

# gaming | industry | news

## Happy Holidays?

The bipolar pendulum seems to be swinging back and forth so quickly that you'd think everyone in the videogame industry were wearing neck braces. Several months ago, industry wags maintained that Nintendo's third-place standing in the console race was permanent enough for the company to get out of the hardware business. Now, a huge price cut later, Nintendo will come out of the holiday shopping season with a strong second-place showing.

In early November, chains like Electronics Boutique were lowering earning expectations, but by late November, resellers were more optimistic, pointing to a report by Harris Nesbitt Gerard that PlayStation 2 game sales were up 7 percent for the year so far. Shortly after the early December Northeastern blizzard, buyers seemed to be returning to Chicken Little mode, a state reinforced by some unhappy post-Thanksgiving news from Best Buy, which reported a double-digit drop in game sales since the year-ago quarter.

As this issue goes to press, enough *Tony Hawks* and *WWE Smackdowns* are moving past cash registers to keep the lithium capsules at bay (plus, Saddam's capture is said to be helping retail sales). There's no apparent breakout game this season (another *Grand Theft Auto* soon, please!), but there are enough solid performers and pleasant surprises (like *Need for Speed Underground*; leave it to industry giant Electronic Arts to score the unexpected hit) to keep the nail biting to rational levels. If last year was a once-in-a-cycle year, the dip this year is still surprising.

Not everyone is happy this holiday season. Atari's *Terminator 3: War of the Machines* is an expensive nonevent, and we see the company is discounting *Enter the Matrix* because poor word of mouth has begun to overwhelm its heavy marketing. Even Electronic Arts, the unchallenged leader in sustaining

licensed properties, is finding that it's possible to abuse franchises: Without a new book or film with which to cross-promote, *Harry Potter: Quidditch World Cup* is not performing as expected. It will be interesting to see what EA learns about a movie tie-in game—without a movie to tie in with it—as it prepares a big *Lord of the Rings* game for next year, a year with no *Lord of the Rings* film.

"I'm not sure how thankful I am," an East Coast electronics-chain buyer told us in mid-December. "We could have done without the blizzard. I don't think it was disastrous, but it did slow down the momentum it looked like we were building right after Thanksgiving. Things are going OK. We didn't think it was going to be that much better, but we were seriously afraid that it was going to be much, much worse."

As the buyer uttered these words, he picked up a *Terminator 3* box. "I know this sounds crazy because so much of our business comes in December, but some of the stores are telling me that, when it comes to games, they want to get the holiday season out of the way and get the big games for next year—like the new *Halo* and *Half-Life* and *Doom*—out already. Those will bring in incremental traffic. For electronics stores, we have plenty of other things in December to bring in traffic. After Christmas is over, we're going to need some hot games with titles that people have heard of to bring people in."

Expect news to heat up on the development side, as well as the retail side, after the holiday season is safely behind us. Those who listened in on THQ's most recent quarterly conference call were privy to some clear hints as to what the first part of next year will look like.

To counter the big GameCube price drop (it's listed at \$99, but we're seeing it promoted at \$79), company executives expect both Sony and Microsoft to cut console

prices early in the year (definitely before E3). THQ also said that it has PSP emulators on hand and has begun development for that promising platform.

In 2004, videogames will become even more mainstream purchases. In a recent presentation, Electronic Arts CFO Warren Jensen reminded an audience of institutional investors that during the previous cycle, more than 90 percent of PlayStation 1 sales came after the price dipped below \$149. "That brings mass penetration," he said. "That hasn't started yet in this cycle." These are optimistic words from an executive who also mentioned that EA enjoyed 22 million-selling titles this fiscal year, up from 16 the year before. ■

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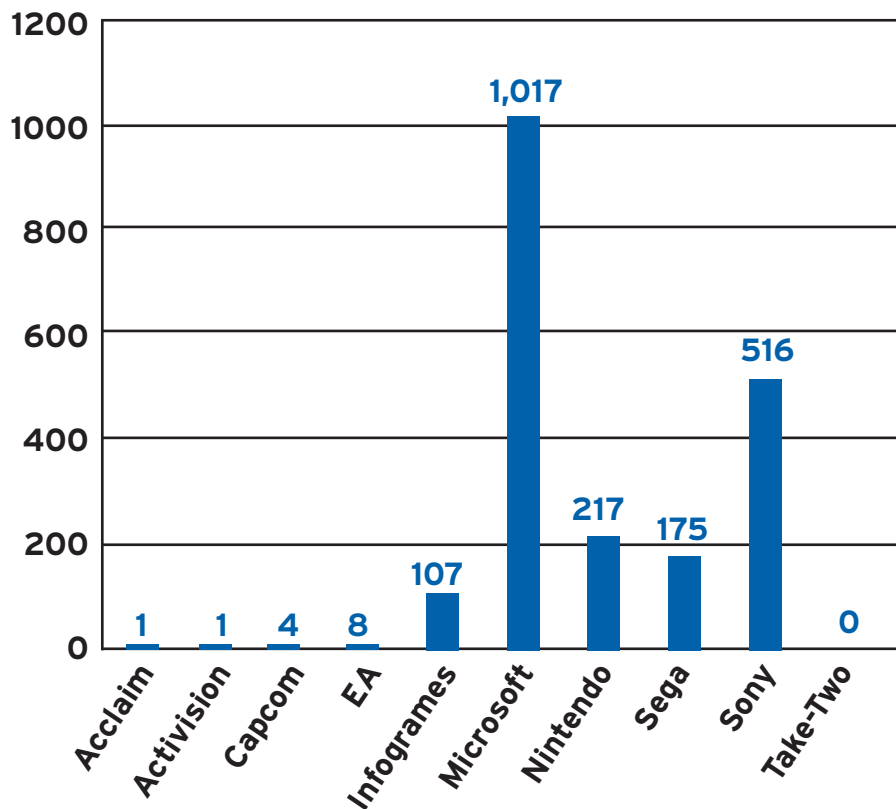
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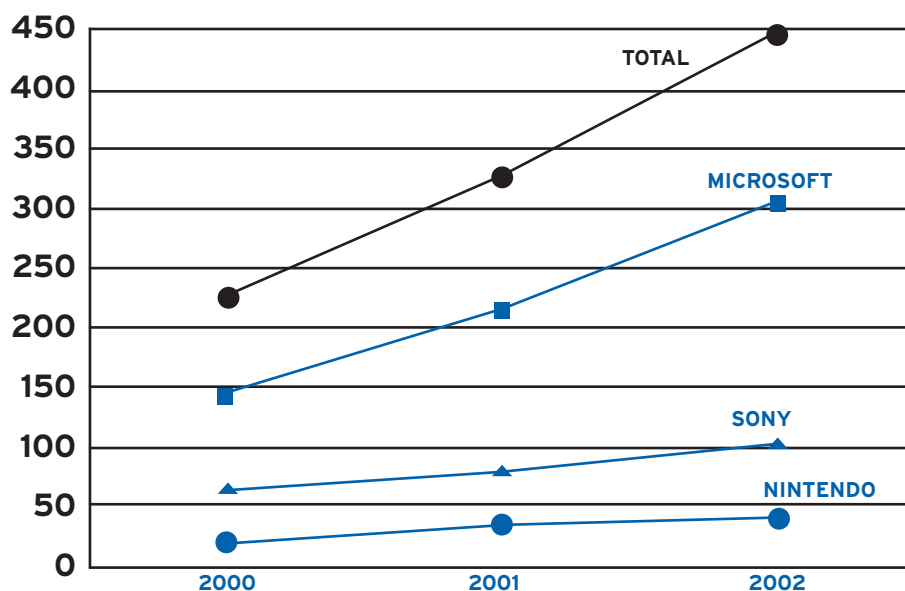
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# Who's Got the Patents?

## Total Utility Game Patents Registered



## Patents Issued by Company, 2000-2002



Source: United States Patent and Trademark Office  
- compiled for *Gaming Industry News* by Mark Terry

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# The Price of Compatibility

The next Xbox will play current Xbox games. But Microsoft might have to jump through some fiery hoops just to make sure **By Dean Takahashi**

Microsoft is keeping many (most?) details about its next-generation Xbox console under wraps, but at least one of the choices that Redmond has made public is stirring a spirited debate. Will Xbox Next, as it's now being called, play games designed for the original Xbox? Your answer depends on who you ask.

Microsoft has kept mum about the next Xbox, except in two major areas. The company has announced that ATI Technologies will provide graphics technology for Xbox Next, while IBM will provide PowerPC microprocessors and Silicon Integrated Systems will supply a chipset. In choosing these companies, Microsoft appears to have broken its ties to previous vendors Nvidia (graphics) and Intel (microprocessor), which weren't as eager as their rivals to retain Xbox business by being the lowest bidder.

Jen-Hsun Huang, CEO of Nvidia, says his guess is that the next Xbox won't be compatible with the old one. "It's virtually impossible on many levels," he adds. "On an intellectual-property level. On practical levels, too."

When asked to explain (might this be sour grapes talking?), Huang says for cost reasons, Microsoft isn't likely to be willing to put additional chips in the box to ensure hardware compatibility. Moreover, he suggests that current Xbox games make use of Nvidia's proprietary graphics shaders and that Microsoft might have to license them to use them again.

Jon Peddie, analyst at Jon Peddie Research, supports Huang's position. He notes that Nvidia may likely have proprietary technology in its secondary Xbox chip, the media and communications controller, which handles functions like sound processing. That chip, perhaps more than the graphics chip, is likely to contain technology that Microsoft will have to license, Peddie says.

By contrast, Dave Orton, president of ATI, says, "It's not outside the realm of

possibility to make a compatible Xbox." He didn't discuss specific products his company is making for Microsoft, but he says that if you just consider the timing (about five years) between the consoles, then Moore's Law dictates that the new machine will be eight times as fast as the old one. With such an increase in raw pro-

cessing speed, Xbox Next should have plenty of horsepower to emulate the old games via software. That is, the new hardware will be fast enough to execute the old games even if they have to run through software translation.

On the processor side, Microsoft might have to employ its Connectix software to get the Intel code to run on the IBM PowerPC. That problem raises the prospect of additional costs and engineering efforts. "It's not a trivial amount of work," says Dean McCarron, an analyst at PC-chip market researcher Mercury Research in Scottsdale, AZ. "It will be a massive task of integrating different technologies."

## ARE THEY BOTH RIGHT?

McCarron maintains that both Nvidia and ATI are right to some degree in their interpretations. He thinks Nvidia won't be able to stop Microsoft from running old Xbox games in software on the new machine. And even if Nvidia does hold intellectual-property rights, it will not enforce them against Microsoft. After all, most Xbox game developers write their software to run on Microsoft's own DirectX application programming interface, not specifically on Nvidia hardware. McCarron also says ATI should be able to closely approximate the way an original Xbox game looks with its own rendering hardware.

On a business level, original Xbox emulation on the next edition raises options for

Microsoft, but each carries some risk:

- It could achieve partial compatibility through software that doesn't exploit some of Nvidia's technology, but that may mean older games won't look as good on the next Xbox. Microsoft can license either intellectual property or reuse Nvidia chips and

## MOVING FORWARD, MICROSOFT WILL DO WHAT IT MUST TO PLEASE ITS CURRENT-GENERATION XBOX CUSTOMERS.

incur additional costs above and beyond what it will pay for the IBM and ATI chips. Considering Microsoft lost more than \$100 per unit on much of its original Xbox hardware, that doesn't seem likely if the company wants to make money the next time around. A software solution eschews most outside licensing expenditures.

- It could risk broadly interpreting its prior deal with Nvidia by using Nvidia's technology and not paying for it. That would risk a lawsuit.

- It could choose to simplify matters, forget about compatibility, and endure the wrath of consumers. This would be a big mistake, considering that Sony—its main competitor—benefited enormously by making PlayStation 2 compatible with the original PlayStation. Even if fans played original PS1 games on their PS2s for only a couple of months, the compatibility gave them a solid reason to stick with Sony. The last thing Microsoft wants to do is give existing Xbox enthusiasts a reason not to upgrade.

For Microsoft, these hard choices are the price of not working with the same partners. Any sane observer knows that Microsoft will do what it must to please its current Xbox customers. In doing so, the company may learn that a low price can come at a high cost. ■

*Dean Takahashi is the author of Opening the Xbox: Microsoft's Plan to Unleash an Entertainment Revolution (Prima).*

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## Think Small

You don't need a titanic budget to turn your hit game into a hit movie **By John Gaudiosi**

Hollywood has dubbed videogames "the new comics," and there continues to be a feeding frenzy by movie producers acquiring the rights to videogame franchises both big (*Silent Hill*, *SpyHunter*) and small (*BloodRayne*, *Clock Tower 3*). But for every big-budget feature in development, there are a handful of moderate- to low-budget films in the works. A small group of producers, many of whom grew up playing videogames, are taking a more cost-effective approach to launching a game franchise on the big screen, which could result in better returns at both the box office and in future videogame sales.

These days, you don't need \$100 million to get your videogame on the silver screen. With the right producer and enough investment dollars, a solid movie can help expand the life of a successful game franchise or take a new IP and turn it into a franchise. The key to success in Hollywood isn't necessarily attaching the biggest-name producer or star to a game-inspired movie—it's ensuring that the movie gets made in the first place. There's a reason why games such as *Doom*, *Half-Life*, and *Halo* haven't made it

to the big screen—at least not yet. With cinematic stories built in, these seem like no-brainers, but often, agents and producers rush into the next big thing without any knowledge of the subject. Films such as *Mortal Kombat* and *Resident Evil* worked because Paul Anderson, the writer and director of those films, knows games.

"I see a lot of game companies giving rights to Hollywood producers they trust because of previous films, but these producers have no idea what a videogame is," says director Uwe Boll. "That's why movies like *Doom* haven't been made [yet], because it's the wrong people getting the rights to these properties."

On the low end of the spectrum, Boll KG and Mindfire Entertainment created a \$12 million horror film based on Sega's *House of the Dead*, which has made back its cost in its domestic run. The film's German director has also filmed Atari's *Alone in the Dark* starring Christian Slater, Tara Reid, and Stephen Dorff. Boll was able to secure \$20 million and a recognizable cast by building on the Sega film. He has also

optioned the film rights for Majesco's *BloodRayne* and has slated spring 2004 for principal photography to commence on the \$20 million feature. Boll has sequels planned for all of his game films. Based on the returns of *House of the Dead*, which opened with \$6 million during a crowded holiday weekend, Boll's investors splurged with \$50 million for a fantasy epic based on Gas Powered Games' *Dungeon Siege*, which he likens to a smaller-scale *Lord of the Rings*. A second *House of the Dead* has been greenlit with an \$11 million budget and will begin production next fall for a March 2005 release.

Thanks to cost-cutting efforts such as filming in Canada, working with a smaller crew, and creating a unique coinvestor partnership with post-production house Toy Box, which is doing the effects for *Alone in the Dark*, Boll has been able to make his movies look bigger onscreen. The goal for both Boll KG and Mindfire Entertainment is to get videogame-based films into theaters for affordable budgets and then gradually tackle larger projects down the line once a track record has been established.

### HOLLYWOOD 101

HOW TO MAKE SURE YOUR GAME-BASED MOVIE DOESN'T BOMB

If there were a formula for turning an IP into a guaranteed hit, we wouldn't have to sit through all those crappy movies that Hollywood churns out. But there is a way to reduce the risk of a videogame becoming the next *Double Dragon*.

It all starts with a cool concept that can translate to the big screen. A large number of games heading to Hollywood have one thing in common—a sexy protagonist in some type of skintight leather outfit. With an endless supply of young Hollywood actresses, especially in the TV business, mixing an up-and-coming starlet with a cool character should translate to box-office success. Just look at what *Alias* star Jennifer Garner did for *DareDevil*. This equation let a small publisher like Majesco turn *BloodRayne*, a modest hit

last year, into a feature film that could cause the franchise to explode.

The blockbuster success of the original *Tomb Raider*, which grossed over \$300 million worldwide, as well as the decent return on the sequel (roughly half of that) can be tracked directly to Angelina Jolie. Unfortunately, the films failed to create the kind of event feel that lured the original viewers, but the franchise is still alive because of Jolie.

#### CARS, GADGETS, AND A ROCK

Another factor in formulating a hit movie is cool toys. James Bond has been able to evolve over the decades because of a never-ending supply of souped-up exotic cars and I-wish-I-had-one-of-those gadgets. Universal Pictures' \$100 million *SpyHunter* movie, based on Midway's classic car game, follows this prescription. In addition to transforming vehicles, spy gadgets, and chase sequences from scribes

Michael Brandt and Derek Haas (*2 Fast 2 Furious*), the film has star power with Dwayne "The Rock" Johnson.

"Making a movie based on a videogame is no different than making a movie based on a novel or a comic book," says Adrian Askarieh, who's producing the summer 2005 tent-pole film with Chuck Gordon. "You have to see what makes that game special—what made you want to adapt it into a movie in the first place. *SpyHunter* doesn't work unless it's made as a global adventure with incredible vehicles and stunts. You also need a major movie star like The Rock to carry this type of movie." There are pitfalls to a big star, especially for smaller-budget affairs. Film producer Jeremy Bolt notes that the bigger the star, the more studio involvement. Certain stars can also add input that could detract from the spirit of the game character.

The recent worldwide success of the three *Matrix* films proves that everyone

## CROSSING OVER

"The plus side for Atari, which will release the new *Alone in the Dark* game in fall 2004 in conjunction with the film, is that they have access to everything we filmed, as well as our CGI," says Boll. "In addition, Christian Slater, who plays Edward Carnby in the movie, will provide the voice and likeness for that character in the game."

It's these kinds of crossovers that open up additional marketing potential for game companies. When Slater promotes the movie, he'll also be able to speak on behalf of his experience with the game. One of the reasons more mainstream media are covering videogames, besides the \$30 billion worldwide gross, is the increasing involvement of Hollywood talent.

According to producer Jeremy Bolt, who heads Impact Pictures along with writer/director/producer partner Anderson, game companies today are primarily concerned with getting the movie made, which takes precedence over how many millions they can get for the film rights.

"Hollywood has become younger. People are looking for a guaranteed built-in audience for opening weekend. Studios now

realize that games have that potential," says Bolt, who has produced the *Resident Evil* movies and has a \$50 million *Driver* and a \$25 million *Dead or Alive* feature in development. "It doesn't mean you spend \$100 million on a budget for a game movie. But if you're sensible like we were with the first *Resident Evil* and you spend around \$30 million, that movie's going to open. Whether it lasts after the opening depends on if the movie's any good. But Hollywood today is all about the opening."

According to Bolt, research shows that about 80 percent of weekly filmgoers, mostly teens and twenty-somethings, are videogame players to begin with. That gives any videogame-based movie a decent shot at finding a nice opening weekend. It's also the reason that so many videogame ads now play before the coming attractions at your local multiplex. It's the same target audience.

The first *Resident Evil* grossed \$100 million worldwide, including \$40 million domestically, which allowed Impact Pictures to get a budget of around \$40 million for the sequel from Constantin Films and Screen Gems. By splitting the costs of these films, Bolt and other producers are able to garner more creative control over a project.

Higher price tags and big stars tend to lessen a producer's, or even a director's, ability to helm the ship without interference. Bolt also believes it's important to put a lot of money into marketing the movie, which helps both the theatrical and later DVD release of the property, as well as help the game get mass-market publicity.

## KNOW YOUR PROPERTY, LIMIT YOUR RISK

"There are a number of studios around the world looking at similar smaller-scale movie models where the risk isn't great," explains Bolt. "The only ones who can take massive movie flops are the five studios. Our approach means that if the movie doesn't work, it's not going to be the end of the company."

"I'm a big believer that there are a number of different versions of any game for the big screen, including a low-budget, moderate-budget, and grand-budget take on the franchise," says Scott Faye, producer for Collision Entertainment, who's developing *Alice*, *Clock Tower 3*, and *Max Payne* for about \$40 million each.

The millions of dollars spent to market the theatrical, pay-per-view, and DVD releases of the film will generate impressions on a larger audience than any single targeted videogame ad campaign could buy. The burgeoning DVD category, in which a hit movie like *The Hulk* can sell more than 2.5 million units in its first few days, also opens up bundling opportunities for games and the ability to put playable game demos on the movie DVD. Next year will see the largest number of videogame-based movies ever in production in Hollywood.

While there will be more misses, Hollywood producers seem to be learning from their mistakes. Today's writers, directors, and producers—at least some of them—realize that not every good game makes a good movie. "There has to be something inherent within a game that would work as a film. It has to go beyond a game that looks cool on the small screen," says Anderson. With more than 1,200 games shipping this year, there will be plenty of choices for Hollywood to make going forward. ■

likes a big sci-fi adventure (and fans will keep going to some franchises no matter how bad the word of mouth). There's no shortage of epic sci-fi videogames that have sold millions of copies around the globe. Laura Ziskin, who turned *Spider-Man* into a global sensation, is now producing *Deus Ex* for Columbia Pictures. The film will follow the exploits of counterterrorist JC Denton and include elements from both *Eidos* games.

The right producer is also crucial to a game's transition to celluloid. These days, it seems like Jerry Bruckheimer can do little wrong on the big or small screen (although we suspect Fox TV will be smarting from *Skin* for some time). The fact that he's going to turn American McGee's *Oz* game, which hasn't been released yet, into a trilogy of \$100 million blockbusters, bodes well for the company that publishes the game. The game's story, a retelling of *The Wizard of Oz*, has built-in familiarity, as does McGee's *Alice*, which Electronic Arts

released a few years back. That game is being turned into a \$40 million movie by film producer Scott Faye. Again, everyone is familiar with *Alice from Wonderland*.

A game doesn't have to be three sequels into its franchise to go to the big screen like the original *Tomb Raider*, although by that time, a movie could give the IP a jolt of new life (*Alone in the Dark* should provide such a jump start next year). New game properties (*BloodRayne*, *Dungeon Siege*, *Oz*), as well as classic games (*Shinobi*, *SpyHunter*, *Area 51*), can translate to film if done properly.

"There are nice cinematics in many videogames, but that doesn't mean the game will work as a movie," says Paul Anderson, who directed *Mortal Kombat* and *Resident Evil*. "I've seen a lot of games snatched up and read the scripts, only to realize they wouldn't work as a film." Not every virtual hero, it seems, can make the jump and go linear.

-J.G.

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## Is Your Game a Movie?

A film can expand a brand, but it's the core game that keeps customers coming back **By John Gaudiosi**

There's no set formula for making videogames into movies, according to agents from Creative Artists Agency (CAA), International Creative Management (ICM), William Morris Agency, and Endeavor. That explains why some games, including nonblockbuster titles such as *BloodRayne* and *Clock Tower 3*, have big-screen adaptations in the works, while big franchises such as *Metal Gear Solid*, *Halo*, and *Half-Life* remain in the interactive realm.

Both *Halo* and *Half-Life* are represented by CAA, which handles all of Microsoft Games Studios' properties, as well as developer Valve's. Larry Shapiro, the CAA agent who handles videogame deals, says that both Valve and Bungie are currently focusing on the game franchises, but they want to take them to another medium when the time is right.

### WHEN YOU PILE A BUNCH OF PAST MOVIES TOGETHER INTO A NEW STORY, YOU GET A BOX-OFFICE BOMB.

You might think that time is now, but other Hollywood insiders say that shopping *Halo* isn't so easy. Microsoft has a lot invested in the game, which is the top franchise for Xbox. What benefit is there in

#### GAMECUBE CAN'T CATCH PS2

Last month, Nintendo began hyping the fact that its dramatic GameCube price cut has dramatically boosted console sales. But don't think the low price—listing at \$99, and we've seen many retailers discounting GameCube to as low as \$79—means Sony's dominance in the current cycle is in any danger. The same day Nintendo sent out a press release harping on its successes, the Video Software Dealers Association released its list of the top 10 games by rental revenue for the previous week. All 10 slots were for PlayStation 2 games. Selling more consoles is, of course, a good thing in the short run for Nintendo, but it's too late for the company to convince outside developers that it can catch Sony.

bringing out a movie based on the game? It won't necessarily sell more Xboxes. Gamers, both hardcore and casual, will buy an Xbox for *Halo 2* and *Halo 3* if they don't already own one.

Another key factor is finding the element within a game that would work on the big screen. While its gameplay was revolutionary in terms of story and action, *Halo* as a potential movie is basically a rip-off of *Aliens* and a number of other sci-fi films. Movie audiences have already seen something very much like it on the big screen. When you pile a bunch of past movies together into a new story, you get a box-office bomb on the level of *Soldier*. That wouldn't be good for the game franchise.

The same holds true, for the most part, for *Half-Life*. Valve has been preoccupied of late with getting *Half-Life 2* out and

dealing with the theft of the bulk of the new game's code. But even before then, the studio had to live up to the gaming community's amazingly high expectations. Gamers expect perfection with sequels. Fans are far kinder with movie sequels than game sequels, and getting a big-screen adaptation made is a secondary priority to these companies.

Konami is a completely different story. The Japanese developer has a history of being difficult to work with, according to producers and others directly involved with the company over the past few years. A-list producers have been salivating over *Metal Gear Solid* for years, and the game has only increased its fan base with recent sequels and a video of the series' next game.

While game publishers like Capcom—which took a bath with its only foray into movies, *Street Fighter: The Movie*—may have learned from their mistakes, Konami wants to hold an unprecedented amount of

#### UP/DOWN

##### Prince of Persia Reviews

Many enthusiast publications and sites are calling the revived title the Game of the Year.



##### Prince of Persia Sales

It's a great game. It's a familiar brand. Why isn't it a hit?



control over its IP. Capcom trusts Impact Pictures with its *Resident Evil* movies, and that relationship has worked. One source says that Konami wanted director approval—something many Hollywood producers don't even get with a studio picture—as well as a part in the marketing budget, script, and cast selection.

One needs only to watch *Final Fantasy: The Spirits Within* to see what happens when a game maker tries to make a Hollywood movie. Square is still hurting from the reported \$200 million it lost on the *Final Fantasy* movie.

One reason many games aren't optioned for movies these days, according to ICM agent Keith Boesky, is that most game publishers are reactive to Hollywood, rather than proactive. Boesky brokered the *Tomb Raider* movie deal back in fall 1997 when he ran Eidos, and it was part of his company's plan to grow the franchise from games to films. Since then, Eidos has optioned only one other game for the big screen: *Deus Ex*. And other game publishers focus on where the money is—developing hit game franchises.

After years of development hell, *Doom 3* is finally on a fast track at Warner Bros. for a feature film. And deals will eventually be made to bring *Halo*, *Metal Gear Solid*, and *Half-Life* to Hollywood. A successful movie can boost even the most popular game's awareness—and that draw will always keep games in play in Hollywood. ■

# Four Big Questions

Hank Howie, Blue Fang Games

Each month in *Gaming Industry News*, we ask an industry insider some big questions. This month we turn to Hank Howie, president of Blue Fang Games, maker of the *Zoo Tycoon* line of PC games distributed by Microsoft.

**Q: Which is harder, starting a new gaming brand or maintaining it?**

Starting a new brand. Especially in the current risk-averse climate where licenses and established gaming brands are greatly preferred by publishers, trying to develop a new property, let alone establish a new gaming brand, is exceedingly difficult.

## UP/DOWN

### Terminating Questionable Games

Deciding to abandon a doomed title prior to release may result in a short-term public relations debacle, but doing so is a sign to the industry that someone in a company can sense reality.



### Terminator 3: War of the Machines

Thirty-two people can play the PC version simultaneously, the box promises. It's unclear whether Atari has sold that many copies of this dead-on-arrival tie-in, released nearly half a year after people have forgotten the wobbly sequel film. This is bad news for a company whose revenue last quarter was down 40 percent from the same quarter last year.



Conversely, the biggest difficulty in maintaining a gaming brand is keeping it fresh. It's challenging from a creative standpoint, sure, but most developers would like that problem.

**Q: How important is the console cycle to a company that sells PC games?**

It definitely has an impact, and one of the biggest impacts is shelf space at retail. Console products and sales have been steadily encroaching on PC game sales, and this phenomenon is only exacerbated in new platform launch years.

**Q: What would it take for Blue Fang to consider developing for new platforms?**

A compelling business model. Wireless games are like the Wild West. There's opportunity, but you could get killed. As for online, particularly of the massively multiplayer sort, there are just too many players with too many products targeted at a limited customer base. In both arenas, there'll be a lot of tears and bloodshed before things settle into some semblance of sanity.

**Q: Will you extend your current brands or attempt something brand-new next?**

That's a great—and nearly prescient—question, because it's one we're wrestling with right now. We've been very lucky with *Zoo Tycoon* and it makes all the sense in the world for us to continue to build on that. Of course, from a creative standpoint there are always other things we're thinking about. But we pride ourselves on the company we've built. ■

## PS-LESS

SONY DELIVERS LESS PSX THAN IT PROMISED

In the inaugural issue we looked at PSX, the "convergence" device with TiVo features and an integrated PlayStation 2, Sony is readying for market. Since then, Sony announced a release date for the unit: December 13, only in Japan, with a move into the European and North American markets at an unspecified date next year. But in order to get the PSX out in time for Christmas, a number of features Sony officials promised back in October are now gone. CD-R and DVD-RW discs won't work, nor will CDs encoded with MP3 tracks or TIFF or GIF images. The promised 24x DVD recorder (DVD-RW format only) is now a 12x recorder, but there are assurances this will be updated with a downloadable upgrade. Sony officials are talking about upgrades next year, but there are no firm dates or specifications attached to these enhancements.

Much of what Sony will do with the PSX is educating the market about a new type of device. Since there are no long lines expected when the PSX hits store shelves, it would have made more sense for Sony to have a complete unit ready upon initial release. This trickle-out launch—in which an inferior debut unit is quickly overtaken by an improved unit that's much closer to what the original was supposed to be—will only add confusion at a time when the Japanese electronics giant must convince analysts, investors, and consumers that it has a clear vision for the future.

## PS2 Comes to China

But will consumers pay for the games?

In a major step forward for the Chinese game-development community, Sony debuted its PlayStation 2 in Beijing, Shanghai, Guangzhou, Shenzhen, and Chengdu this week at a price of \$240. With a potential market of 40 million people in those five areas, Sony expects to expand to additional cities next year.

Games will retail for about \$20 each,

and Sony will release about three games per month. The console arrives with third-party support from publishers such as Konami, Sega, Taito, and Namco, but it's the Chinese developers that will likely decide whether PS2 thrives here. At a press conference in Beijing, Hiroshi Shoda, chairman of Sony China, said that putting development in the hands of Chinese game makers

encourages people to fight against piracy because they'd be protecting their interests in intellectual properties.

"We have to realize the reality that piracy cannot be controlled 100 percent not only in China, but also in other parts of the world," said Shoda. "We have to be courageous in order to face the reality." ■

- John Gaudiosi

# China: The Next Gaming Frontier?

The upside is mind-boggling—but so is the piracy problem **By John Gaudiosi**

A new study from consultancies International Development Group and Niko Partners paints a rosy outlook for game development and sales in China. Although plagued by piracy (95 percent of console videogames and 96 percent of PC games in the country sell for a mere \$1 each), China is increasing its installed base of gamers, with over 2.6 million videogame consoles and over 18 million PCs expected to be in homes by the end of 2003. Gaming is expected to become more prevalent in China in the coming years, due to the country's 34 million males ages 14 to 24—the ideal demographic.

“China's entry into the WTO at the end of 2001 triggered new rules and regulations for trade and commerce, which should aid in improvement of illegal business practices,” says Anton Bruehl, president of International Development Group. “Local and international industry players such as Vivendi Universal Games, Electronic Arts, and Ubisoft continue to learn about the evolving Chinese game-playing community, improving their understanding of which products and services to offer.”

The Digital Entertainment Expo and Conference in Beijing, which will be held January 16-18, should give China a heads-up on additional potential game investment possibilities. This Chinese equivalent of E3 is being sponsored by the government agencies responsible for videogames, and is expected to become an annual event.

China now boasts 200,000 Internet cafés. Surveys say more than 64 percent of customers use the cafés' high-end PCs to

## MOVING DEVELOPMENT NEAR CHINA, TOO

Japanese game publisher Koei will open its first full-fledged development studio outside of Japan in Singapore in late 2004. Koei's chairman and chief executive Keiko Erikawa says Singapore was chosen because most natives are bilingual in Mandarin and English and programmers understand creativity in interactive entertainment.

play games for \$1 for an average of four hours. This has opened up a healthy massively multiplayer online gaming business model for the publishers that develop the 110 online games available in the country. More than 7.4 million people played MMO games in China in 2002, which generated revenue of \$96 million. Unlike standalone console and PC games, which are easily pirated, MMO game publishers charge monthly subscriptions to consumers and Internet cafés. Consumers can also use prepaid cards to purchase virtual items within the online games. This business model lets publishers make money even if they give away the initial game for free—a common practice in China.

## ATTRACTING DEVELOPERS

China already has 60 game development studios, including ones owned by Konami, Sega, and Ubisoft (the Ubisoft operation is currently producing a new *Splinter Cell* title). A growing number of Chinese publishers and developers are also gaining exposure.

“Beijing has long been the primary city for PC-game software development and is now an active center for MMO game development,” says International Development Group's Bruehl. “Shanghai has attracted more developers for console games. These companies have developed games only for export, but they will soon develop for domestic use as well.”

Paul Meegan, studio director of the U.S. branch of Japanese videogame company Jaleco, has traveled to many Chinese development studios, and he believes an infusion of Westerners will contribute to game-development growth. “Many Chinese game developers are about five years behind North America—not only in technology, but also in experience,” he says.

“There is tremendous potential for the local industry,” says Gino Yu, head of the Multimedia Innovation Centre at Hong Kong Polytechnic University. “Most everyone here has grown up with games because of piracy, which makes games very affordable. Furthermore, local youth are familiar

## FIGHTING PIRACY

In 2002, Nintendo conducted 125 raids on Chinese factories manufacturing illegal copies of its product, resulting in the seizure of more than 1 million pirate products and videogame components. In the first half of 2003, the number of illegal Nintendo products seized was up to nearly 900,000 units.

with U.S. and Japanese games, as Hong Kong is a very international city and piracy knows no cultural bounds for content.”

Yu says that the roadblock to game development in China to date has been getting console manufacturers to send development kits. Piracy fears, which are legitimate, have kept these kits out of most Chinese studios. Yu believes that development kits for the next wave of consoles, which rely more on online gaming, will be more widespread.

“Foreign-owned studios in China are already developing high-quality games for their home markets, such as Korea, Taiwan, and Japan,” says Lisa Cosmas, managing partner for Niko Partners, co-sponsor of the report. “If the games are successful in those markets, especially Japan, there is a higher likelihood of success in the West. This is also true for the Chinese-owned studios whose games gain success in other Asian countries. The management and talent pools available in Chinese-owned and -operated studios need to improve in order to develop games that will be in demand outside of China. And it is key to appreciate that the culture in different countries will dictate what type of game is popular there.”

The sheer number of gamers in China makes it an intriguing new market for game publishers. Navigating the piracy problems will require time and effort, whether through raids or through new business models, like the MMO games. Piracy has helped the installed base of PCs and game consoles flourish. Now it's up to the game industry to find ways to build a big, honest market. ■



# Product of the Year

It's small, it might end up saving a company, and it's about to get some strong competition

Since this newsletter launched last month, many people have asked us to name the product we think made the biggest impact on the gaming business in 2003.

We're not going to do full-fledged awards—our sister consumer magazines and website IUP.com do that expertly—but we do think it would be worthwhile to consider what single item shaped the industry the most this past year. And our criteria were different from those of our siblings: Here, we're not focused on the coolest product as much as the most influential one.

There have been many games that have had an unexpectedly large impact (the revitalized *Prince of Persia* is a huge critical hit), and some whose very existence remains a mystery (Sony must have been awarded some sort of amazing package to permit the *Grand Theft Auto* two-pack to come out on Xbox). There have been impressive new hardware items, too, like the Eye Toy add-on for PS2. But there is one piece of hardware we feel had the most impact this year: the **Game Boy Advance SP**.

It hasn't been a great year for Nintendo. Its GameCube console suffered through a

wrongheaded bundling pack, a humiliating stop in production, and a desperate price drop, but the company still owns the hand-held business. It's easy to imagine Nintendo executives sending thank-you notes to Nokia for its stumbling N-Gage launch. The Game Boy Advance SP, released in March, is an engineering marvel (elegant flip-top design), provides a clear solution to its predecessor's biggest problems (rechargeable batteries and—more importantly—a backlit screen), and is a primer on how the hardware and software divisions of a company can work together.

Handhelds are a lucrative business that is about to get more crowded. Niche devices like the Tapwave Zodiac may nibble at the high end of the Game Boy demographic, but the latest crop of mobile-phone games still don't come within shouting distance of the Game Boy's capabilities. However, the forthcoming PlayStation Portable from Sony is likely to be a more formidable contender. The Game Boy Advance SP may be a near-ideal handheld gaming device for 2003, but it will have to take on new capabilities to continue its domination. Nintendo is rumored to be working with phone-handset makers, so it's likely the company is on the case.

## UP/DOWN

### IBM

The computing giant will provide the microprocessor for two of the three next-generation consoles.



### Intel

Microsoft's move to an IBM PowerPC chip will hurt this chip behemoth's bottom line. The 10 million Xboxes sold with Intel inside generated nearly half a billion dollars in Intel revenue. And if Microsoft can switch chips for its gaming platform, can Intel consider its Windows-processing dominance safe?



How dominant is Nintendo's device? In the upcoming *Got Game? How Computer Games Are Transforming Business*, an outstanding book we will cover in a future issue, the authors consider the best ways to get a company's board to understand gamers. One of their suggestions is to buy Game Boys for board members. This may be the most mainstream game device available at the very moment, and game devices are barging into the entertainment mainstream. ■

# Vivendi Inches Toward a Sale

Take-Two emerges as the leading contender; "restructuring" may speed the way

In last month's issue, we speculated on who might be the best fit to buy Vivendi Universal Games if (as our sources tell us) the division is still for sale, despite corporate comments to the contrary. Our sources tell us that Take-Two Interactive is the latest front-runner to buy the division, although the parent company of *Grand Theft Auto*'s developer still does not want to pay the \$1 billion Vivendi now hopes to get. (Earlier in the year, Vivendi was asking for more.)

The price might be a bit less than it was last month. Despite the success of its most

recent *Simpsons* game (*Hit & Run*) and the imminent arrival of some highly touted titles (like Sierra's *Counter Strike: Condition Zero*), the division released lousy earnings for the quarter, down 54 percent from the same quarter last year (although it's only a 39 percent drop if you factor in currency fluctuations).

The games division of Vivendi Universal has lost 110 million euros so far this year, which is over 100 million more than it had lost after three quarters last year. In official documents, the company blamed price protection discounts and increased returns for

the shortfalls.

"VUG's operating performance is expected to remain depressed in the fourth quarter of this year," said the release accompanying the results. What is the company's response? "A restructuring plan is currently being implemented." Restructuring is a euphemism for layoffs, which have been reported on FuckedCompany.com and other unverifiable bulletin boards across the Net. (A Vivendi spokesman declined to comment.) If a sale is close, Vivendi seems to be doing exactly what a tough buyer would demand of it. ■

# Editor's Note

As online game use increases, what do players want?

The big news about the massively multi-player online game *Star Wars Galaxies* is that someone has become a full-fledged Jedi. Nearly all of the hundreds of thousands of players have more menial roles (such as busing tables at Mos Eisley), but at least one person now has a lightsaber and the Force.

Online discussion groups are full of players who are unhappy that there are so few high achievers for such a highly populated game (hundreds of thousands of players, one Jedi). Unless it becomes easier to achieve Jedi status, their reasoning goes, players will disappear. Players don't want to serve Luke Skywalker or Han Solo; they want to *be* Luke or Han.

This isn't necessarily so. Those who

## NOT EVERYONE INDULGING FANTASIES ABOUT BEING LORD OF THE VIRTUAL REALM IS A MISFIT IN THE REAL WORLD.

remember the mid-'90s heyday of celebrity chats on AOL know that the snide side comments between audience members were often more entertaining and lively than the official question-and-answer part. Similarly, MMORPGs are famous for generating

### WORLDWIDE GAMERS ONLINE IN 2008 PC VS CONSOLE

**80%** PC gamers

**20%** Console gamers

### DIVISION OF GAME HOURS SPENT ONLINE IN 2008 PC VS CONSOLE

**62%** PC hours

**38%** Console hours

From the DFC Intelligence report *The Online Game Market 2003*

teams of players (sometimes official teams, sometimes loose affiliations) who keep to themselves and comment on the larger action without feeling they have to be heroic.

But how big is the audience of people who don't play online games because they want to be stars? Wedbush Morgan analyst Michael Pachter says, "It's a limited market. For 90 percent of the potential gaming audience, game are like movies. Sports games are the one true exception, but there's a limit: 3-on-3 teams, maybe 4-on-4. It's analogous to guys getting together on the weekend to play football. When it gets too big, it's not that fun anymore. And who has time to play any of these games? Parents don't have time to play *EverQuest* or *Ultima*. Only social misfits have time to

play 36 hours a week."

"Social misfits" is a bit strong—there are many players indulging fantasies about being lord of the virtual realm who still have adequate power in the real world—but it does emphasize that in the current crop of online games, players can't get far unless they devote lots of time to the game, even if they only want to be part of some barbed virtual Greek chorus.

Online games may represent a circling back from videogames to pre-computer-technology gaming. Historically, people have played games with other people. Solitaire is a rare but significant exception. But solitaire has been the model for PC gaming: solitary play. (After all, what's the first PC game most people play?) With online gaming, PCs may be embarking on a long-delayed return to more traditional forms of gaming.

Increased broadband penetration is good news for the gaming industry. (Imagine cleaning up after Jabba the Hut on a

### UP/DOWN

#### Activision

Despite the umpteenth *Doom 3* postponement, the success of *True Crime* and the latest *Tony Hawks* helps the company raise guidance for the fiscal year.



#### Ubisoft

Despite a strong set of games new (*Beyond Good and Evil*) and revitalized (*Prince of Persia*), only *Rainbow Six* seems to be making a big noise at retail.



28.8Kbps connection.) It's a challenge, too. As broadband becomes the default method of home Internet connectivity—a reasonable assumption in the long run—online games will no longer be value-add extensions, as they are in current console offerings from Microsoft and Sony. Indeed, an online component will become a necessary part of a game.

Ken Goldstein, executive vice president and managing director of Disney Online, says, "Playing with other people online will become one of the costs of entry when you're launching [a game]. It's a bonus feature now, but eventually, we'll have to build it into the cost of the product." So in the end, it might not be the revenue aspect of online games that matters so much as the cost. In other words, it won't be that an online game is something special. It'll be that a game without an online component feels like it's missing something. And the very term "online game" may disappear. ■

### CHAIN SHOPPING

Tech-savvy gamers go to Best Buy and Toys "R" Us, while bargain shoppers turn to Target and Wal-Mart, according to a report this month from Forrester Research. The most telling finding for game marketers: Wal-Mart regulars spend the least each month on videogames, but they're the most loyal of the bunch.

# Too Soon to Verify

The hottest industry tips, unfiltered

*Editor's note: Throughout Gaming Industry News, we endeavor to stick close to the facts and make assertions based only on the evidence. But not here. Every month in this space, we'll report the juiciest of stories—those we're pretty sure won't get us sued...or you fired.*

Since most everyone agrees that the fat years of the current console cycle will soon be behind us—U.S. Bancorp Piper Jaffray has pinpointed spring 2003 as the midpoint of this cycle—everyone wants to know when the next one will begin. If you believe Jaffray's timeline, the new devices will arrive in the fall of 2006, a long way off.

Rumors of much earlier introductions are heading our direction. Our sources tell us that this coming May will be the big month. Nintendo has said publicly that it will unveil an “unconventional” gaming device at E3. Its competitors are planning some sort of behind-the-curtain demonstrations at both E3 and the Game Developers Conference in March.

## WHAT ARE THE BIG THREE UP TO? HERE'S WHAT WE'RE HEARING.

Nintendo officials have emphasized that its new unit is neither a next-generation GameCube nor a new Game Boy. Two people have told us that Nintendo of America's top execs have only recently been told what it is. Of our four reasonably well-placed Nintendo sources, three told us they think it's some sort of powerful portable to hold off the challenge of Sony's PSP. “Powerful” means new features, and we're hearing noise about Nintendo executives meeting with handset makers about either licensing the Game Boy OS to phone manufacturers or developing next-generation Nintendo-branded handhelds with phone capabilities built in—as if BlackBerries weren't addictive enough already.

One correspondent, from a publisher that used to develop heavily for GameCube, says he's heard the device is an add-on to the existing console, not something new. “Maybe they'll finally get their online story

straight,” he says. “Do you know anyone who does anything online with a GameCube? Didn't think so.”

Microsoft has been revealing information about the next Xbox to important clients and partners behind closed doors, although those who remember the original Xbox unveiling back at GDC in 2000 know that what Redmond reveals a year and a half before release bears little resemblance to the final product. (We're still waiting for the promised Xbox version of *Ready 2 Rumble!*) Two people have told us that Microsoft is aiming for a Christmas 2004 release, which longtime Windows watchers know is code for a Christmas 2005 release at the very earliest. We've also heard that development kits for this are much further along than those for the next-generation PlayStation.

Regarding first-generation Xbox compatibility on the new machines, which we've covered elsewhere in this issue, the consensus is that it's a priority and Microsoft will work it out, most likely via software emulation. However, there are mixed reports about how the new device will handle storage: One correspondent says there will be no hard disk, another says it will be available only as an add-on, and everyone says low-price memory cards will be deployed “throughout.” There's also consensus that some sort of wireless standard will be built in and there will be deeper integration of Xbox Live. That won't matter much unless Microsoft cuts a deal with Electronic Arts for EA games to run on the system. Both Microsoft and EA sources tell us the two companies are talking, but no one would tell us whether Microsoft is willing to change terms to EA's liking.

And what about Sony, the company that owns this console cycle? (Although it's worth pointing out that its dominance is being challenged this holiday season by GameCube, which retails for less than half the price of a PlayStation 2.) It doesn't seem to be in as much of a rush, in large part because it's focusing on its big 2004 introduction: PlayStation Portable. We hear

## UP/DOWN

### New Hardware Add-Ons

Everything from the Eye Toy for PS2 to the Xbox DVD kit is reported to be doing well.



### New Platforms

Everyone who uses the PDA/gaming combo unit Tapwave Zodiac comes away impressed. Its early developer support is promising, too. But even the stillborn N-Gage is getting more attention. And don't get us started on the Phantom or the DISCover console or....



a lot about Sony having something to show behind closed doors by GDC or E3, but we hear so many fewer details about PS3 than we do about the next Xbox that we're concluding it's not as far down the road. What little we're hearing trickling out—PSP connectivity, Eye Toy integration, all-around better integration with a variety of Sony hardware—is promising, but either our Sony sources aren't as good as our Microsoft ones or Sony is further behind in development. As one tipster put it, “Some say the PS3 will be ready in 2005, some say a year later. If you were the pace car at the speedway, wouldn't you want to drive as slowly as possible and enjoy being in front for as long as possible?”

But really, how quickly will any of this appear? Are any delivery promises believable? Let's look at Sony, which announced in May 2001 that it was working with America Online to bring its AOL service to PS2s. According to a press release earlier this month, the two companies are just now releasing it—31 long months later. According to Jaffray, that's nearly half a console cycle. ■

*Do you have specs of a new device you'd like to share? Make like your colleagues and sign up for an anonymous e-mail account and write to me at [Jimmy\\_Guterman@ziffdavis.com](mailto:Jimmy_Guterman@ziffdavis.com).*

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