

# Who Needs a Publisher ... or a Retailer or a Marketer?



➔ **Chris Swain**, *USC School of Cinematic Arts*

**Digital distribution platforms enable creators to connect directly to audiences.**

**I**n 1992, my boss, Robert Abel, fell ill the morning he was scheduled to deliver a keynote address at a big engineering conference in Los Angeles. So he sent me to speak on his behalf. I was 23 years old and didn't know any better. If you know Abel, the beginning of this story probably doesn't surprise you.

Onstage, I faced a sea of engineers sitting with arms crossed and jaws set. They were not pleased with the last-minute switch—especially considering Abel had sent what looked like an undergrad to talk to them about the future of media.

## COLUMBUS'S NEW WORLD

I put on a smile and showed the software project we had just completed: Columbus, an interactive documentary project created with funding from IBM that included hours of video and thousands of stills and text articles, all conceptually linked. We debuted this at a time when seeing video on a computer was a fantastical experience, and when software engineers didn't mingle with filmmakers, writers, or graphic artists.

After the demo, I talked about details of the production such as

databases for tracking media files, a pipeline for mass scanning images, 1-Gbyte hard drives, and so on. It was exotic stuff, and during the Q&A, an engineer said, "It sounds like the engineers and creatives are intermixed in your company—one person often does both jobs. Is that where this is going?"

I said it was. In the future, engineering and the arts would intertwine. Software and media would converge. Columbus represented a big and potentially scary cultural shift for both engineers and artists.

Today, engineering and media cultures do indeed combine in entertainment computing productions. A shared culture has emerged. All day long, team members at all levels make judgments that are both inherently technical *and* creative. Technology largely enabled this cultural shift from the early 1990s to today, with the analog media formats all becoming digital and the space for interactivity now being explored.

All this shows that what seem to be unassailable—even logical—barriers between cultures in the present do change over time. Technology typically sparks these changes, and those who perceive them can seize such

opportunities. Just as remembering how compartmentalized engineering and art cultures once were is difficult, today it is hard to imagine the next big decompartmentalization: the coming cultural shift in which individual creators—the engineers and artists who actually build digital content—will be more intertwined in the realm of business and the monetization of their work.

Individual creators, including kids in their bedrooms, will and already do own viable intellectual property. Digital distribution fuels this technology shift. Enlightened distribution platforms, such as the iPhone App Store ([http://store.apple.com/us/browse/home/shop\\_iphone/family/iphone?mco=3587D031](http://store.apple.com/us/browse/home/shop_iphone/family/iphone?mco=3587D031)) and Xbox Live Community Games (<http://creators.xna.com/en-us/XboxLIVECommunityGames>), are expediting the shift by making it possible for creators to simply upload content as they would videos to YouTube, but instead they now sell directly to buyers just as if they were offering goods on Amazon Marketplace.

## TODAY'S NORM

Today a line exists between developers and publishers in the AAA

game industry. Developers create the products, and publishers finance, market, and distribute them. True, many companies that publish games also develop them: Electronic Arts, Activision, Microsoft Game Studios, Disney, among others. However, in those cases most individual developers are workers disconnected from the financial upside of the products they create. These individual developers, including top talent like Will Wright, Shigeru Miyamoto, Peter Molyneaux, and others, are employees of the publishers and do not own the intellectual property they create. In the cases where individual developers receive royalties from their products, such royalties are far lower than those received by the people who have analogous roles in film and television.

The current structure in AAA game production resembles how the film business worked in the 1940s. For example, the film studios literally employed the stars back then. Over the course of the 1950s and 1960s, the film business shifted so that individual talent enjoyed more control of their projects' creative aspects and also shared more in the financial returns. Hollywood shifted from a studio-oriented town to a talent-oriented town. Over time, games will shift from a publisher-oriented industry to a talent-oriented industry as well, with digital distribution being the factor that will most accelerate this shift.

## LEADING-EDGE DEVELOPMENTS

The iPhone App Store launched in mid-2008. More than 10,000 applications have already been uploaded by creators, who can set the price for their apps at anywhere from free to \$10, with many opting to sell for \$0.99. Apple splits the revenue generated by these apps 30-70, so that creators receive 70 percent of the

proceeds from their sales. When last I checked, this was the greatest publishing deal of all time. Contrast it with mainstream developers' 15 percent royalty structure for typical AAA game publishing deals.

The categories in the Apps Store include utilities, books, news, games,

**Microsoft shares revenue with the creator 30-70 as a baseline, which means that creators receive 70 percent of revenues.**

and others. Entertainment-oriented apps dominate the top-seller list. To date, Apple has delivered more than 300 million App Store downloads, including both free and for-pay applications.

Commercial successes include an app called *Ocarina* that turns the iPhone into a wind instrument like the one Link uses in Nintendo's *The Legend of Zelda: Ocarina of Time* game. A small group of computer scientists, music professors, and students created the game, which has sold more than 400,000 units at \$99 each. The group, which calls itself Smule—short for Sonic Mule—provides an example of creators who built content without a publisher's blessing and, thanks to the App Store, can directly connect with their audience. Marketing for *Ocarina* and other apps largely comes first from the Top Seller list on the App Store website and, second, via PR and word of mouth. Smule exemplifies the ideal of a creator culture empowered in business and able to monetize their work.

The Xbox Live Community Games system provides a second example from the leading edge. This content area for the Xbox 360 launched in late 2008. Creators upload their games via the XNA Creator's Club website and

must first pass technical validation and then several reviews. Peer reviewers—unpaid Xbox enthusiasts—check content for appropriateness and classify it according to the type of situations encountered in the game. Once the game passes these tests, it becomes available for sale directly on the console. Xbox Live has more than 10 million subscribers. Microsoft shares revenue with the creator 30-70 as a baseline. Like the App Store, this means that creators receive 70 percent of revenues, although Microsoft retains the right to alter the percentages in a variety of instances.

Exact sales figures for Xbox Live Community Games are not yet available. Nor have any smash hit games emerged. The creators at this point are generally students, hobbyists, and very small indie groups. The top-seller list for December 2008 included a blackjack game, a virtual fireplace, a word game, and several arcade platformers. The vision for Xbox Live Community Games as a platform to democratize development is sound, although it is too early to tell the extent to which the creator community will adopt it.

## BUILDING STEAM

A third leading-edge example is Valve Software's Steam, which currently has more than 15 million user accounts. This digital distribution network focuses on delivering AAA titles from the mainstream games industry. It lets players buy, download, and install AAA titles via the Steam website without having to access a retail outlet. Many publishers sell titles through Steam, including Electronic Arts, Activision, Epic, 2K, Rockstar, and THQ. In addition, some games from individual creators have been selected to appear on Steam. For example, solo developer Dylan Fitterer created the game *Audiosurf* and released it exclusively on Steam after winning recognition for his work at

the 2008 Independent Games Festival. *Audiosurf* went on to become the top-selling Steam game in March 2008.

Steam represents an interesting quandary for the AAA game industry. On the one hand, AAA game publishers can reap much higher sales margins on titles that sell through Steam because they cut out all the costs associated with retail. On the other hand, the brick-and-mortar retailers such as Walmart remain the number one sales outlet for games. AAA publishers are thus wary of ranking retailers and have adopted a policy of charging the same price on Steam that they do in stores. This leads buyers to continue their preference for retail sales because Steam does not provide enough added value to warrant a switch.

Publishers follow this same-pricing policy despite their ability to charge less on Steam and still reap better

margins than they would from retail. For example, for each \$50 game title sold at retail, the publisher receives approximately \$8.50 after costs have been deducted. Contrast this with the proceeds from digital distribution, wherein for each \$50 game sold on Steam, the publisher receives approximately \$30 after costs have been deducted. This is because digital distribution costs do not include retail markup, cost of goods, or return of goods contingency.

### THE BEST AND WORST OF TIMES

There is no stopping the tidal wave of entertainment software's digital distribution. The economics are overwhelmingly favorable when compared to retail, despite the problems mentioned. This is good news for consumers for several reasons.

First, in the near term, many individual creators have incentive to release experimental titles on platforms such as the iPhone and Xbox Live Community Games. Fresh and interesting titles will succeed, while titles that lack these qualities will fail. Individual engineers and artists who might never have had the chance to own their intellectual property will now be able to do so. This phenomenon creates a form of undirected research that fuels innovation and pushes the fields of digital media and games forward.

In the longer term, the success stories from indie creators will lead more seasoned talent to leave the mainstream in pursuit of projects that they can both control creatively and own. This will further expand the medium. Eventually, traditional publishers will figure out a way to release AAA titles and experimental titles solely online, at which point even more creative opportunities will emerge. That's the good news.

The bad news? With these shifts to digital distribution come tremendous marketplace clutter. An overwhelming number of creators

who risk everything to achieve their dreams will find that their projects ultimately fail. This problem will become more pronounced as time goes on. For example, right now there are 10,000 apps in the App Store after less than a year in operation. Given the platform's current success, there will soon be 20,000, 50,000, or even a 100,000 apps for sale, all vying for a piece of the digital pie. Consider how hard it is to make it as an independent musician, then imagine the higher bar of entry third-generation Apps will face.

iPhone's App Store creators are already lowering their prices to the minimum of \$.99 to attain better visibility with buyers. This is creating a proliferation of gimmicky, easy-to-produce apps. Creators who want to produce more substantial apps are wary of committing the funds to do so because they can't recoup their investment at \$.99 and they can't get necessary exposure in the iTunes store at higher prices. Apple must create much better means for filtering, promoting, and previewing App Store titles beyond what is currently available.

**T**here's never been a better time to be an individual creator of games or interactive media. Digital distribution platforms are creating great commercial and artistic possibilities for engineers and artists. The field is changing rapidly and becoming more vibrant each year. Ultimately, despite several challenges, quality will prevail, consumers will benefit, and talented individuals who bet on themselves will win. **■**

*Chris Swain is a game designer and assistant professor of interactive media at the USC School of Cinematic Arts. Swain focuses his more than 15 years' of industry experience on original play mechanics. Contact him at [cswain@cinema.usc.edu](mailto:cswain@cinema.usc.edu).*