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The Netflix of gaming? Why subscription video-game services face an uphill battle

Many tech giants are betting that the subscription model will become dominant in video games. Yet the things that make gaming such an entertainment dynamo are problematic for these types of services.

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Recent announcements of new game-distribution services from Apple, Google, Microsoft, NVIDIA, and Tencent, as well as reports[1] of a prospective Amazon offering, have caused widespread industry speculation that video-game distribution could move from the still-dominant à la carte model toward Netflix-style subscriptions. If subscription services were successful, power could shift from game studios and publishers to a few digital distribution giants with massive scale and market share—analogous to the rise of Netflix in digital video.

However, comparisons with the TV and film business don't entirely hold up—digital subscriptions will not translate to video games easily. Gaming's unique consumption model and economics arguably make the challenge of altering consumer behavior to create all-you-can-eat offerings at massive scale a lot tougher than anything Amazon Prime, Hulu, and Netflix have faced.

Still, the stakes are so high—video games generated $120 billion in revenue[2] globally in 2019—that the recent service launches are probably just the opening gambits. Any of the players making (or contemplating) bets on such a seismic shift in distribution and consumption would be wise to keep in mind that video games have several characteristics that make them ill-suited to the Netflix model.

Games are increasingly open-ended experiences, each offering thousands of hours of entertainment

Until the early-to-mid 2000s, video games were primarily linear forms of entertainment: gamers engaged with the narrative, and most games had a clear beginning, middle, and end, very much like movies. That design framework has since dramatically evolved. Although some linear experiences still exist, engagement with today's most popular games relies, more often than not, on infinitely playable "loops," which can be competitive (for instance, play to improve, and climb leaderboards) or loot driven (such as collecting a never-ending set of items of increasing rarity and value to face a never-ending set of increasingly difficult challenges). These loops feed the digital identities and status of players within their online communities.

Such experiences, by design, never end, which is reflected in the astronomical amount of time devoted to top games. According to Steamspy.com,[3] players spend almost two hours a day, on average, in the popular MOBA game *DotA 2* and more than one hour a day in the online shooter *CS:GO*. When *Destiny* launched, Activision announced that players were spending, on average, three hours a day in it. More than 70 percent of *Fortnite* players spend in excess of six hours a week playing, and at least 20 percent spend 16 hours or more.[4] Since the average Netflix user watches it for just 18 to 27 minutes a day,[5] Netflix as a whole generates less engagement than any of these games individually, despite spending $12 billion a year to produce 1,500 hours of original content and to license thousands more.

Games are turning into free-to-play services and platforms

One of the main motivations for the transition from linear narratives to "live" products was the desire of the game publishers to stabilize and more actively control their revenues. The traditional model required risky, multimillion-dollar bets, with uncertain returns, in search of blockbusters. In the live model, game publishers have turned their products into services, constantly investing in frequent releases of new content, features, events, and competitions to keep players active—all supported by an obsessive focus on analytics-based decision making. Games that demonstrate

[1] Seth Schiesel, "Amazon pushes into making video games, not just streaming their play," *New York Times*, April 2, 2020, nytimes.com.
[2] Dean Takahashi, "SuperData: Games hit $120.1 billion in 2019, with Fortnite topping $1.8 billion," January 2, 2020, VentureBeat.com.
[3] A Steam API-based statistics website providing insights into PC player behavior on Steam.
[4] Rob Marvin, "Fortnite by the numbers: How many hours are you playing each week?," *PC Magazine*, October 2, 2018, pcmag.com.
[5] Travis Clark, "Netflix says its subscribers watch an average of 2 hours a day—here's how that compares with TV viewing," *Business Insider*, March 13, 2019, businessinsider.com; "Playback time: Which consumer attitudes will shape the streaming wars?," February 11, 2020, nielsen.com; "US: Netflix grabs the most attention, but its reign will be challenged," December 3, 2019, emarketer.com; Media Nations: UK 2019, August 7, 2019, ofcom.org.

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mass appeal become platforms and spur the creation of new communities: all-encompassing experiences with social, competitive, and personal-status elements.

To minimize initial barriers for new players, many games have embraced the free-to-play business model. Publishers are deeply committed to expanding their audiences and focused on the long-term sustainability of these businesses. They therefore willingly sacrifice upfront revenues (a one-time $60 payment or a monthly $15 subscription) for the longer-term opportunity to make money from usage, through microtransactions for in-game goods and services.

The world's most popular games in terms of hours spent and the number of active players and revenues are mostly free to play.[6] According to SuperData, for example, *Fortnite* generated $2.4 billion in 2018 and $1.8 billion in 2019,[7] despite being completely free to play. According to AppAnnie,[8] 99 of the top 100—grossing mobile games in the United States are free. So, on PCs, were six out of the world's top ten titles (and four out of the top five) in April 2020.[9] Console gaming has become the last bastion of the traditional paid model, but free-to-play experiences such as *Fortnite*, *Apex Legends*, and *Roblox*[10] have launched on console and found significant success. Even *Call of Duty*, historically premium only on console and PC, was recently released as a stand-alone, free-to-play *Battle Royale* experience (*Warzone*). It is enjoying strong early momentum, with 50 million players in the first month from launch.[11]

Premium games in a subscription format might not be a winning formula

These trends make gaming subscriptions a hard sell. The Netflix proposition is a practically inexhaustible library of compelling content, with a core that is exclusive to the service. Free-to-play games, by definition, don't make sense behind a subscription paywall, especially on PCs and mobile (console providers charge a monthly fee to access online features). What's more, the game-as-a-service model does not lend itself to a large portfolio of games, implicit in the value proposition of all-you-can-eat subscriptions, since that gaming model is all about limitless engagement with one destination.

To succeed, a gaming subscription would therefore need to offer access to otherwise-premium (paid) games, an $18.5 billion global market, which is smaller than the approximately $90 billion free-to-play market and growing much less quickly.[12] The premium game market is heavily concentrated; the top ten franchises (such as *Grand Theft Auto*, *Call of Duty*, *Uncharted*, *Red Dead Redemption*, and *FIFA*) account for roughly half of the market's revenues.[13] (By comparison, the top ten blockbuster movies accounted for only 33 percent of the US box office in 2018.[14]) These games would be prohibitively expensive for a subscription service to carry:

[6] Matthew Handrahan, "Fortnite tops SuperData's 2018 chart with $2.4 billion digital revenue," January 16, 2019, gamesindustry.biz.
[7] Todd Spangler, "'Fortnite' revenue dropped 25% in 2019 but was still the year's top-earning game with $1.8 billion haul," *Variety*, January 2, 2020, variety.com.
[8] As of June 7, 2020.
[9] "Worldwide digital games market: April 2020," May 22, 2020, SuperDataresearch.com.
[10] A coauthor of this article is a Roblox employee.
[11] Erik Kain, "Warzone had a huge first month with a staggering player count ," April 10, 2020, forbes.com.
[12] Dean Takahashi, "SuperData: Digital games grew 13% to $119.6 billion in 2018; Fortnite earned $2.4 billion (updated)," January 16, 2019, VentureBeat.com.
[13] NPD, GfK, and GSD for XBoxOne, PS4, and Switch, worldwide, 2015–17.
[14] "Domestic box office for 2018," boxofficemojo.com.

— Most users interested in blockbuster premium games buy them right away: on average, 50 to 60 percent of the lifetime units are sold in the first month after launch: for example, *Red Dead Redemption 2* sold 17 million units in its first 12 days. To be attractive, a subscription service would have to feature blockbusters at or near their launch dates.

— Currently, a game publisher nets at least $42 per unit on a $60 game sold digitally or physically. That's probably what publishers will expect from any distribution outlet, including subscription services, that offer their products. The leverage for blockbuster games lies squarely with the publisher—more so than for video entertainment.

— Licensing just two blockbusters a year could cost a platform $8 per user every month. That would be 80 to 100 percent of subscription revenues if game services were priced in the same way over-the-top (OTT) videos are.

Past game-subscription services (such as GameTap and OnLive) have faced this very problem and ended up with either older games that publishers were willing to license cheaply or with unsuccessful titles that quickly moved to the bargain bin. As a result, these remained niche services.

Game development for subscription services would be prohibitively expensive

The concept of a Netflix for gaming is even more ambitious than it seems. Services like Netflix attract subscribers with their own exclusive offerings. Repeating that playbook would probably require game-subscription services to develop first-party blockbuster titles and spend hundreds of millions of dollars on product development and marketing.

This is the strategy Microsoft seems to be pursuing with its Xbox Game Pass service: it offers most of its first-party titles as part of a subscription service when those games become available at retail. Microsoft has also been acquiring multiple studios,[15] ostensibly to expand its subscription catalog. Xbox Game Pass has recently announced that it has ten million subscribers,[16] but the economics of the service are unclear.

With Apple Arcade, Apple too has made a big wager on content, reportedly investing $500 million[17] in small indie games. It is betting that the sheer quantity of titles will eventually outweigh "must play" content in helping to acquire players. Other companies are trying a lower-investment, long-tail strategy—for instance, Sony PlayStation Now, which had 2.2 million subscribers as of April 2020,[18] focuses on the back catalog.

For pure-play subscription services, developing exclusive games would be a tall order. A triple-A game can cost $50 million to more than $100 million to develop, not including marketing costs, which can easily double that budget. Such games have no certainty of success. Competition is intense, particularly since gamers, unlike consumers of video content, are less likely to sample lots of different titles, focusing instead on just one or two titles for weeks or months at a time. Subscription platforms would need to become (or acquire) full-fledged game publishers with multibillion-dollar commitments in order to compete for subscribers against industry powerhouses: the à la carte AAA blockbusters and free-to-play games that already have vibrant communities of players and unpaid streamers.

[15] Dean Takahashi, "Microsoft moves from acquiring game studios to showing off their games," November 14, 2019, VentureBeat.com.
[16] Nick Summers, "Xbox Game Pass clears 10 million subscribers," April 30, 2020, engadget.com.
[17] Tim Bradshaw, "Apple spends hundreds of millions on Arcade video game service," *Financial Times*, April 13, 2019, ft.com.
[18] Matthew Handrahan, "PlayStation Now reaches 2.2 million subscribers," May 19, 2020, GamesIndustry.biz.

UGC gaming's mass-market appeal cannot be denied, suggesting that low- budget, grassroots game designers can thrive, even in competition with deep-pocketed game publishers.

A YouTube of gaming?

If the Netflix playbook can't be easily rerun in gaming—where exclusive content, the free-to-play model, and a service mindset drive engagement—does this mean that no digital-content platform can serve as a model for reinvention? Not necessarily.

YouTube might be the better model. Much as its platform for user-generated content (UGC) disrupted traditional video, so might a UGC gaming platform create a profitable, scalable alternative to traditional games. UGC gaming offers open-ended experiences, created by gamers, that can generate revenues in a variety of ways (for instance, limited paid access, microtransactions, and advertising), even if none of them are subscription based. *Minecraft* (owned by Microsoft) and *Roblox* are the largest UGC experiences so far. But games such as *Fortnite* are adding UGC features, and new entrants, like Sony's *Dreams*, are rolling out intuitive tools and templates to help users create and share content.

Minecraft, for example, is primarily a traditional paid product, boasting 112 million monthly active users as of September 2019.[19] But it also has a thriving, fast-growing private-server[20] scene, where community members create custom settings and rules that offer varied experiences, environments, and game-play types (from open-world adventures to shooters and anything in between). Some of these servers make money through donations and ads, and a select few have massive audiences. *Hypixel*, spun off into a stand-alone company (Hypixel Studios) that was recently acquired by Riot Games,[21] reportedly has more than ten million accounts.[22]

Fortnite's massive success has been driven by studio-made content, but in December 2018 the game introduced UGC through its creative mode, providing players with spaces and tools to build structures and game modes and to invite friends to join. In mid-February 2020, Sony released *Dreams*, an intuitive environment with tools to create a broad range of experiences, from art showcases to actual games, that are published within the *Dreams* client on PlayStation 4.

All of these companies are sidestepping the cost of exclusive content by offering tools that tie creators to the platform in exchange for visibility and a captive audience. Traditional gamers might criticize UGC experiences because they look cruder and play less smoothly than professionally produced titles do. However, UGC gaming's mass-market appeal cannot be denied, suggesting that low-budget, grassroots game designers can thrive, even in competition with deep-pocketed game publishers.

The gaming community's creativity has been responsible for a meaningful amount of past gaming innovation. In fact, the entire MOBA genre (*League of Legends* and *DotA 2*, for example) was established by *Defense of the Ancients* (*DotA*), a mod for *Warcraft III*. The original class-based shooter *Team Fortress* (which inspired titles such as *Overwatch*) was originally a *Quake* mod. The

[19] Ben Gilbert, "'Minecraft' has been quietly dominating for over 10 years, and now has 112 million players every month," *Business Insider*, September 14, 2019, businessinsider.com.
[20] "The best Mindcraft servers," pcgamsn.com.
[21] Coco Huang, "Riot Games Acquires Hypixel Studios," *Los Angeles Business Journal*, May 18, 2020, labusinessjournal.com.
[22] Robert Guthrie, "The uncertain future of Minecraft's independent servers," December 21, 2016, kotaku.com.

hyperpopular shooter *Counter-Strike* was born as a *Half-Life* mod, and the cult zombie PVP game *Left 4 Dead* started as a *Counterstrike* mod. The entire *Battle Royale* genre, popularized by games such as *PUBG* and *Fortnite*, was first developed as a mod called *PlayerUnknown Battle Royale* for military shooter *Arma 2*. Even *Minecraft* is taking cues from its private servers to update the official game.

UGC gaming platforms are much closer to YouTube (or streaming services like Twitch) than to Netflix. They give gamers free access to potentially endless experiences while still offering financial incentives to nonprofessional developers. The ideas and genres they are establishing have found success with millions of engaged players and could provide the creative foundation of the next megahits (or become next megahits themselves). Part of the future of gaming might not be Netflix-like subscriptions but rather open platforms with unique experiences, built by trusted community participants, that grow organically into small to midsize development studios.

With the explosive growth of streaming platforms such as Netflix and Disney+, video games seem to be an obvious adjacent category for digital subscriptions. This is, after all, a booming entertainment sector in its own right, with a massive, fiercely devoted audience of users who return to the same free-to-play titles again and again, and even take a hand in creating games. Yet some of those very qualities, which help make video games such a unique dynamo, may also make them a dubious proposition for a Netflix-like subscription model.

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