

Next Generation Consoles

Games publishing,
hardware analysis and
forecasts to 2010



screen
digest

Next Generation Games Consoles

Competitive review,
publisher benchmarking
and global market forecast

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and global market forecast**

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1 Management summary

“There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things”

Niccolo Machiavelli, The Prince (1532)

- In the cyclical games console industry, the end of 2006 marks the middle of the transition phase between the previous generation consoles—Sony PlayStation 2, Microsoft Xbox and Nintendo GameCube—and the next generation: PlayStation 3 (which launched towards the end of November 2006 in US and Japan, March 2007 in Europe), Xbox 360 (launched late 2005) and Nintendo Wii (Nov/Dec 2006).
- Revenues are at a low point, with spending on previous generation console hardware declining steeply and software sales also falling—global spending on software for home consoles fell from a \$12.9bn peak in 2004 to a \$9.6bn low in 2006—as consumers look towards the new generation. Software revenues will not peak again until 2009 when they are forecast to reach \$13.9bn. That this barely exceeds the previous peak five years on suggests that the industry faces significant challenges in order to generate overall market growth.
- Third-party games publishers—such as Electronic Arts, Square Enix and Take Two Interactive—must now decide on which of the new platforms to support, without the benefit of knowing how successful each console will be. The early part of the console cycle is also the most costly—publishers must sustain rising costs for next gen development, investing in titles 2-3 years ahead of mass market adoption of the new hardware platforms. Screen Digest does not expect mass consumer uptake before late 2007, meaning publishers will not see significant returns on investment until at least 2008.
- Games publishers face development costs up to 50 per cent higher due to the step change in processing power and graphics capabilities of the new consoles - this applies in particular to Xbox 360 and PlayStation 3. PS3 games are expected to cost an average \$20m to develop over a 25 month period, with Xbox 360 titles averaging \$15m and 21 months—according to Screen Digest research.
- Nintendo is gambling on a different strategy with its Wii console: avoiding complex graphics and focusing instead on gameplay innovations with a new controller. This is reflected in much lower anticipated development costs: \$12.5m per title, taking 18 months.
- We also expect the importance of games development by the hardware makers to increase significantly in this console cycle. Microsoft is building up its internal capacity and Sony has doubled its development staff since the beginning of the PS2 era to ensure comprehensive software support for

8 Next generation software analysis

8.1. Introduction

Screen Digest has compiled and is maintaining a database of all next generation packaged retail console games. Individual titles are tracked and the data compiled includes:

- **Publisher**
- **Release date**
Where known, this is recorded on a quarterly basis. The date recorded is the first release of the game, regardless of territory.
- **Platform**
If a title is multi-platform with differing release dates by platform (eg, for timed exclusives), the different dates are recorded by platform.
- **Platform exclusivity status**
A title is deemed exclusive if it is unavailable on any other platform, including previous generation consoles, handhelds and PC.
- **Whether the game is based on new IP**
IP is deemed new when it has not been used in a video game previously. So IP which has been deployed in movie or other media formats counts as new IP if it is the first time it has been used to make a video game. Naturally some IP is exploited in more diverse ways than others eg, “Tom Clancy” has been used in *Splinter Cell*, *Ghost Recon* and *Rainbow Six*, each of which could conceivably

be counted as new IP in its own right; “Mario” has been deployed by Nintendo in a huge variety of games comprising 2d-platformers, RPG’s, numerous sports titles and even a dance mat rhythm action title. In these instances Screen Digest have taken the top-line IP as the indicator of whether it is based on new IP or not, because it is recognition of this (Tom Clancy rather than *Ghost Recon*; Mario rather than *Mario Strikers*) which is predominant in driving sales.

- **Franchise historical sales of over five million units**
Whether the IP the game is based on has generated over 5m unit sales historically. Akin to our attitude to new IP, Screen Digest consider the top level IP as significant even if the games themselves display variation in type, genre etc.

In addition, Screen Digest will also track online aspects of all next generation titles. In addition to the data above, Screen Digest will gather data on whether titles:

- include online multiplayer
- offer subscription-based gaming
- offer alternate models of charging for game content eg, microtransactions, episodic gaming content



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