New products might be game consoles' swan song

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With a new generation of game consoles slated to start hitting store shelves later this year, game enthusiasts should savor the moment. It may not come again.

Nintendo announced last week that its new Wii U console will go on sale this holiday season. Sony and Microsoft, meanwhile, are widely expected to unveil their next-generation game machines next year.

The release of new game hardware is usually an exciting time for the industry. But this time around, the releases come as the traditional game business finds itself on shaky ground.

U.S. retail sales of video game products have fallen off a cliff this year after three straight years of declines. Game revenue is falling at each of the Big Three console makers - Nintendo, Microsoft and Sony - and Nintendo just posted a full-year loss, its first ever as a public company. Those struggles come as consumers shift their time and money from traditional game machines and packaged disc-based games to games distributed over the Internet and played on Facebook, smartphones, tablets and elsewhere.

The changes are already affecting one portion of the traditional game industry: the handheld game business.

Initial sales of Nintendo's 3DS handheld system were so disappointing its release last year that the company slashed the price of the device by

nearly a third in less than six months. Sales picked up after that, but at a big cost: Nintendo is selling every 3DS at a loss, something it's been loath to do in the past and a big reason the company is now running in the red. And after an initial flurry, sales of Sony's new PlayStation Vita, released earlier this year in the United States, have reportedly tailed off.

The reason for the industry's troubles in handheld gaming is smartphones and tablets. Not only have such devices become capable game machines, but games are among the most popular applications sold for them.

The traditional game industry's troubles extend beyond handhelds. New technologies are also threatening the industry's primary driver: the living room game console.

Indeed, those new technologies may eliminate the need for a game console at all. OnLive and Gaikai, which stream top-tier games to consumers over the Internet, announced last week that their services will come pre-installed on certain new smart TVs from LG and Samsung.

Want to play "Batman: Arkham City"? In the future, instead of popping in the game disc, you may need to do no more than click on an app on your TV.

And you won't necessarily need to buy a new TV to play the latest games console-free. Because their games are stored in the cloud and most of the processing needed to play them is done there, OnLive and Gaikai can be played on relatively underpowered hardware.

OnLive already has millions of subscribers, and offers a $100 TV adapter that gives you the same access on a non-smart TV. Gaikai streams demos of console-quality games to players on Facebook and other websites and is considering allowing gamers to play full games through Facebook.

Those aren't your only options. Some iPhone and iPad games can be played on the big screen via the $100 Apple TV device. Roku offers some 31 casual games that can be played through its sub-$100 digital media adapter. And Dish Network and other pay TV operators offer a handful of games on demand.

Right now, those alternatives to console gaming are little more than niche players in the game market. But the transition to a new generation of game machines is likely to make them a lot more attractive.

When Microsoft's Xbox 360 and Sony's PlayStation 3 debuted during the last console transition, their base models cost $300 and $500, respectively. Nintendo's Wii, by contrast, was considered a bargain at $250. Unless the three companies radically change how they design their new devices, you can expect their next generation consoles to cost similar amounts - or more.

Hard-core game enthusiasts will pay those prices. But mainstream consumers - especially in this tough economy - will be harder to convince, especially given the range of lower-cost alternatives.

To be sure, consoles offer things you can't get on the alternatives. The breadth of games on consoles is far better than on OnLive or through Gaikai. You won't find "Halo" or "Mario" on anything but a Microsoft or Nintendo console.

And the console makers seem to recognize the threats and are trying to respond. Central to the Wii U is a tablet-like controller on which users can play games much like on an iPad. Microsoft has touted the non-gaming capabilities of its Xbox 360, and just introduced a new technology that will let users interact with the console with their smartphones or tablets.

But those moves are unlikely to arrest the trends. The traditional console - a bulky, powerful, power-hungry and expensive machine that plays games that are generally stored on discs or cartridges - probably won't survive past the next generation. So enjoy it while you can.

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