18,7	15,5	26,7	10,0	0,5			

- Market Data usually comes end of the year
- plus decision time …
- plus development time (1-2 Years)
- so the investors comes exactly when …

-> the current platform is already dead!

Investors Demise: Examples

1st Generation (Atari VCS, Colecovision, Intellivision) (1980-1985)

- Demise of the VCS killed many publishers and developers

- „Consoles don‘t work“ was common opinion (*grin*)

2md Generation (NES, MasterSystem) (1985-1990, Transition 91-92)

- Gaming industry nearly failed on this one

- Home Computers die after 1990 (Amiga, Atari ST etc.)

3rd Generation (SNES, Genesis): Hollywood is coming (1990-1995, Transition 95-97)

1994: Turner, MCA-Universal, MGM

1994: Dreamworks Interactive (End: 2000, rest bought by EA)

1996: Fox Interactive (End: still living!)

1995-1997: Gte, Philips, Time Warner, Wirecom

4th Generation (N64, Psx1): Toy Manufacturers (1995-2000, Transition 00-02)

1998: Mattel buys (End 2000: Sale to Gores and then to UBI Soft)

1998: Hasbro buys (Ende 2000, Restsold to Infogrames/now Atari)

5th Generation (Psx2, GameCube, Xbox) (2000-2005, Transition 04-05?)

Who comes late this time?

Market Consequences

Killing Magazines

Less advertising means killing foundation of their business model:

Transition 95/96:

Gamers, Total, Playtime, …

Transition 00/01:

MegaFun, PSM2, Fun Generation, VideoGames,
PC Player, PC Joker

Plus the many big gaming websites which died

Publisher Consolidation

Mai 1996: 40+ PC Publishers

Mai 2002: less then 10 big ones

And it continues (Vivendi was sold, Empire, etc.)

The Developer deaths

2002: in the UK over 20 Teams die

2002: in Germany over 80% of all teams die

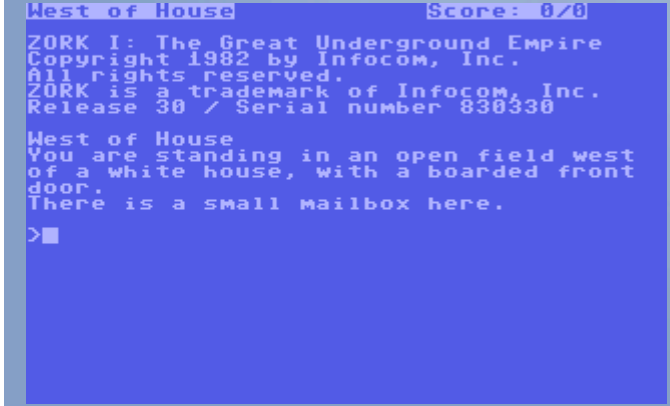
In USA many teams already died in 2001

Consequences for PC Games

- During the transition period ist hard to sell original titles
- Risk project or risk teams are very hard to place
- „PC Market is dead“ rumour usually pops up at that time (wrong for 15 years)
- PC market suffers, sales numbers all time low
- PC resets itselts usually at this time through new „gadget“
    - 1990: EGA to VGA: Wing Commander establishes VGA
    - 1993: CD-Rom. Porn and Myst for the masses (and Rebel Aussault)
    - 1994: VGA to Super VGA: Wargames Revitalized
    - 1996: Windows 95: Gaming for the Massen (cu Config.sys), DirectX
    - 1996: 3d comes: Voodoo 1 released (10/96)
    - 2000: Next Generation 3d Hardware: no more polygonal looks
    - sine then: games look similar in visual quality (well for my Mom at least)

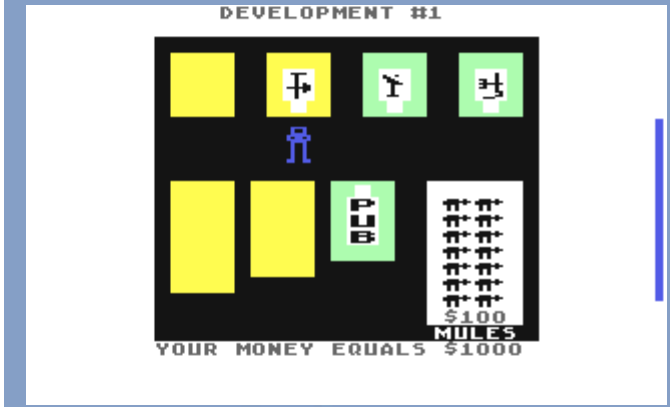
See here:

Pre PC



West of House
Score: 0/0
ZORK I: The Great Underground Empire
Copyright 1982 by Infocom, Inc.
All rights reserved.
ZORK is a trademark of Infocom, Inc.
Release 30 / Serial number 830330
West of House
You are standing in an open field west of a white house, with a boarded front door.
There is a small mailbox here.

190



DEVELOPMENT #1
PUB
$100
MULES
YOUR MONEY EQUALS $1000

x 03 1
TIME 795
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03
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USING
POWER
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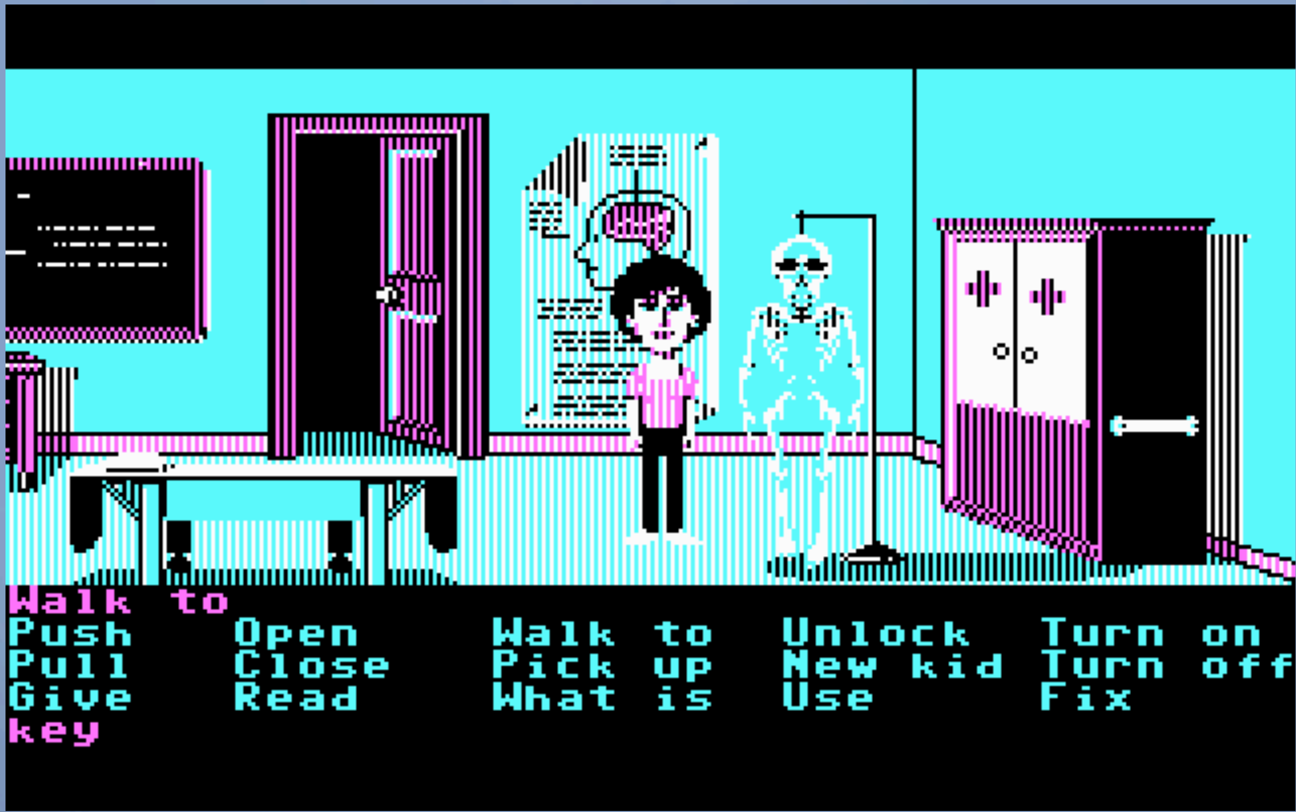
CGA


Walk to
Push Open Walk to Unlock Turn on
Pull Close Pick up New kid Turn off
Give Read What is Use Fix
key

EGA


Walk to
Push Open Walk to Unlock Turn on
Pull Close Pick up New kid Turn off
Give Read What is Use Fix
key silver key
cassette tape


Score:0 of 202
Sound:on


Walk to
Give Pick up Use
Open Look at Push
Close Talk to Pull

VGA


Walk to
Open Walk to Use
Close Pick up Look at
Push Talk to Turn on
Pull Give Turn off

SVGA

3d: 1st Gen

3d: 2nd Gen

3d: 3rd Gen


100
100
© 2002 LucasArts Entertainment Company LLC. © 2002 Lucasfilm Ltd. & TM or ® as indicated.

3d: 4th Gen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TEEN
T
ESRB
GENERALS
G


WORTHPLAYING.com

3d: 5th Gen

Consequences for the PC

What saves the PC 2001? (authors note: it was Online Gaming, I was right)

- Nothing? Exception: Online Gaming
- Visual Quality advancement slowed down now
- means longer shelflife of old titles (Halflife, Starcraft etc.)
- So new content is key, but no one has balls to bring it (Risk …)
- Online: barely 4-5 Years old …
- Ist a new market, return of investment still in the experimental pahse
    - -CD-Key revenue (Halflife, Starcraft, Diablo)
    - Subscription revenue (Ultima Online, Everquest, Asherons Call)
    - ???

And:

- Speed Sale „very bad“ in some countries
    - Full Games on Magazine CD‘s
    - Gold Games Super Bundles (10 high end titles for $39)
    - Downpricing too fast even on hit titles
    - This drops the value of launch titles in the customers minds
    - Retail is being educated to speed sale
- And of course pirating:
    - Access to pirate copies much easier than before through the internet

Consequences for „PC Teams“

- No Deal = Good bye
  - 2002: in UK over 20 Teams die
  - 2002: in Germany 80% of all teams die
  - In USA teams already died in 2001 (!)
    -(reason: consoles are launched sooner there)

Hints:

- Try to make a deal in year 4 latest (to be canceled in year 5?)
  - p.s.: this means start pitching in Year !
  - p.p.s.: We are Year 3!!! (authors note: when the talk was being held)
- Count on Year 5 Chaos! (Savings, Deals, Shift Investments)
- Example: EA fires people always <u>before</u> the Transition Period
- Next Transition 2005-2006! Remember!

Is the PC market dead????

PC Games Releases 1999-2002

	1999	2000	2001	2002
Games Released:	300	251	255	256
Original Games:	61%	50%	57%	48%
Sequels:	22%	33%	29%	29%
Add-ons:	7%	6%	7%	11%
Bulk Packs (Gold Editions and the like.)	10%	11%	5%	7%
Collector's Editions (Released simultaneously with original)	.5%	2%	1%	2%

	1999	2000	2001	2002
Strategy:	18	13	38	33
Turn Based Strategy:	15	16	8	9
Real Time Strategy:	24	22	31	24
War Games:	18	8	11	9
Sports:	35	27	14	18
Flight Sims:	12	11	10	3
Role Playing:	15	17	15	14
Action:	72	65	60	64
Adventure:	5	8	19	22
Family:	20	15	6	11
Racing:	20	13	10	11
Misc:	9	6	15	18

Source: http://www.gonegold.com

Market Data

Figure 5

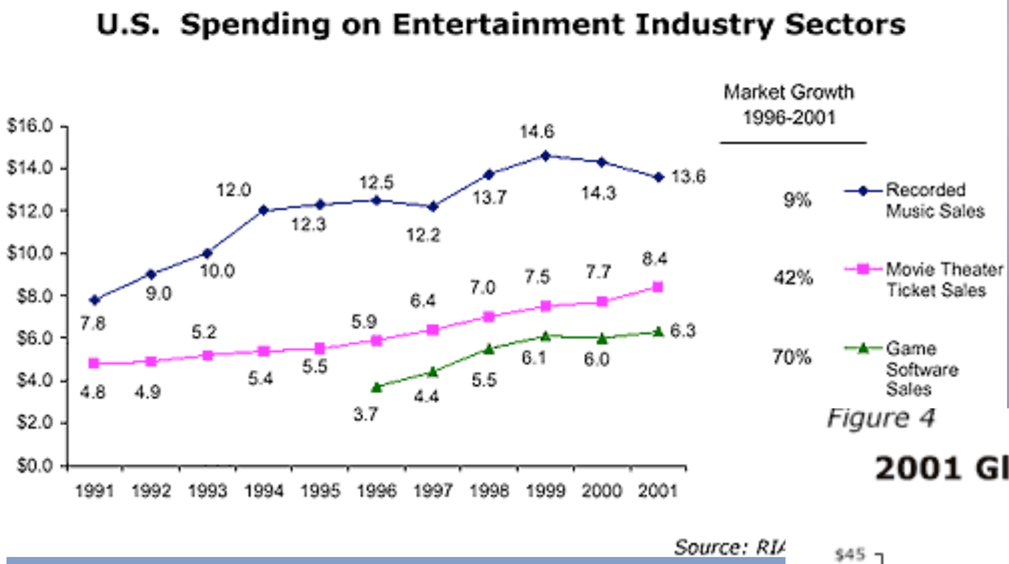
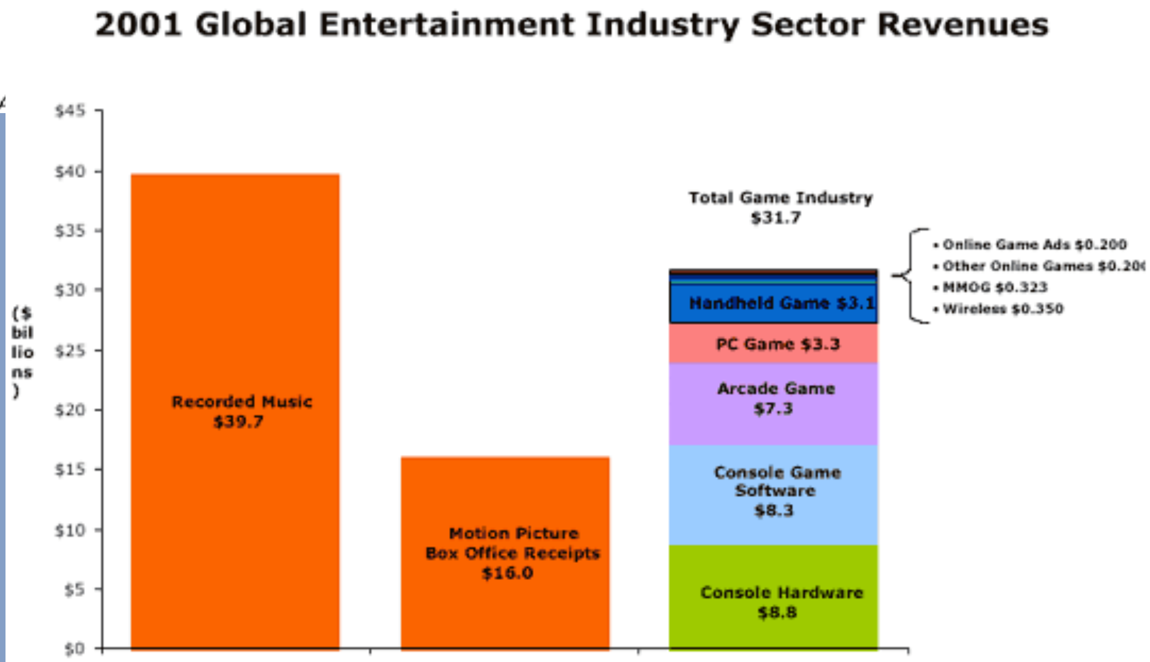


Figure 4



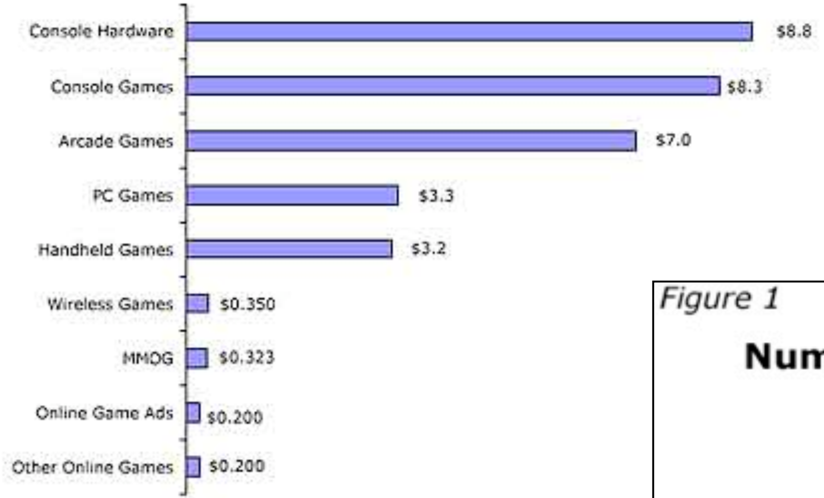
NOTE: motion picture revenues do not include videos, DVDs, merchandise and other industry revenues

Source: Deutsche Bank, Zona and Executive Summary Consulting estimates

Market Data

Figure 3

2001 Global Game Software, Hardware & Online Revenues



Total: USD$31.7 Billion

Source: Deutsche Bank, Play Meter, Zona and Executive Sumr

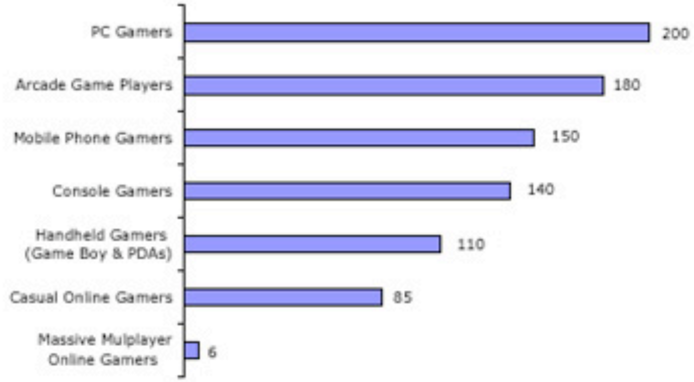
Figure 2

2001 Global Game Software Revenues
By Global Region

Source: Deutsche Bank

Figure 1

Number of Game Players Worldwide 2002 by Type



(millions)

NOTE: Many gamers play on multiple game platforms. The total consolidated gamer universe across all platforms is estimated to be 430 million worldwide.

Source: Zona and Executive Summary Consulting Estimates