

Can the Fab Four reverse the slide in music games?

September 11 2009, By Dan Gallagher

After a five-month decline in sales, the video game business is pinning its hope for recovery on a handful of rock bands, including one that hasn't put out a new record in nearly 40 years.

This week saw the release of the much-awaited "The Beatles: [Rock Band](#) ." Like other games in the popular genre, this one allows gamers to play along to several of the band's most popular tracks on guitar-shaped and drum controllers. The game went on sale Wednesday.

That will come just a week after the release of "Guitar Hero 5," the latest in the [blockbuster](#) franchise that pioneered the category and has since sold nearly 29 million units in the U.S. alone, according to data from NPD Group Inc.

"If the enthusiasm of our managers is any indication, this is going to be a very successful launch," said Tony Bartel, executive vice president of merchandising for GameStop, of a recent gathering of managers from the retail chain's 6,200 stores. "I don't think they'll be cancelling each other out."

These two games may help revive sales for a sector that has seen a sharp drop in sales of late. In particular, revenue in the music game category as a whole is down by 46 percent for the first seven months of this year compared to the same period last year, according to NPD data.

In July, total industry sales for all video game hardware and software in

the United States were down 29 percent from the same month the previous year. Year-to-date sales totaled \$8.16 billion by the end of July compared with \$9.49 billion for the same period last year.

The slowdown in sales is blamed in part on the economic recession, and also on the fact that the industry faces tough comparisons with last spring and summer, when several of the year's top titles were released.

Sales for the month of August are expected to be released by mid-September, but analysts widely expect another month of declines in the sales growth rate. September is expected to be a strong month, thanks in part to the "Guitar Hero" and "Rock Band" releases.

"We expect the trend of negative industry sales to end decisively during the month of September, with the industry posting double-digit sales growth," Michael Pachter of Wedbush Morgan wrote in a note to clients.

The "Guitar Hero" and "Rock Band" franchises have spent the past two years in a sharp rivalry, which may only grow deeper with the latest releases.

"Guitar Hero" was first on the scene. Developed by Harmonix and the publisher Red Octane, the first game in the series hit the market in November of 2005 on Sony's PlayStation 2. Since that time, several versions have been launched, including two versions tied specifically to the bands Metallica and Aerosmith.

The franchise came under the ownership of Activision Blizzard in 2006, when the company bought Red Octane.

Harmonix was later bought by MTV in an effort to establish a video-game division. The studio developed the first "Rock Band" game for Viacom's MTV Games unit, which published the game in partnership

with Electronic Arts.

The first "Rock Band" hit the market in November of 2007, which "Rock Band 2" coming out the following year. The franchise has sold about 7.7 million units in the United States, according to NPD.

Last year, the "Rock Band" developers created a splash when they announced a deal to develop a game with the Beatles' music. The game features 45 of the band's songs, including "Helter Skelter," "Come Together" and "Revolution." Players can also purchase instrument controllers that are replicas of the band's own instruments.

Jesse Divnich of Electronic Entertainment Design and Research, a [video game](#) market research firm, said that while the two games compete in the same category, both can be considered highly successful in their own right.

"The problem with 'Guitar Hero' and 'Rock Band' is that people want to pit one up against the other, and it's not a really good comparison," Divnich said. "There are three times as many 'Guitar Hero' products on retail shelves as there are 'Rock Band' products. That doesn't mean 'Guitar Hero' is better than 'Rock Band,' it's just been around longer."

Divnich noted that combined, the two franchises own 85 percent of the entire music game category, which is now a \$3 billion business.

"There's no other category in which just two companies have that much share," he said.

Many analysts have asked if sales in the music game category are simply maturing, and unable to deliver the same growth rates as in the past.

But Divnich warns that part of the slowdown in revenue growth is to be

expected, as the business transitions from a hardware model to software. Previous games were sold with the plastic instrument controllers at higher price points. But later sales will be more centered on the software, as more players already have the hardware.

Bartel from GameStop agrees. He expects game sales to be strong on a unit basis, but will likely be below previous years in terms of revenue, because fewer customers will be buying the instruments.

"There's a lot of plastic out there already," he said. "Now, people are focusing on the games themselves."

Also, the companies have worked to make their games compatible with each other's instrument controllers, so someone that owns "Guitar Hero" instruments could still play "The Beatles: Rock Band" without buying the whole kit, in most cases.

Still, there may be some exhaustion on the genre that is starting to creep into the market. Todd Greenwald of Signal Hill Capital Group says the music genre may have matured too quickly, given its phenomenal run over the past three years.

"Yes, I think there is some brand exhaustion, especially on 'Guitar Hero,'" Greenwald said. "I think "Guitar Hero 5" is going to be significantly down from "Guitar Hero 4." With "Rock Band," there's a reason we are not seeing a "Rock Band 3," we are seeing "The Beatles: Rock Band."

In addition to this month's games, Activision will be releasing two other high-profile music games for the holiday season. In October, the company will be releasing DJ Hero, a game similar in concept to "Guitar Hero," but one that uses a DJ turntable and focused on the hip-hop genre.

The following month will see the release of "Band Hero," which plays like "Guitar Hero" but features a wider array of music beyond the rock spectrum.

Music games are believed to have a positive impact on sales of recorded music. Dan Rosensweig, CEO of Activision's "Guitar Hero" business, says that a song that makes it onto one of his games will see its catalogue sales grow by 50 percent.

Rob Levine, executive editor of Billboard magazine, which tracks the music industry, says music games "definitely give sales a boost," but the data is unclear by how much.

However, he pointed out that the games provide a valuable promotional tool for bands, as well as a possible distribution channel. Unlike getting music played on the radio and other promotional activities, having a song on "[Guitar Hero](#)" or "Rock Band" does not cannibalize existing music sales _ it adds to it.

"If you look at the various things that you can do to promote music, most of them cost you money," he said. "This makes you money."

However, the question is more complicated for The Beatles, which remain the most notable holdout from the online music scene. As part of the launch of its game, the band is also releasing its entire catalogue of past albums in a digitally remastered format. The CDs have been popular pre-order items on Amazon.com; the box sets were sold by Friday morning.

The launch of the game has renewed speculation that a deal might be coming for downloads.

That has also been fueled by the fact that Apple Inc. (AAPL) is holding

a media event on the same day of the game launch. The gathering is widely expected to be focused on updates to the company's iPod line, but many are speculating if the timing of the dates means a deal might be in store.

Levine of Billboard does not think the band is preparing to do a deal with iTunes, given that it is still one of the best-selling music artists in the business. According to Nielsen SoundScan, the band is the second-best selling [music](#) act of the current decade, ranking just under rapper Eminem.

"Why would they want to be on iTunes," Levine said. "I don't know what is going to happen on the ninth. That said, if you look at how well The Beatles are doing, I don't know why they would want to change their strategy."

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