

Some Christmas '07 Thoughts!

Santa and his reindeer seem to show up earlier every year, or at least that is how it seems to this f@#\$%*& old guy.

But although the years seem shorter, when you look back on each one -- as all of us have a tendency to do at this time of year -- it does seem pretty amazing how much gets done in a year's time.

2007 was a great year for independent developers in general as more platforms solidified their position in the marketplace and generated the publisher confidence necessary to drive more development projects. At the same time, digital distribution allowed some developers to pull down publisher-sized royalty streams, and some of those same developers who said they would never sell were sucked into the acquisition vortex.

Sure, some smaller publishers complain that the manufacturing vig they have to pay to Sony, Microsoft, and Nintendo makes it nearly impossible for them to make money, but the looming head-to-head war between EA and Activision Blizzard will, if anything, leave even more room in the market for smaller solid performers who don't need to swing at the big green monster on every project they produce.

It's the players themselves who are making this possible, because total sales show no signs of faltering and there were more million-unit-selling games in the last 12 months than in any other year in our history, and more 250,000-unit-sales as well, which is where many, many of us pay our bills.

From a developer's point of view, not many \$15-million development budgets recoup and generate extra profits, but a lot of \$5-million-and-under budgets have a good shot at it as long as you cut the right deal with the right partner.

Reminiscing is nice, and hindsight is generally pretty good, but the other thing that a lot of us do at this time of year is to take the downtime from mid-December to mid-January to think about what it all means for next year. That's where things can get pretty interesting ...

2008 is shaping up to be a bit of a mixed bag for a lot of different reasons. The easiest way is to look at it by platform.

Despite continued strong sales of Nintendo DS hardware, a lot of publishers rushed product to market (including a LOT of value product) once the uptake began. So now retailers have a glut of DS titles, so many that we have seen quite a few stores displaying product spine out, which effectively kills a lot of impulse buys because people just alphabetically pull the title they went in to buy in the first place and don't even bother to look through the

rest. Because of this, even the best titles from third-party publishers have generally underperformed original sales projections. If that trend isn't reversed in the holiday sales numbers, expect a slowdown in green lighting new DS projects in Q2 and Q3.

Publishers are also anticipating the exact same scenario for Wii titles coming out in Q4 2008. So although it remains the platform du jour right now, expect greater selectivity about which titles get the go-ahead in the coming year. To offset this slight retail contraction, there is definitely a strong movement afoot to heavily support WiiWare. Publishers are not happy at Nintendo's announced 35/65 split, about 15 points on average more than they are paying to Microsoft to be on XBLA, but developers, particularly Gamecube-experienced developers like Santa Cruz Games, are seeing a huge opportunity to pair up with brands and IP owners and bring products to market with much lower breakeven points than they typically enjoy. Things to watch in particular are children's titles. Even two-year-olds delight at making something happen onscreen by flailing around with the Wiimote. Hot Rocket and others are confidently moving down this path. Also, expect technologies like Action XL's Firepad, which brings Wiimote-like control to the PC platform, to allow for more cross-platform releases of titles specifically designed for the motion of the Wii to move to PC without compromising those key interactive design elements.

Xbox 360 remains a mainstay of next-gen development despite continued problems achieving the penetration Microsoft wants in Asia. Hey, they did beat Sony on hardware sales for one month, but it was a short-lived victory. XBLA continues to be a model platform for community-based, multiplayer, downloadable digital content, but the rush to retro is over now and the trend for 2008 and beyond will be bigger downloads (up to 150 MB) and fewer, not more launches. Expect the trend toward high price points -- of which our Puzzle Quest title from Infinite Interactive and D3P was the test project -- to continue unabated. The good news is bigger returns for those who get to market; the bad news is that there is definitely going to be at least nine projects which never see the light of day for every one that does. If mobile developers and publishers think the competition for good deck placements with carriers is tough, they ought to try this one on for size.

Sony's PSN network, despite doing cool stuff for smaller titles like Flow and Everyday Shooter, is also already moving down a path of more conventional, larger, console-type games for download, but delivering them in episodic form.

One thing is clear in the approach each of the three major hardware manufacturers is taking on their digital distribution platforms ... exclusivity is once again important. Sony was hardest hit in the recent round of hardware launches by the lack of sufficient exclusive content to help drive system sales, but all three of the majors seem to be seeking more exclusive content moving forward. These do not have to always be full exclusives, but the minimum seems to be a six-month platform lead time before other SKUs can be released.

Mobile game development is still looking to fully realize its potential. No one argues against the fact that cell phones are the most ubiquitous gaming-capable platform in history, but the carriers themselves remain the biggest impediment to really maximizing this market. Branded games continue to drive the majority of sales, not necessarily because they are the best games, but because they are the ones that get the best deck placements by the carriers. Independent developers are finding it more and more difficult to leverage good original IP that they have created, and work-for-hire projects from the major publishers are 50% fewer in total than they were a year ago. The good news is that, after significant downward pressure on the average development budget in 2007, market penetration of higher-end handsets is beginning to reach critical mass so that everyone is expecting higher average development budgets in 2008.

And then, of course, there is the matter of currency-conversion rates which are impacting development across the board. The teams in the UK have had a rough couple of years competing with other geographies because of the strength of the pound Sterling. According to some studies I have read, hundreds have simply ceased to exist or have recombined into other firms in order to survive. The biggest buyers remain North American-based and now, with a weak dollar, there is less impetus to work with European-based development studios in general. Those who do outsource seem to be looking to Asia more and more, but the propensity toward strong English-speaking development groups remains a primary concern. And, in general, teams in North America working with US dollars as a primary currency are going to enjoy a pricing advantage they haven't had for some time, in addition to the convenience of geographic proximity. Everyone else really needs to ratchet up the customer service to remain competitive as well. Oh, and look for increased presence from teams based in Taiwan, Thailand, and Latin America especially.

We here at FOG sincerely hope that our sharing of perspective gleaned from thousands of publisher and developer conversations over the last year helps each and every one of you to be as successful as you can be in the coming year. Competition is fine, but collaboration is better.

And one thing is clear from our 30-year vantage point. Those who don't deserve success will be discovered eventually, and everyone who does deserve it only makes the whole industry stronger for everyone, not just themselves.

Have safe and blessed holidays everyone, and lets go kick some collective asses in 2008. Good hunting to all ... and to all a good night!