



No OTT for Nintendo's Wii? Are You Kidding Mii?

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With the launch of the new Xbox LIVE Experience – and the addition of Netflix video streaming – Microsoft continues to transform its Xbox 360 from a solitary 'gaming platform' to a connected video gateway delivering content directly to the living room TV. Sony is working the same angle, advancing its PS3/Playstation Network combination by expanding its roster of movies and TV programs and even pledging simultaneous online and DVD releases of *Hitch* and other top-notch (Sony-owned) titles. Sony's ambitions for the Playstation Network are incredibly grand: tie together Sony content, Sony's distribution machine, Sony's Internet media services, and Sony's (connected) consumer electronics, thus building an end-to-end system to bypass video operators and deliver content directly to end-users. Sony's own public statements have unambiguously revealed this ambition.

So that brings us up to date on Microsoft and Sony, but what about Nintendo? Given the Wii's explosive diffusion (over 35 million points of presence at year-end 2008) and cross-market appeal (helping to bring console gaming into the mainstream), Nintendo would seem to put be in an ideal position from which to launch a highly-competitive video delivery service. To date, however, it has remained relatively silent on the issue of Wii-based video delivery. Outside of a low-level relationship with the BBC in the U.K. and a minor 500-title video channel to launch this month in Japan, the gaming giant has been fairly quiet on the subject of Over-the-Top video.

Given the content efforts of both Microsoft and Sony – not to mention Microsoft's recent price cuts undertaken specifically to grow its console/gateway base for video distribution – can Nintendo afford to continue sitting on the sidelines? Or is that precisely what it should do, to remain focused on gaming when other console vendors are spinning their wheels on new video efforts?

Inferior Hardware a Barrier?

As discussed in TDG's latest report, [Console Vendors and Over-the-Top Video Delivery: Let the Games Begin!](#), Nintendo's Wii – though well diffused – is not at first glance well suited for video delivery to the TV. At 480p, the Wii's video resolution is far below that of the Xbox 360 and PS3, both of which provide HD-quality output. Then again, today's DVDs are 480p and continue to provide an excellent video experience even on the largest of screens. In other words, for the vast majority of consumers, a DVD-quality experience appears to be acceptable, even enjoyable (a message lost on many Blu-ray vendors).

The lack of a local hard drive is definitely a problem for the Wii. Both the Xbox 360 and PS3 offer large hard drives capable of storing plenty of movies, even in HD. However, as the folks from Move Networks and Netflix are proving each day, streaming video over the Internet can provide a TV-like experience without the need for a hard drive of any kind. Perhaps the consumer-premised equipment (CPE) in a streaming scenario doesn't have to be as 'smart' or expensive as many think!

So if there isn't necessarily a technical roadblock to using the console as a video gateway, why is delivering streaming video via the Wii not more commonplace?

Video: a Risky Business for Console Companies?

In the past, console makers have been reluctant to distribute non-gaming media via the game console due to fear of distracting from the big-money activity – that is, buying and using game software owned or licensed by the console manufacturer. Remember, the console cost is in large part subsidized by the manufacturer on the expectation that content sales will make up the difference. Providing video services via a game console could thus be seen as dilutive to gaming software revenue.

This position seems a bit short-sighted, based on a very shallow understanding of the how gaming consoles are actually being used today. Most console users also use the platform to access online media via the TV or to play DVDs and CDs. No major vendor sees its console as *only* a gaming platform; it's just a question of the degree to which they extend console-based experiences and applications beyond the gaming center. Even Nintendo's Wii has a variety of non-gaming activities that may be seen as 'dilutive' to the core gaming experience, but these activities are still present (and growing in number).

For console vendors, the categorical imperative must be recast as follows: ***Always act so that the maxim of your action creates a media experience of such stickiness that users desire to stay within the 'walls' of the console environment for as long as possible.***¹ In the world of quantum media – where consumers can access and enjoy virtually any kind of content at anytime, at any location, on any device, and on any network – fulfilling this imperative becomes increasing difficult. It becomes more difficult to keep your core audience engaged, meaning that vendors must think in terms of compelling *non-gaming reasons* for its users to stay in this virtual world for as long as possible. For Nintendo, it seems acceptable to allow its core users to wander in for gaming and wander out for other media. For Microsoft and Sony, it may be virtual doors through which consumers exit but it is real money they take with them!

Microsoft's Xbox LIVE effort provides an interesting case study in the value of this new imperative. With the recent addition of Netflix's 'Watch Instantly' catalogue, Xbox LIVE users can now access more than 12,000 Netflix streaming-on-demand movies and TV programs. Combine this with the more than 15,000 movies and TV shows available for download and there is little reason for Microsoft's 14 million Xbox LIVE members to wander outside the console environment for non-gaming entertainment. Has this play worked? According to recently released data, Microsoft seems to think so. According to its numbers, users have

¹ Apologies to Immanuel Kant.

already spent over a billion dollars on Xbox LIVE since the network launched and downloaded nearly 700 million items from the Marketplace store. Blended entertainment experiences such as "Guitar Hero III" and "Rock Band" have generated more than 3.5 million music track downloads. And this is before users begin to engage the Netflix content!

Clearly Microsoft sees the power of this model, as does Sony (though to date its efforts have been more talk than substance). Using connected consoles as video distribution gateways seems a logical step in the evolution of the platform itself; a necessary progression that reflects the reality of digital convergence. The fact that Sony and Microsoft are both pushing (and being pushed by) this evolution makes sense; the fact that Nintendo is not seems a bit bewildering.

Wii OTT in Japan: A Beachhead or just Beached?

In December 2008, Nintendo plans to launch a Wii-based video-on-demand service called "Everyone's Theater Wii," offering Japanese users on-demand access to a variety of movies and TV shows.² Users are asked to spend 500 Nintendo Points to download a third-party video player (Fujisoft's Ulexit), after which they may choose to pay a per-viewing fee for programs they wish to watch. The service is expected to launch with about 500 titles including animes, movies, music programs, and documentaries, each of which will cost between 100 and 400 Wii points per download.³ Unlike Microsoft and Sony, however, Nintendo is NOT managing the service – Fujisoft has that responsibility. Nintendo is exchanging access to its Japanese Wii user base for royalties.

Will the Wii video service succeed in Japan? Time will tell, but given Nintendo's royal regional status, not to mention the Japanese appetite for digital video, the chances for service success are favorable. Nonetheless, Nintendo has set very low expectations for the project and has yet to reveal any specific plans or timeline for bulking up the content roster. That will prove key to the service's long-term viability and ultimately reveal whether Nintendo is serious about building a Wii-based video distribution network.

As to the chances that the Wii video service will make it beyond the shores of Japan, early reports rank the probability at "near zero."⁴ That being said, TDG believes such predictions are hasty bearing in mind the competitive pressures that Nintendo will face as global demand lightens and pressures from investors build.

In the End

In order for the Wii to remain competitive in the long-term, Nintendo must enable Wii-based OTT video services of some kind. TDG expects that within the next two years either (a)

² "Fujisoft Announces "Everybody's Theater" Channel for Wii," James Charlton, *Nintendo World Report*, October 31, 2008 (<http://www.nintendoworldreport.com/newsArt.cfm?artid=17102>).

³ "CEATEC 2008: Fujisoft launches Japan-only VOD service for the Wii," Serkan Toto, *CrunchGear*, October 2, 2008 (<http://www.crunchgear.com/2008/10/02/ceatec-2008-fujisoft-establishes-japan-only-vod-service-for-the-wii/>)

⁴ "'Everybody's Theater' brings downloadable TV to Japanese Wiis," October 29, 2008, *Wii News*, (<http://wii.wowgoldit.com/tag/fujisoft/>).

Nintendo will seek third-party partners in both the U.S. and Europe for Wii-based video delivery, or (b) Nintendo will work with a company like Move Networks to roll out their own service and thus compete directly with Microsoft and Sony. Either way, Nintendo will be forced to get into the video game, likely sooner than even they may expect.

One thing is for certain: given the pace at which Wii consoles are finding their way into North America and Europe, Nintendo will be able to offer video content creators and distributors a very large family audience and enthusiastic base of would-be OTT viewers. That's gotta be worth a small fortune!

About TDG:

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