



The Internet Innovation Alliance Biannual Broadband Symposium

“Content is Key”

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- Thank you to the Internet Innovation Alliance for inviting me to today’s symposium. I am thrilled that you have come together in an effort to develop a national strategy to support broadband adoption. It’s also great to be speaking at the same event with Bruce and Larry, two leaders very dedicated to the cause.
- To introduce everyone to today’s video game industry, take a look at this clip...
- I am pleased to be with such a diverse group of broadband advocates. More than ever before – as the video suggests – computer and video games are intertwined with how we live, work, and play. Broadband has played an integral role in this industry transformation.
- As the head of the Entertainment Software Association, I want to focus this morning on the pivotal role that content will play in driving future broadband adoption. I feel confident in saying that I speak from experience; the creative and innovative content that the video game industry has produced in recent years has turned us almost overnight from a niche market into a mass medium.
- The video game industry has accomplished a cherished goal that bodes well for both short and long-term growth: we have expanded our customer base. Businesses that gain followers from diverse segments of the population typically receive the greatest opportunities to evolve and expand. And in order to continuing growing, such businesses must continually find new sources of support.
- The Pew Internet & American Life Project found last year that 97% of teenage boys and 94% of teenage girls play video games. Yet, the ESA’s 2009 *Essential Facts* booklet also shows that:
 - The average gamer is 35 years old;
 - 40% of gamers are women; and
 - One out of every four gamers is over 50.
- How did we reach this point? We’ve come a long way from *Pong*, a game some of you in this room may remember fondly. The answer lies in the industry’s commitment to change the medium itself to foster creative new content that could capture the hearts, minds, and imaginations of entertainment-hungry consumers.
- We no longer simply create objective-based games with superfluous stories. With titles like *Grand Theft Auto IV*, *Fallout 3* and *Fable 2*, developers are increasingly creating expansive worlds for gamers to explore and create their own storylines with the choices they make within the game, be they good or bad. Sony’s *Little Big Planet* even put the tools in gamers’

hands, allowing them to play designer and create their own levels to share with the world through Internet-connected consoles.

- After all, built-in network adapters served little or no purpose on video game consoles only a decade ago, due to narrowband connections and poor console integration. Sony even shipped the new PlayStation 2 in 2000 without any built-in adapter after its primary competitor, Sega's Dreamcast, struggled to popularize online support.
- When Microsoft launched Xbox Live in 2002, the online service supported only five exclusive games, including Infogrames' *Unreal Championship* and Microsoft Games Studio's *NFL Fever 2003*. Yet, within a year, the company made available worldwide more than 50 titles that offered interconnected game play for broadband connections.
- Today, games are enjoyed in a majority of American homes by players of all ages and backgrounds. Prominent entertainment and technology companies continue to make a concerted effort to align themselves with the game business. Elected officials and members of the media, meanwhile, increasingly appreciate the industry's many positive technological, social and economic contributions to society. Given broadband's contribution to these developments, I trust that similar lessons apply.
- Almost every video game comes equipped with online capabilities. According to research firm IDC, North American gamers spent \$1.9 billion downloading games last year, up from \$981 million in 2007. In fact, microtransactions, downloadable content, and online game play have converged to create an unmistakably interconnected relationship between new video game titles and the Internet.
 - Wildly popular music-based video games such as *Rock Band*, meanwhile, have emerged – thanks to new download capabilities – as a fresh avenue for musicians to reach fans. The Beatles are the latest addition to the list of bands, which includes Aerosmith, Boston, and KISS, that have turned to video games to replace lost revenue from declining CD sales. In fact, gamers have downloaded more than 40 million songs on *Rock Band* since the title first became available in November 2007.
- Broadband access is now of utmost importance to all types of gamers. With so many social interactions today transpiring in the virtual space, online computer and video game play has empowered the video game industry to foster a strong sense of community among our diverse consumer base.
- Unlike movies, music, and books, online game play enables gamers to connect to others and share virtual experiences. This reality is particularly evident in the staggering number of people who currently subscribe to online multiplayer gaming and digital media delivery services. Xbox Live, the service that Microsoft pioneered in 2002, has more than 17 million members. Sony's PlayStation Network, meanwhile, maintains more than 20 million registered user accounts.
- The lucrative, high-growth-potential business model has become so competitive that the companies involved regularly devise new methods to utilize the Internet to attract new subscribers. In early 2008, Sony announced that the PlayStation Network soon would stream full-length movies and television shows from, among others, Paramount Pictures, MGM, Disney, and Warner Brothers. Microsoft has since partnered with online DVD and Blu-ray Disc rental service Netflix to stream video to the Xbox 360 console. Within the first

three months of Netflix becoming available on Xbox Live, users watched 25 million hours of movies and TV programs.

- According to a computer and video game industry analyst, Michael Pachter from Wedbush Morgan, digitally downloaded games will account for roughly 2 percent of industry sales this year, or around \$400 million. He expects demand to double annually for a few years, to \$800 million in 2010 and \$1.6 billion by 2011.
- As additional publishers make other blockbuster content available online, broadband will have the opportunity to further connect gamers through the next generation of world-class music, groundbreaking graphics, and intricate storylines for which video games have become known.
- To emphasize just how remarkable of a time this is for the computer and video game industry, I would like you to consider the following facts:
 - According to the ESA's *2009 Essential Facts about the Computer and Video Game Industry*, 68% of American households play video games and 42% of American homes have a video game console;
 - In the tough economic environment of 2008, overall computer and video game industry sales climbed to a record \$22 billion. Entertainment software sales, which accounted for \$11.7 billion of the total, increased 22.9%. During December alone, sales revenue reached \$5.3 billion, the first time our industry topped \$5 billion in any single month; and
 - Over 400 colleges, universities and technical schools around the world offer programs and courses in video game design and development. Moreover, a European Union report released in February found that video games could contribute to formal education, and even suggested that schools in Europe consider incorporating video games into curricula.
- Perhaps due to the ground-breaking content created for entertainment purposes, video games today also have become used for a wide variety of relatively serious purposes. Viewed as a creative way to reach new audiences, serious game have begun to spread across the political and issue advocacy spectrum:
 - A new online video game, entitled *Trillion Dollar Bailout*, offers players the opportunity to determine which organizations and individuals deserve financial assistance from the government. The game's producers came up with the idea to reflect "Main Street frustration" with the current economic climate.
 - And The Wellcome Trust, the world's second-largest charity after the Bill & Melinda Gates Foundation, launched *Sneeze*, a game intended to "subversively teach young people health habits." The game later was renamed to *Stop Swine Flu* in response to widespread news coverage of the international pandemic scare.
 - Stanford University Medical School created a project called Folding@Home that relies on Internet-based distributed computing to gather information. Thanks to the worldwide participation that broadband has enabled, Stanford has made

strides in understanding the protein folding and misfolding related to diseases such as Parkinson's, Alzheimer's, and cystic fibrosis.

- *Dance Dance Revolution* is in over 1,500 schools in 31 states, supplementing physical education classes. As a result of a partnership among West Virginia's Department of Education, its Public Employees Insurance Agency and West Virginia University, the state committed to installing the game in all 765 of its public schools. Almost all of its 185 middle schools already use it.
- In the business world, organizations from automobile manufacturers to financial services companies also are using computer and video games for serious purposes – in this case, as valuable employee training tools. A survey that the ESA conducted last spring revealed that 70% of businesses currently offer interactive computer training that includes game-like simulations, and that 78% of organizations not using this technology today are likely to offer it within the next five years.
- From the entertainment in Sony's *Little Big Planet* to the scientific advances in Stanford's Folding@Home, broadband has played an integral role in creating opportunities for the video game industry to produce new content for consumers. In fact, the industry's transformation has occurred almost in step with widespread home broadband adoption.
- The Entertainment Software Rating Board deserves much credit for opening up the video game industry's unique products to new demographics of gamers. The gold standard among rating systems, the ESRB has created the trust necessary for parents to appropriately pick video games for their children.
- Several member companies also have taken the initiative to educate parents and protect children. Services including Xbox Live and PlayStation Network feature "buddy lists" which restrict interactive playing to pre-approved friend lists. Sony's more recent consoles including PlayStation 3 and PlayStation Portable, meanwhile, have parental controls that block outside access and restrict content.
- In 2008, Microsoft took significant steps to raise awareness about the online safety tools that the company provides to families. Through its Play Smart Play Safe campaign, Microsoft partnered with more than a dozen children's advocacy organizations to promote safe, healthy, and balanced media habits.
- Several ESA member companies also have launched programs that enlist volunteers to monitor any online game environment in which children may be involved. The volunteers look out for inappropriate language, aggressive activity or other actions that may raise red flags; as appropriate, they report incidents back to the corresponding member company.
- This, combined with our industry's other parental tools, brings us to the forefront in the entertainment world. As new technologies emerge, we will remain vigilant in continuing to provide parents the resources they need to ensure safe, secure gaming experiences for their children.
- We need to remain equally vigilant in protecting our content from piracy. Although legitimate online games are an important factor catalyzing greater demand for broadband access to the Internet, this business model is threatened by the widespread availability of illegal game products on the Internet.

- Last month alone, the ESA's Internet monitoring identified over 6.3 million instances of infringing online activity that affect several ESA member companies' games; almost 290,000 of those instances involved Internet users in the United States.
- ISPs will be well-served to address and control their subscribers' infringing activities in downloading this illegal content. Such an approach will protect the business models that will help sustain subscribers' long-term interest in broadband services.
- For my final message to all of you today, I want to emphasize that, as the relationship between broadband and video games presents new challenges and opportunities, we must continue to push the envelope in creating new content for our respective services.
- Our two industries each play a distinct, yet equally important role in this process. The video game industry will continue to produce creative game titles that reflect the diverse gamer population. We rely on broadband, however, to provide the affordable service that connects gamers and makes video games a source of broad-based value to them.
- Thank you.