Google plans to use its Stadia cloud-gaming service to gain a central position in the digital gaming value chain

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Google announced the launch of Stadia, its cloud-gaming service, at the Game Developers' Conference (GDC) held in San Francisco in March 2019. Google has far-reaching ambitions for the Stadia service, which will be a subscription-based service and will provide cloud-based gaming services to users on any device using a Chrome browser client.[1] This comment analyses Stadia's consumer gaming proposition and identifies how this service will change the competitive landscape for telecoms operators that are also involved in cloud or subscription gaming.

The technical barriers to cloud-gaming services are easing, but licensing premium content is challenging

Cloud-gaming (or game-streaming) services enable consumers to play digital games on connected devices without needing to own or install a copy of the game. This technology, when offered as a subscription-based service, gives consumers access to a high-end gaming experience without the barriers to entry such as the cost of gaming equipment and gaming licences, or the need for the technical expertise required to make everything work. The commercial potential of these services is significant:[2] they may make the console obsolete and open up the digital-gaming experience to a large group of new gamers.[3]

The infrastructural barriers that have historically prevented cloud gaming services from being offered to the public (such as low speeds and high latency,[4] and insufficient or expensive retail connectivity and cloud server capacity) are gradually being removed. These developments are providing organisations within (or adjacent to) the gaming industry with the chance to launch cloud-gaming services.

While the infrastructural barriers are easing, most cloud-gaming services struggle to acquire premium (often called 'Triple A') content, which must be made available if these services are to seriously challenge consoles and digital distribution platforms. Premium titles are currently absent from the portfolio of games offered by all active game streaming services because most publishers remain unconvinced about this business model and therefore do not licence new and premium content to streaming services.[5]

[1] We anticipate a commercial launch in 2H 2019.

[2] Total revenue for the global gaming industry is estimated to be USD130 billion per year. For more details, see The Wall Street Journal (19 March 2019), *Google Unveils Stadia, a High-End Gaming Service Without a Console.*

[3] For more information, see Analysys Mason's *A blueprint for operators' involvement in cloud-gaming services*.

[4] Latency is the delay between the gamer's input and the resulting effect being as seen by the gamer.

[5] Licensing new titles to streaming platforms can dilute the value that publishers can extract during the first months of a launch, and technical problems with the streaming services may affect consumers' perception of the quality of the titles themselves.

Google plans to create an ecosystem of developers, gamers and video makers to acquire content for Stadia

The Stadia service seems promising on the engineering side: Google is mobilising its global Google Cloud server infrastructure and will provide innovative tools (such as a wireless controller connected directly with the cloud server, and a new generation of custom-made graphic processing units (GPUs)) to provide the best quality of service to the largest possible audience, potentially on a global scale.[6]

However, Google will depend upon third parties to build a content portfolio for its Stadia service because it is not a publisher. In this way, Stadia differs from other cloud-gaming services because Stadia is the central component in a wider ecosystem that also includes 'stadia.dev' (see below) and YouTube and is designed to attract original gaming content.

Stadia.dev, which was launched at the same time as the Stadia service, forms another integral part of Google's digital gaming ecosystem. Stadia.dev is an open game development platform that is designed to provide developers with a cloud platform on which they can develop digital games. Once these games are ready, they can be marketed directly through Stadia.

The Stadia gaming experience is designed to promote the social aspects of gaming. YouTube, one of the most-important platforms for consumption of gaming video content, will therefore form the third component in the Stadia ecosystem. Users of the Stadia service will be able to share the status[7] and live footage of their plays on YouTube with minimal friction.

As shown in Figure 1, Stadia's social tools are designed to encourage users to share content on YouTube and to attract other gamers from their social network. This will have a cyclical effect on the success of the Stadia service: as more content becomes available on YouTube and as the number of Stadia users increases, the incentive will become stronger for developers and publishers to use stadia.dev or to lease content to Stadia. A richer content portfolio will attract even more gamers, which will in turn generate more social and entertainment content through YouTube and other social media.

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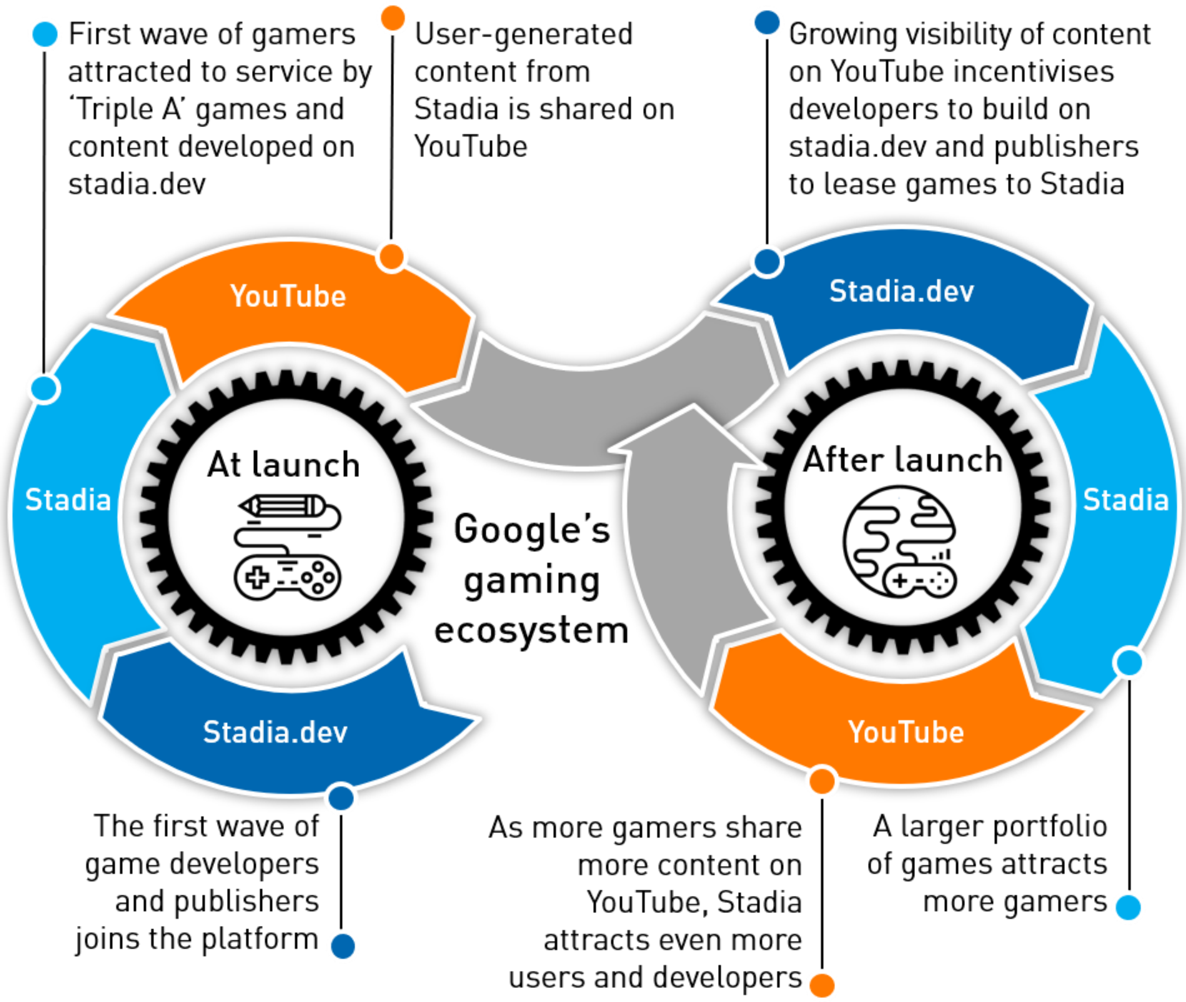
[6] For more information, please see Analysys Mason's *Google Stadia is the first true cloud-gaming platform; MNOs can use edge computing to grow their portfolios*.

[7] Gamers will be able to freeze the status of any match or quest that they have been playing and share it with other players.

Figure 1: Virtuous cycle involving the three main components in Google's gaming ecosystem: stadia.dev, Stadia and YouTube



Source: Analysys Mason

To initiate this virtuous cycle, Stadia must attract a critical mass of users to incentivise game developers and publishers to bring their content to the platform. To this end, Stadia's portfolio will include at least four 'Triple A' titles as of 1Q 2019: 'Assassins Creed: Odyssey', 'Doom Eternal', 'Shadow of the Tomb Raider' and 'NBA 2k'.

If Stadia is successful, it could position Google at the centre of the gaming value chain

If its Stadia service succeeds, Google will occupy a strong position as a gaming service provider. This will increase competitive pressure on active and upcoming cloud-gaming services, as well as in other segments of the gaming value chain.

- Google will establish a foothold in the development and publishing segments[8] through stadia.dev, which is likely to increase competition for publishers.
- Google will strengthen the position of YouTube as an aggregator of gaming video content at the expense of competing platforms such as Amazon's Twitch.

If Stadia can nurture this virtuous cycle, it will create an even tougher environment for operators' own cloud-gaming services because operators will not be able to match the quality and quantity of the titles of Stadia's content portfolio. However, it could also open up other commercial opportunities for operators, such as the following.

- Operators can offer Google managed IP delivery of Stadia video content. If operators prioritise Stadia traffic, users' gaming experience can be freed of latency issues that depend on the status of their broadband.
- Operators can bundle Stadia with their pay-TV and broadband packages as a value-added service. Operators can also design low-latency add-ons to upsell to Stadia subscribers.

[8] Google announced on the same day that it will set up a proprietary game publisher studio.