Online Games: The Future Is When?

Despite glowing predictions about this growing niche, many obstacles must be overcome before online games are a consistent moneymaker. By Brad King.

ONLINE GAMES, THE latest craze for the rapidly expanding video-game industry, still face a series of growing pains.

Despite a growing base of players, a host of questions have given companies pause when it comes to online games, ranging from bandwidth issues to the high cost of developing games to determining how much gamers are willing to pay.

But the companies that overcome the challenges will be richly rewarded, especially if predictions of $1.5 billion a year in revenues are anywhere close to being realistic.

Such a big prize has made online games a hot topic. With 114 million people worldwide predicted to play by 2006, according to DFC Intelligence, the time may soon come when online games consistently become profitable.

The success of online games hinges on the continued increase in players. So far, as growth continues, a small handful of hit online games -- Ultima Online, EverQuest, Lineage and Dark Age of Camelot -- continue to move toward the $100 million revenue goal, which comes from monthly subscriptions and retail sales of the game itself.

That kind of revenue has Microsoft, late into the home gaming craze with its XBox, ready to pump $2 billion into the development of its proprietary online service, X Live. The goal: Create a one-stop store where players, for a single monthly fee, can play as many games as they want.

Microsoft's move marks a drastic change in online gaming.

Today, the console-game companies -- particularly Sony and Microsoft -- push online gaming, despite the fact that the only successful games are PC games. However, some of this year's most-anticipated titles are online games for the console.

Sony's SOCOM: U.S. Navy SEALs comes with a voice interface, retailing for $60 with no monthly fees. LucasArts is unveiling its first online adventure, Star Wars Galaxies.

With so much money being poured into online games for the consoles, some think the future of online gaming is here. Still, there are skeptics not ready to believe the hype.

Nintendo, locked in a death struggle with Microsoft for the No. 2 spot in console sales worldwide, has almost entirely eschewed online gaming for what it calls "connectivity," a new platform that allows people to transport their games between the company's mega-popular Game Boy Advance handheld and its GameCube console.
"The profitable part of the online business is very likely several years away," said Satoru Iwata, recently promoted to president of Nintendo. "Entering the business because it's the hot topic of the day doesn't make a profitable business nor satisfy customers."

Nintendo's brass isn't alone. Electronic Arts, a third-party developer of games like Madden NFL 2003 and the new immersive world Battlefield 1942, a PC-based World War II simulation, is cautious after watching its highly promoted Majestic game flop after a few months last year.

Flops like Majestic, along with the dozens of other titles that disappear quickly each year, are indicative of a larger problem.

"The same analysts, who today talk of online games generating $1.5 billion by 2005, forecast five years ago that online games would generate, you guessed it, $1.5 billion by 2002," said Douglas Lowenstein, IDSA's president, at this year's Electronic Entertainment Expo in Los Angeles last May.

Online gaming is far more difficult than just slapping together a cool world. In the mid-'90s, 150 games were put into production, according to DFC analysts. Of those, only a tiny fraction ever made it to retail, and only one, Ultima Online, made a dent in the commercial marketplace.

About $300 million was essentially thrown out the window in the grand pursuit of the mighty online game at the end of the '90s.

"There are always a lot of games in development, but most just won't come to market," said Mark Jacobs, CEO of Mythic Entertainment, which runs Dark Age of Camelot. "It's a pretty standard rule in online gaming that 25 percent will get killed early on, 25 percent will get killed due to internal problems, the remaining 50 percent will come to market very late, leaving only a handful of games to compete for the top slots."

Today, the market is so unpredictable that the broadband providers -- AT&T, Microsoft, Earthlink and America Online -- that would most benefit from increased online gaming have shied away from reaching out to gamers. The companies are wary of players who hog bandwidth while playing graphic- and sound-intensive games for long periods of time.

Earthlink does offer a gaming-specific package but it just bundles high-speed service with a static IP address, a necessary function for a player to continually log in to online worlds.
Online games, which are best suited for high-speed networks, face a penetration problem as well.

There are 8 million American homes with broadband connections, according to the Federal Communications Commission. While that figure continues to climb, it means that, for now, less than 5 percent of the 174 million Americans online last year gained access to the Internet through DSL or cable modems.

People still prefer their modems, and the slow connections limit the types of games that can be played.

The topper is that with all the technological advances in graphic designs, Microsoft's $2 billion commitment to developing an online console-gaming environment, and a new batch of developers creating games as fast as they can, the oldest problem in the industry still exists: Who will pay what?

It's the same problem that faced Roy Trubshaw and Richard Bartle, the first people to release a multi-user dungeon in 1979. The early online text game took place in chatrooms and charged users $12 per hour to play Islands of Kesmai on CompuServe. Jacobs, meanwhile, countered that with a $40 flat-rate fee for Aradath, his precursor to Dark Ages of Camelot.

For now, monthly subscription services, or some variation of a continuous payment model, are the flavor *de jour* over games that can be played for free after the initial purchase.

"In the beginning (with free play), you make a killing because people are buying the games," Jacobs said. "But in a year, those copies come back to haunt you. Pay-for-play companies can continue to support their games every month that goes by, because they continue to see profits."
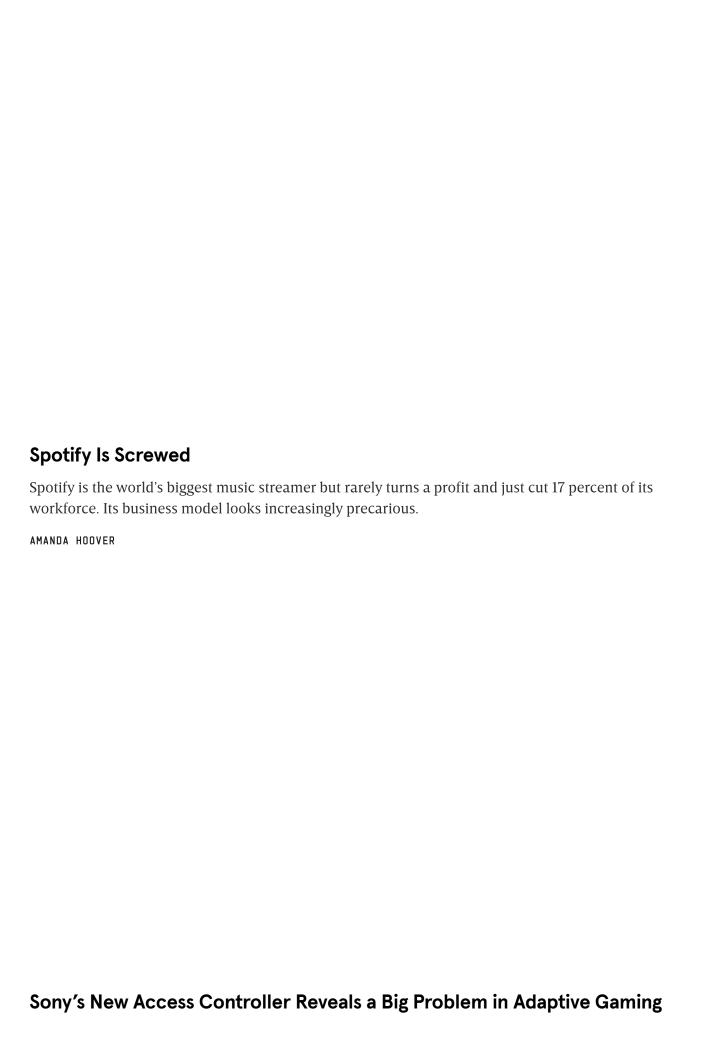
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