From technology to entertainment
The evolution of the games industry

It was the autumn of 1979, and a group of teenage boys were crammed inside a tiny room at the back of the school they attended. Apparently oblivious to the odour they were collectively emitting, they stared intently at the small cathode ray screen of a Wang computer.

In turn they were playing a computer game written by one of their number and given the name 'Fly Swat'. This consisted of two flashing dots; one (the fly) was randomly generated and moved by the computer and the other (the swatter) was moved by the player. The aim of the game was to move the swatter dot on top of the fly dot and so 'swat the fly'. A counter timed how long it took a player to complete this task and from this, a paper leaderboard had been created.

At least two of those present in that room would go on to a career in computer game development and several others to senior IT roles in global financial services organisations. At the back of the room stood the author of this article. His programming skills had never amounted to much and he would instead go on to pursue a career in law. However, through a rather circuitous route, he ended up as a games lawyer.

Developments in technology

Looking at a leading PC, console or even mobile game, it is easy to forget that the creation of that game involved a long, complex and expensive software development project. From its earliest days, game development has been at the leading edge of software development. Programmers needed to code in a way that made full use of the limited processing power, memory and graphical capabilities of early games machines such as the Commodore Amiga and Atari ST.

Over the past thirty years, games and the hardware on which they are played and delivered have of course come a very long way. Today the games industry is big business, worth over US $100bn, and forecast for a level of continued growth that is considerably higher than many other industries.

Of course the speed of technological development has not just fuelled the growth in the games industry, but also been the source of frequent changes to it. In particular, the move from one generation of games console to the next has presented companies with significant technical and business challenges. From a technology perspective, each generation of console brought new architecture and increased processing power that had to be understood and utilised; from a business perspective, companies had to spend increasingly large amounts of money developing games for a console in the hope that there would ultimately be a sufficiently large installed base of that console to support an adequate level of sales.

Some executives in other publishing industries may point out that being an industry born out of digital technology, the games industry has never experienced the transition from analogue or paper to digital. Of course initially this transition produced a significant dividend for other publishing industries, given that the move from, say, vinyl to CDs or VHS to DVD provided an opportunity to sell the same content on a different format. They only began to feel the real effects of technological change with the shift from physical products to digital distribution and streaming, a change which of course has had a dramatic impact on the music industry.

The increasing pace of change

The games industry has also had to face the transition from a business model of selling products in boxes to retail, to one of selling to consumers direct through online games or through digital distribution platforms such as Steam and the App Store. In addition however, the nature of what is being sold has increasingly moved from products to services. Twenty years ago publishers lamented the fact that games had little or no shelf life, but now they are having to adapt to the ongoing development and support services and mind-set that the games-as-a-service model requires.

Alongside this, the revenue models have changed. The growth of free-to-play has required the games industry to learn new skills such as data analytics and monetisation techniques. In turn, the availability of high quality content for free has added a

degree of price pressure on premium content. Although development costs have increased, the price of premium games has not, meaning that publishers have needed to become increasingly creative in monetisation premium content. There are clear signs that this will meet additional regulatory scrutiny, such as that which led to the UK consumer regulator investigating in-app purchase (IAP) practices and, more recently, the concerns raised in some countries about 'loot-box' mechanisms.

But the cycles of platform changes have lengthened, and game engines such as Unreal and Unity have done much to reduce production risks. This has not only enabled game development teams to focus more on making great games, but also made game development more accessible to other creative professionals.

As games have reached a technical level that make them of cinematic quality, so there is a greater focus on the other ingredients that make a great game, particularly around artwork, music, story and, above all, gameplay. Consumers have become so used to stunning graphics, frame rates and physics that for most this is almost as unremarkable as the special effects they see in films. A technically deficient game has become more of an exception and the proliferation of online forums means that any publisher releasing such a game will soon know the ire of the gaming community.

This has brought about a more fundamental change; over time the games industry has become less of a technology industry and more of an entertainment industry. Put another way, one might say that the centre of gravity of the industry has shifted from Northern California to Southern California.

Technology of course will remain vitally important. Indeed, even in the film industry an introductory sequence at a cinema and the credits at the end are likely to feature some of the technologies used in the screening or production of the film, such as Dolby or Panavision. But few if any people will choose to see a particular film because of these elements.

Games meet Hollywood

For most of its existence, the games industry has to some extent lived in the long shadow cast by Hollywood. Films (or movies) were serious business, but games were, well, just games.

In part this was the natural consequence of games being a much newer and smaller industry. But this was not the only reason. Few outside the games industry would have recognised games as having any particular creative or cultural significance. Although there were original games, many of the most successful games were based on IP created or popularised in films and the game version often added little creativity to the process. On the relatively few occasions when films have been based on IP from the games industry, the resulting film has not been particularly successful, either financially or creatively, although again there have been some exceptions (one example sometimes given being the film version of *"Resident Evil"*).

Furthermore, game-playing was regarded as purely a solitary activity of young males which, at best, was unproductive and at worst, a cause or contributor to violent and criminal behaviour.

The position today is very different. From a financial perspective the global revenues of games exceed those of film. More significantly perhaps, not only has the number of people playing games increased but the demographic of game players has changed, with increasing numbers of female gamers and older gamers.

Can the film industry learn anything from games?

Games are now widely recognised as having a significant cultural contribution (although in the UK it took many years before the UK government agreed to extend the creative tax reliefs to cover game production). Game playing has also increasingly become a multi-player and community experience.

However, the industry still has some way to go. Film still dominates the popular press and the games industry has no real equivalent to the Oscars or BAFTA. Cute as they are, Mario and Princess Peach struggle to compete with the likes of Ryan Gosling and Emma Stone. The 'stars' that are emerging from the industry are YouTubers and esport players, and not many people outside their immediate fan base will have heard of people like PewDiePie or Jaedong.

At its root perhaps is that few games manage (or even attempt) to engage the emotions of players in the way that a film can that of an audience. Again, there are exceptions (such as *"The Last of Us"*) but they are rare. As the saying goes, "Those who tell the stories rule the world" and film is all about telling stories.

Of course these differences are largely inevitable consequences of the different nature of these forms of entertainment. There is also no reason why games should try to imitate the characteristics of films. However, even here things are changing. For example, an increasing number of writers have become involved with game projects and the industry has engaged more 'talent', such as actors, musicians and voice-over artistes.

Indeed, it is arguable that it is now Hollywood that has more to learn from the games industry. The games industry does not carry the historical baggage and practices that burden parts of the film industry and that are (at best) archaic. It has also gained a lot of experience in selling entertainment services to consumers with all of the data analytics and monetisation techniques that this involves. By contrast, advertising and marketing campaigns for film releases now look a little dated and the film industry has been slow to accept that fewer films will draw people to a cinema.

Enter the FAANG companies

In addition, just as the games industry has moved from technology to entertainment, so technology is disrupting the film industry. In particular, the SVOD platforms are having a dramatic effect. This was illustrated very recently by the Disney / Fox deal, as one of the key drivers would appears to have been Disney's desire to acquire a larger pipeline of content to exploit on the SVOD platform it is launching in 2019.

Indeed, the entire studio model has come under intense pressure from the leading technology companies, namely Facebook, Apple, Amazon, Netflix, and Google (or the FAANG companies as they are collectively known). The most obvious disrupters may have been Netflix and Amazon, both of which are investing huge sums of money in content production. But they are not alone. Apple is also starting to flex its considerable financial muscle in the marketplace. After hiring Jamie Erlicht and Zack Van Amburg from Sony TV in early 2017 to set up the originals division at Apple, it has recently hired a string of executives from Amazon, Legendary and Hulu to build out the content division.

For the moment, the FAANG companies have not paid quite the same attention to the games industry, but this will change. Not only is games a major industry in its own right, but games have always had a strategic significance of even greater importance. Invariably, games play a leading role in the introduction of a new device or platform or in reaching a new generation of users. The talent pool in the industry, not just in development but also in commercial skills such as user acquisition and monetisation, will become increasing valuable. The FAANG companies will also be aware that in games they are some way behind Tencent, which has gradually developed and acquired some very significant games related interests.

This will once again raise speculation about the possibility of a FAANG company acquiring either Microsoft Games Studios (MGS) or Sony Computer Entertainment (SCE). It is hard to see either Microsoft or Sony wanting to sell these divisions; for Microsoft, MGS is its one consumer facing division and for Sony, SCE has become its key asset. However, for almost opposite reasons both could happen. Within Microsoft it is unlikely that MGS will ever manage to achieve the level of profitable of Office; within Sony, SCE will significantly outperform consumer electronics where margins are low. And if one were playing fantasy M&A, Nintendo might be an interesting fit with Apple.

The future is bright

Consumers have never had so much choice. Even in this age of multi-screen consumers, there are only so many hours in the day and therefore a lot of competition for attention. However, with an increasing number of retired people and, further away, when advances in AI have reduced the number of hours in a working week, so there will be more hours to fill. Overall, the business of producing and exploiting entertainment content will be a great place to be.

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