

OnLive to distribute video games digitally

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Distributing content digitally over the Internet, rather than in physical form, seems to be the wave of the future.

Newspapers such as The Christian Science Monitor have stopped publishing printed editions in favor of online-only versions. MP3s are quickly replacing music CDs. Digitally distributed videos are starting to supplement -- and in some cases supplant -- DVDs.

Steve Perlman is betting that video games are next. Although a growing number of games are digitally distributed through services such as Xbox Live or Web sites such as Electronic Arts' Pogo.com, they've typically been relatively simple in gameplay or graphics. The bulk of the [video game](#) business still centers on the sale of physical consoles and game discs through retailers such as GameStop and Best Buy.

Perlman thinks he's got a better way. His new startup, OnLive, plans to stream to consumers over the Internet games that previously required consoles or a gamer PC. Starting later this year, consumers will be able to play such games on their PCs or, with a low-cost device, on their big-screen TVs.

The Mercury News spoke with Perlman last month at the [Game Developers Conference](#) in San Francisco, where the OnLive service was the talk of the show. Here is an edited transcript:

Q: Given how well the traditional, console-based games business is doing right now, why do you think there's an opportunity for OnLive?

A: The cost of game development is just skyrocketing. When Mike (McGarvey, OnLive's chief operating officer) was developing "Tomb Raider," he could make a game for 1, 2, 3 million (dollars). Now we're talking about \$30 million for a game.

On top of that, when you look at the physical distribution model, there's tons of inefficiencies. They've got to decide how many games to make to distribute to retail. If they make too many, those games get returned. They have to pay for them. Then there's price protection: If it's not a successful game, they've got to lower the price. That comes out of the pocket of the publisher.

And then the thing that's really been having a huge impact lately is the growth of used games. When the game is resold, none of that money goes to the publisher, none of it goes to the console maker.

There's increasingly less and less of that \$60 (retail) price going into the creation of games. So you look at an industry that's growing, with lots of money going in there, but if you look at the actual moneys that are coming to publishers, it's coming under increasing pressure.

Q: Why would a consumer sign up for OnLive rather than buying a Wii or one of the other consoles?

A: Well, if you already have a Wii or a PS3 or Xbox, then you may use this when you're on a business trip. You may use this to go and demo a game.

But we see that there (are) lots of places to expand the market. Take your student who's going to college. People used to have desktop PCs in college, used to even have a TV sometimes. Now you get all the TV you want on your laptop.

So you come home and you've got your Xbox, PS3 or whatever it is, your gamer PC, and you can play all these games. You come to school, what do you do? Well, you've got a few casual games you can play or "World of Warcraft." So maybe at home you use your console and then you go to school during the school year, you're playing OnLive.

The next-generation consoles come out say 2010, 2011. Now there's going to be a different equation.

How big is the console going to be? It's going to be a beast. It's going to have a big fan, a big power supply. And it's certainly not going to be less expensive than the last generation.

So now a person says, "Am I going to shell out \$600, \$700 for this new machine or do I just spend \$600 or \$700 on all the games I want for I don't know how many years by using it through OnLive?"

Next-generation is where you'll really see the biggest impact of OnLive against the consoles.

Q: How different will it be for developers to create games for OnLive than for existing game systems?

A: We figured out, by developing some custom silicon, we could take existing PC (games) and with a couple man-weeks of work make them run seamlessly on OnLive.

Every server in our server center has a board in it that we designed and there's a chip on it. It does a whole bunch of stuff to make it so that a game thinks it's actually running on a gamer PC. It isn't.

Q: One of the advantages of the console world is there's a standard machine, and everybody writes to that machine. The PC world is not like

that at all. Are there going to be certain games that you have that won't run on certain consumer PCs because they're not powerful enough?

A: All we're running (on a consumer's PC) is the thing that decompresses the video that comes in from the service. The game itself is running in a server center.

Q: So is there no processing being done on the consumer end?

A: Just to decompress the video.

With OnLive, the average gamer has no idea that all the processing's going on in the cloud. From their point of view, it's kind of like using Hulu or something or YouTube. They clicked on it, and the movie plays.

Q: For OnLive to be successful, you're going to have to convince consumers to change their behavior. First, you'll have to convince them that a game service with downloadable games is a better way to play games than the traditional method of a console and [game](#) discs. Perhaps more dauntingly, you'll have to overcome consumers' general reluctance to take on another subscription, something that may be even more difficult given the economy. How do you get around those two issues?

A: I agree that most consumers still are using physical media. But we're a startup. We're looking for growth markets, not for markets in decline. In terms of where the growth is, it's clearly online.

Whether or not people will sign up for subscription services, some people will, some people won't. It's a \$50 billion market. It doesn't take a very large percentage of it for it to be interesting for a startup.

STEVE PERLMAN

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Birthplace: Angeles City, Pampanga, Philippines

Position: President and CEO of OnLive, Mova and Rearden

Previous jobs: Co-founder and CEO of Ice Blink; founder, president and CEO of Moxi; co-founder, president and CEO of WebTV; co-founder and chief technical officer of Catapult; managing director of advanced products for General Magic; principal scientist at Apple; director of engineering for Coleco

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SOURCE: Steve Perlman, OnLive

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