

Starcraft: Ghost

Blizzard Entertainment's Entry into the Console Market

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Abstract:

In the computer gaming world, Blizzard means quality. The California-based software developer is known for continuously pushing back release dates, but such delays are a result of perfectionism on the part of game designers and coders. Blizzard Entertainment's accomplishments include the popular *Warcraft*, *Starcraft*, and *Diablo* series. It is difficult to overstate the success Blizzard has met with its titles- the *Starcraft* franchise has sold over nine million copies while the recently released MMORPG *World of Warcraft* has already surpassed the 1.5 million subscribers mark. When Blizzard's embattled parent company (Vivendi Universal) cut 30% of its North American staff in 2004, Blizzard Entertainment was specifically spared.

In September 2002, Blizzard Entertainment announced its intentions to publish *Starcraft: Ghost*, a console first-person shooter to be released on the Gamecube, Xbox, and Playstation. *Starcraft: Ghost* would not be ported to the PC. It was initially slated for release in late 2003. As of now, the release date has been pushed back to late 2005.

Blizzard's announcement raised a few eyebrows; *Starcraft: Ghost* was a radical step given that Blizzard was primarily a PC game developer, had never developed a first-person shooter, owed much of its success in the *Starcraft*, *Warcraft*, and *Diablo* series to the games' online multiplayer component, and was relying on a third-party developer for the expertise needed to create the game.

The question posed by this paper is whether Blizzard Entertainment should have chosen *Starcraft: Ghost* as its entry vehicle into the console market in 2002 and whether Blizzard Entertainment should continue its current course given the circumstances in 2005.

Background Information:

Silicon & Synapse was founded in 1991 by Mike Morhaime, Allen Adham, and Frank Pearce. It developed the console games *Rock & Roll Racing* and *The Lost Vikings*, which were published by Interplay Productions.

In 1994, the Silicon & Synapse changed its name to Blizzard Entertainment and was acquired by the distributor Davidson & Associates for less than \$10 million. Shortly afterwards, Blizzard released its breakthrough hit *Warcraft*, the first of a long string of successes.

Since then, Blizzard's parent company has changed several times. Davidson & Associates was acquired by CUC in 1996, CUC merged with HFS Corporation and formed Cedant Software in 1997, and in 1998 Blizzard was sold off to Havas in the wake of a massive accounting scandal by Cedant. Havas was then acquired by Vivendi Universal.

The following chart¹ gives a list of games developed by Blizzard:

Title	Platform	Year Released
The Lost Vikings	Amiga, Genesis, PC	1993
Death and Return of Superman	SNES	1994
Warcraft: Orcs and Humans	PC	1994
Warcraft II: Tides of Darkness	PC	1995
The Lost Vikings II	SNES	1995
Blackthorne	SNES	1995
Diablo	PC	1996
Warcraft II: Beyond the Dark Portal	PC	1996
Starcraft	PC	1998
Starcraft: Brood War	PC	1998
Starcraft 64 ²	N64	2000
Diablo II	PC	2000
Diablo II: Lord of Destruction	PC	2001
Warcraft III: Reign of Chaos	PC	2002
Warcraft III: The Frozen Throne	PC	2003
World of Warcraft	PC	2004

Data concerning the profitability of the titles is unavailable- however, a positive correlation between profitability and popularity exists. The following games have appeared on www.gamefaqs.com "Top 10 FAQ Pages" list in the past:

Warcraft: Orcs and Humans	PC
Warcraft II: Tides of Darkness	PC
Diablo	PC
Warcraft II: Beyond the Dark Portal	PC
Starcraft	PC
Starcraft: Brood War	PC
Diablo II	PC
Diablo II: Lord of Destruction	PC
Warcraft III: Reign of Chaos	PC
Warcraft III: The Frozen Throne	PC
World of Warcraft	PC

Of Blizzard's releases, its PC games were met with the most success. Furthermore, barring the original *Warcraft*, each one of these PC games had a multiplayer component.

On September 20, 2002, Blizzard Entertainment announced its intentions to publish *Starcraft: Ghost*. Due to Blizzard's relative inexperience in coding console games, the decision was made to develop the project out-of-house. Nihilistic Studio was chosen to develop *Starcraft: Ghost*. In June 2004, Blizzard announced that, for reasons undisclosed, it longer was in cooperation with Nihilistic. Although Blizzard did not elaborate on the reasons why Nihilistic Software was ousted, Blizzard president Mike Morhaine stated that the decision was made "to ensure that *StarCraft: Ghost* lives up to the standards that

¹ Data from www.gamespot.com

² Starcraft 64 was a direct port of Starcraft done by Nintendo and licensed by Blizzard Entertainment. Technically, Nintendo was the developer.

we set for all Blizzard games.” This suggests that Blizzard was not happy with the work that Nihilistic had done.

In July 2004, Blizzard announced that it had contracted Swingin’ Ape Studios to finish the work on *Starcraft: Ghost*. Soon afterwards, Swingin’ Ape announced it was looking for a senior engine programmer. The engine is one of the most fundamental design elements of a game- the idea that an engine programmer is needed suggests that Blizzard wishes to completely retool *Starcraft: Ghost*. In May 2005, Blizzard acquired Swingin’ Ape Studios, with Morhaime stating “The acquisition of Swingin’ Ape Studios takes us one step closer to realizing our goal of becoming a top-tier console developer.”

Elements of the PC and Console Game Industry:

There are four business segments in the PC/console game industry- hardware manufacturers, game developers, distributors, and publishers.

1. **Hardware Manufacturers:** The hardware manufacturers create the platform needed for the games. In general, computer hardware manufacturers exert little control over the development of PC games while console manufacturers exert heavy influence over the development of games for their respective systems due to licensing agreements. The success of a console depends on the reputation of the games (good games mean a good console), and therefore strict quality control exists.
2. **Game Developers:** The game developers are responsible for the actual grunt work that creates the games (coding, artwork, design, sound, and story-line).
3. **Publishers:** Video games can cost up to \$7 million to develop and success is by no means guaranteed. The publishers in the PC/console game industry act exactly as publishers do in the book industry- they provide seed money in return for a cut of the royalties (usually 80%). If the game is successful and the publisher recoups its initial investment, the royalties are split between the publisher and developer.
4. **Distributors:** The distributors are resellers- the publisher sells some number of copies to the distributor, who in turn sell the copies of the game to retail venues.

The business relationships between game developers and publishers are often convoluted. Publishers frequently own their own development studios, and therefore independent game developers approaching a prospective publisher could be approaching the owner of a rival game developer. Furthermore, publishers both compete and cooperate with each other depending on territory- the international nature of video games means that two publishers could compete against each other in the United States while having one publisher market the other’s game in Korea.

The difference between the PC and console game industry lies with the hardware manufacturers. In general, the hardware manufacturers do not affect game development in the PC game industry. While the processing power and graphics capability of computer hardware places limits on physics model or visuals, hardware manufacturers do not directly affect game development. Computers are open access, and anybody with

enough time, money, and talent can develop and publish games for the personal computer. Since computers are not standardized a large number of machine configurations are possible. Releasing a stable, bug free game that works on all possible systems is not an easy task. Given the lax controls, it is no surprise that the quality of computer games is extremely variable³.

Hardware manufacturers in the console game industry exert great influence over the games developed and published for their respective systems. Consoles are closed access, and only games licensed by the console manufacturer may be developed and published for that particular console. Console manufacturer usually own their own development studio (Nintendo, Microsoft, and Sony all develop first-party games for their systems). The standardization of parts in the console industry means that the platforms are much more stable. Due to licensing agreements and quality control on the part of the hardware manufacturers, console games tend to be of higher quality.

In general, the computer game industry is less stable than the video game industry. Shipping dates are missed more often, and occasionally entire games are put off indefinitely until they drop from public view (e.g. Duke Nukem Forever).

Console manufacturers generally lose money every time they sell a console system. Profits are earned via royalties from the games.

Genre and Demographic Data for the PC and Console Game Industry:

The different input devices of the computer and the console make certain games better suited for a particular platform. The pin-point precision of the mouse and versatility of the keyboard make the PC a natural choice for first-person shooters and strategy games. The clumsier but intuitive interface of the controller make the console better suited for action and sports games.

The genre breakdown of the computer game industry from April 2001 to April 2002 follows⁴:

Genre	Market Share %
Strategy	27.4
Children's Games	15.9
FPS	11.5
Family Entertainment	9.6
RPG	8
Sports	6.3
Racing	4.4
Simulation	4.1
Fighting	0.1

³ For an example of how bad a computer game can be, see <http://www.gamespot.com/pc/driving/bigrigsotr/review.html>

⁴ <http://www.rocsearch.com/pdf/Video%20Game%20Industry.pdf>

The age demographic data for frequent computer game players follows⁵:

Gamer Age (years)	Percentage
Under 18	35
18 to 35	26
Above 35	39

The genre breakdown of the console game industry from April 2001 to April 2002 follows⁶:

Genre	Market Share %
Action	25.1
Sports	19.5
Racing	16.6
“Edutainment”	7.6
RPG	7.4
Fighting	6.4
FPS	5.5
Adventure	5.1

The top selling console games of April 2005 follows⁷:

Rank	Title	Platform
1	Gran Turismo 4	PS2
2	Grand Theft Auto: San Andreas	PS2
3	Resident Evil 4	GCN
4	MVP Baseball 2005	PS2
5	Zelda: The Minish Cap	GBA
6	Mercenaries	PS2
7	Mercenaries	Xbox
8	NBA Street V3	PS2
9	Super Mario 64 DS	NDS
10	MVP Baseball 2005	Xbox

The age demographic data for frequent computer game players follows⁸:

Age (years)	Percentage
Under 18	46
18 to 35	35
Above 35	20

The higher average age of the computer gamer can be attributed to a number of factors. Computers are generally more expensive than consoles of similar specifications, as console hardware manufacturers subsidize their platforms in hopes of recouping losses

⁵ http://www.theesa.com/facts/gamer_data.php

⁶ <http://www.rocsearch.com/pdf/Video%20Game%20Industry.pdf>

⁷ http://www.npdfunworld.com/funServlet?nextpage=trend_body.html&content_id=2148

⁸ http://www.theesa.com/facts/gamer_data.php

through game sales. Computer games are generally more complex than console games, as the keyboard and mouse allows for more versatility and precision in game control mechanics. PC-exclusive MMORPGs (massively multiplayer online role playing games) require a credit card, monthly payment, and very long attention span to play and therefore have older gamer populations.

Computer gamers are generally regarded as more “hard-core” than their console gaming brethren. Given the ubiquity of internet access, most computer games today offer a substantial online multiplayer component that allows for infinite replay value (as opposed to a console based RPG that would end upon beating the game). MMORPGs are particularly notorious for the time commitment they demand- EverQuest was nicknamed “EverCrack” for a reason.

PC vs. Console Game Profitability

The general consensus is that the console game industry is more profitable than the PC game industry. As of 2004, console game sales rose 8% to \$6.2 billion from 2003, while console hardware sales declined 35% to \$3.7 billion from 2003. PC game sales decreased 2% to \$1.1 billion from 2003 to 2004. Retail PC game sales have been declining since 1998. As of 2003, total PC game sales represented only 17% of the combined console/PC game sales⁹.

However, console game profitability is achieved at the cost of hardware subsidization. At the time of release, the Xbox was selling approximately \$400 worth of parts for \$300.

Consoles are close to achieving technical parity with PCs, and currently the PS2 and Xbox feature online capability.

Six Forces on the PC/Console Game Developer:

1. **New Entrants:** For the PC game developer, there are no entry barriers other than reputation and starting capital. PC games are generally advertised by word of mouth through various web forums, and therefore developer reputation is definitely an important factor. PC game development also requires a fair chunk of seed money- a Pong remake will not sell well given the level of sophistication that modern PC games have achieved. For console game developers, an additional entry barrier lies in the contractual agreements between developers and hardware manufacturers. Not surprisingly, Nintendo, Sony, and Microsoft all want to see their respective platform as the “must-have” platform and therefore screen out any console games that would degrade their platform’s image.
2. **Buyer Bargaining Power:** The buyer in this case would be the distributor, who buys games depending on the predicted popularity of the game. The buyer bargaining power is very high. There are many PC/console game developers and the industry depends on big hits, which means a single game usually gobbles up most of the revenue- Electronic Arts blamed a 91% decrease in profit in the 3rd

⁹ http://biz.gamedaily.com/features.asp?article_id=8854#8854

- fiscal quarter of 2005 on, among other things, the release of *World of Warcraft* by Blizzard Entertainment.
3. Supplier Bargaining Power: The supplier in this case would be the artists, programmers, etc. that make the game. The supplier bargaining power is quite high, as coders and artists are needed to make a game.
 4. Substitutes: other leisure activities (e.g. watching TV, reading books, etc.)
 5. Complements: Computers for computer games, the appropriate console for console games.
 6. Rivalry: Competition is fierce, but with a caveat- the gaming industry is fairly fluid and mergers/spin-offs are common. As stated in earlier, publishers may publish titles for developers who compete against their own in-house development studios, and competing publishers in one territory could cooperate for distribution in another territory.

Should Blizzard Have Entered the Console Game Industry in 2002:

At first glance, Blizzard Entertainment had every reason to use *Starcraft: Ghost* as an entry vehicle into the console game industry. Blizzard had high name recognition, and therefore had an innate advantage over other companies and easily secured contracts from Sony, Microsoft, and Nintendo. The video game industry was more profitable than the computer game industry- at the time of release of the Xbox, Gamecube, and PS2, there was much debate over the supposed death of PC games¹⁰. Blizzard Entertainment had started as a console game developer with *The Lost Vikings*, and *Starcraft: Ghost* seemed to be the perfect vehicle for re-entering the market.

Though Blizzard was relatively inexperienced in developing video games, it had shown that it was able to adapt quickly. *Diablo* and *Starcraft* were entirely different games, but their implementation was flawless. Moving into the MMORPG market in 2004, *World of Warcraft* garnered more than 1,500,000 active subscriptions in less than six months, showing that Blizzard could move into new genres without much difficulty.

However, closer inspection shows several flaws with Blizzard's plan. Blizzard did not plan on developing the game due to its lack of experience- instead, Blizzard acted as the publisher to the video game developer Nihilistic Software. Nihilistic's only game on its track record was the D&D clone *Vampire - The Masquerade Redemption*, which was an average title at best. Given Blizzard's high expectations of the quality of all its games, it was unreasonable to license *Starcraft: Ghost* to a third-party developer with a sketchy track record and expect great results.

The demographics of the PC and console market were different, and therefore Blizzard could not rely solely upon its reputation as a marketing vehicle.

Blizzard's choice of an entry title is peculiar. FPS's generally do not do well on the console market- a video game controller is too unwieldy compared to the mouse and keyboard. Only two FPS's have had success on the console market, being *Halo* for the

¹⁰ <http://pc.ign.com/articles/092/092316p1.html>

Xbox and *Goldeneye* for the N64. In 2002, FPS's accounted for only 5.2% of the market share of console games.

Furthermore, Blizzard's previous success was due in large part to the multiplayer component. In 2002, Xbox Live had not been implemented yet and therefore online multiplayer was not in the picture.

Whether the PC game market was indeed dying was pure speculation. It should be noted that console game profits are cyclical and that the maturing of the Xbox, PS2, and GCN platforms from 2002-2005 drove the console game sales. As the release date of the next generation of console platforms near, the sales of console games should slow as gamers wait for the next generation of games¹¹. Computer games, on the other hand, have largely stable growth.

Therefore, Blizzard Entertainment should not have attempted to enter the console market in 2002 using *Starcraft: Ghost*.

Should Blizzard Still Enter the Console Game Industry:

Blizzard Entertainment has acquired Swingin' Ape Studios which has considerable console programming talent (Swingin' Ape Studios developed the sleeper hit *Metal Arms: Glitch in the System* which happens to be a FPS for the console.) With the new infusion of talent, Blizzard now has the in-house capability of developing *Starcraft: Ghost* itself.

In the E3 convention of 2005, Blizzard announced that the PS2 and Xbox versions of *Starcraft: Ghost* would feature an online multiplayer component. *Starcraft: Ghost* rode the coattails of *World of Warcraft* to high E3 exposure, and gamer interest was high.

Given that Blizzard has attained in-house production capability and has plans to introduce an online multiplayer component, there is no reason not to enter the market. Console gamers tend to buy more than one game (Microsoft, Nintendo, and Sony depend on this for profitability) and therefore, though *Starcraft: Ghost* will see incredible competition from Microsoft's *Halo* line, Blizzard can still expect to sell a good number of games.

However, the problem of timing remains. Blizzard Entertainment originally planned to release *Starcraft: Ghost* in 2003- it is 2005, and evidence exists that the game engine has not been fully completed yet. The Xbox 360 is rumored to be slated for release November 2005. Other console manufacturers will likely follow Microsoft's lead. Blizzard Entertainment should not release its entry vehicle into an outdated system.

Given the lack of information concerning the release of the next-generation systems, it is impossible to set a hard deadline Blizzard must meet to keep *Starcraft: Ghost* viable. If Blizzard Entertainment can finish *Starcraft: Ghost* relatively soon, it should do it by all means. Otherwise, it may be better to wait and release *Starcraft: Ghost* on the new platforms.

¹¹ <http://www.pwcglobal.com/extweb/newcolth.nsf/docid/152B12C821D261FE85256E28007668C9>