

The Future of Interactive Entertainment

by David Cage

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Abstract:

*The arrival of the Internet and interactivity has caused a profound change in the entertainment sector. The phenomenon of convergence in the entertainment industry compounded by the convenience of the Internet is going to lead to a new form of online interactive entertainment aimed at the general public.
An analysis of different factors gives us an indication of what the format of this interactive entertainment is going to be like.*

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Introduction

To paraphrase Malraux, "the 21st century will be interactive or it will not be".

"Interactivity" and "Virtual" are undoubtedly the most frequently pronounced words at this end of the century. These notions that were part of science fiction jargon only a short while ago have become singularly democratized.

Today everyone wants to interact.

All the traditional entertainment industries want interactivity and connectivity in their products, whether we consider films, TV shows, cartoons, music or comics. But most of them are finding it difficult to provide the general public with responses that are really accessible and satisfactory in terms of their business module and the quality of the interactivity.

However, the market has never been more demanding. It is therefore essential to imagine a new form of interactive content in order to respond to the formidable challenge facing the entertainment industry.

This document sets out to study the motivations of the present market actors, the state of the entertainment market, the Internet and games in order to determine the ideal future form of interactive entertainment that will really seduce the general public.

PART 1:

ABOUT INTERACTIVITY

ABSTRACT:

Why is Interactivity important? – Do consumers really want to interact? – Why should "old" entertainment become interactive? – The Media Convergence – The current interactive offer: the video game industry.

1 Why is Interactivity Important?

1.1 Do consumers really want Interactive Content?

Without going into a philosophical discussion we know that playing has been in man's nature since the dawn of humanity. By playing he learns, measures himself, evaluates himself and reassures himself. He started out playing with stones and bones, today he plays with computers and the Internet.

Since the dawn of time two types of experience have enabled man to evolve while simultaneously providing him with entertainment: passive listening to stories transmitting oral knowledge, and the active experience of games that allow him to measure himself against the real world.

At this point a third notion is fundamental: that of community. Exchanging, communicating and learning within a group enabled him to share his experience and assuage his fears.

The Internet has quickly and easily established itself as the first medium to offer real interactivity.

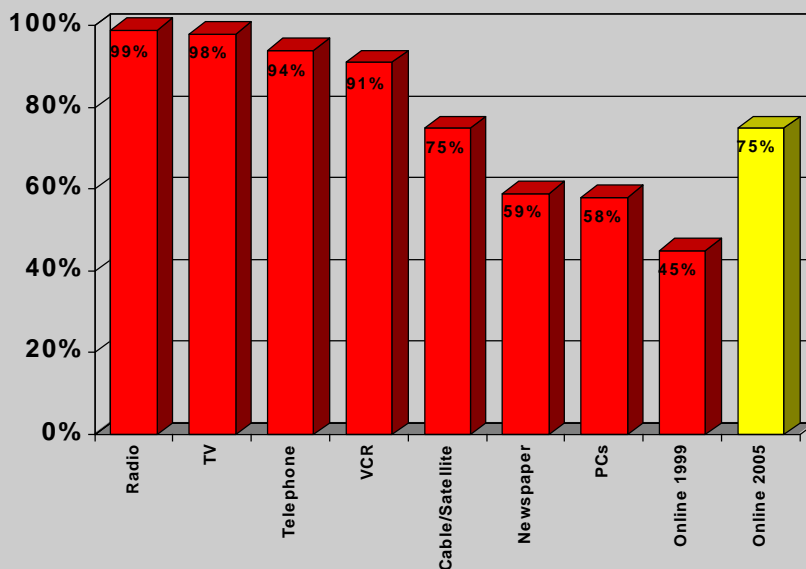
In our modern communities the transmission of oral knowledge is done by what we call the traditional media: books, cinema, television, songs, comics. However, the experience of interactive play, which is very much present in childhood, has tended to disappear and now hardly exists at all except in sports.

The relationship of the individual to information leads us to a similar conclusion: television has accustomed modern man to passively consuming information, his only action being to zap between different information sources.

In this context the Internet has quickly and easily established itself as the first medium to offer real interactivity.

US Household Penetration of Media & Technology

Source: Jupiter Communications



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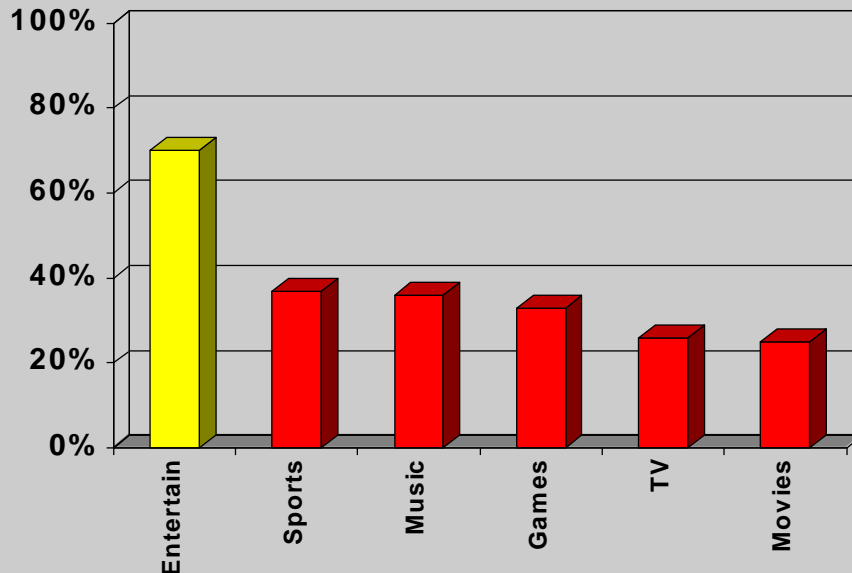
The growth of the Internet has been phenomenal with a faster adoption than any other consumer technology. In 2005 nearly three-quarters of every household in the US will have access to the Internet, translating to over 163 Million home users. There are similar adoption numbers in Europe and Asia which highlight the worldwide thirst for interactivity.

Now, what interactivity do Internet users at Home want?

What do consumers do with the Internet?

"70% of Surfers want to be Entertained"

Source: Cyber Dialogue



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Studies indicate that users are primarily looking for some form of interactive amusement.

No wonder the traditional "passive" media companies want to create interactive media, ideally based on their existing properties. The idea of generating supplementary revenue by exploiting a license on a new format is certainly a valid financial motivation. The idea of extending one's audience and enhancing one's brand image is also a good argument.

From the users' point of view, the idea is to prolong the experience and to extend it by enabling users to share it through interactivity. The film-goer who enjoyed Matrix in the cinema will be able to go home and relive the film universe in an interactive version. He gives another dimension to the experience by becoming the hero.

This interactivity is the entertainment form that offers the greatest value in terms of immersion. The user is plunged into a world and the quality of the immersion increases the power of the identification with the hero, therefore the sensations he experiences.

This interactivity is the entertainment form that offers the greatest value in terms of immersion.

To conclude, the Internet has proved there is a strong user demand for interactivity. Users create a new form of experience by blending two primitive needs, narration and game playing, and in the process they invent interactive entertainment.

The traditional entertainment media are witnessing the birth of an incredible market to which they very much intend to adapt their products in order to benefit from it.

1.2 Media Convergence

License exploitation on a format different from the original format is a classic example.

To realise this we only have to look at a few examples:

Cinema -> TV	TV -> Cinema	Books -> Cinema	Comics -> Cinema
Highlander	Mission Impossible	Jurassic Park	The X-men
Logan's Run	The Fugitive	Blade Runner	The Crow
DAVID: Do you know more?	The Hollow Man	Harry Potter	Superman
	Twin Peaks	Alice in Wonderland	Batman
	X-Files	Total Recall	

This phenomenon of adapting a license to another support is also very much present in the interactive sector:

Cinema -> Video Games	TV -> Video Games	Books -> Video Games	Cartoons -> Video Games	Music -> Video Games	Video Games -> Cinema
Blair Witch	X-Files	Rainbow Six	The Simpsons	Kiss	Tomb Raider
Mission Impossible	Who Wants to be a Millionaire	Alice in Wonderland	South Park	Peter Gabriel	Final Fantasy
Brave Heart	Spiderman	Dune	Tarzan	David Bowie	Pokemon
Die Hard	Superman				SuperMario
Alien Resurrection					Mortal Combat
Toy Story					

Many license owners are interested in adapting their product to an interactive format.

"Convergence" seems to be the keyword. When a license has proved its popularity it is only natural to want to port it to another support, both for economic reasons and to consolidate it by extending it to an even larger audience.

Many license owners are interested in adapting their product to an interactive format.

By looking at a few examples we can try to understand their motivations.

Fox was one of the first film studios to understand the importance of interactive entertainment for exploiting their licenses: "Alien Resurrection", "Buffy The Vampire Slayer", "Planet of the Apes", "The Simpsons", "No one lives for ever", "Die Hard", "Independence Day" and "The X-Files".

"We are continuing to raise the standard for interactive entertainment with Gillian Anderson and David Duchovny appearing in the X-Files title," said John Richmond, president, Fox Interactive. "In producing all-original footage for the title, X-Files and interactive gamers will have a new and intensely realistic way to explore the mysteries of the paranormal world."

The aim is twofold: to attract fans of the television series to buy the game and get game players to watch the series. In order to do so, two things are imperative: to provide the interactive version with

It is essential for the convergence to be global in order to be fully effective.

quality that is equal to that of the series and to make sure the interactive dimension significantly enriches the game.

By using its rich catalogue of licenses to make interactive entertainment, Fox established itself as a real multimedia publisher capable of exploiting its titles to the full. Whether you like television, films, music, games or the Internet, you are a potential customer for Fox.

Disney is applying the same logic. It has invested massively in interactivity and has a high Internet profile and an extremely rich and complete catalogue of titles produced by Disney Interactive. Toy Story 2, Who Wants to be a Millionaire, Jungle Book and Dinosaur are just a few examples of titles that now exist in an interactive version. All new Disney titles now come with a game.

"By leveraging synergistic opportunities associated with The Walt Disney Company animation, film, television, home entertainment, consumer products and theme parks businesses all over the world, Disney Interactive maintains strong, global brand awareness for its products."(excerpt from Disney's company profile).

Young people, who constitute Disney's target public, are and will continue to be interested in interactivity. Disney products must therefore keep up with youth or precede them on this format. It is essential for the convergence to be global in order to be fully effective.

Sony has said it expects 30-40 percent of its sales to be made over the Internet in the future.

Sony is another good example of convergence. With a role in music, cinema and electronics, the Japanese company is recentering all its activity on PlayStation 2 and has openly announced its ambitions on-line.

"We want the number one network electronics image, says Kunitake Ando, Sony's COO. We want to create change, not keep up with it. We want to create new markets and be a challenger."

The company has said it expects 30-40 percent of its sales to be made over the Internet in the future.

But this convergence is not limited to the giants of the cinema industry. David Lynch, Tim Burton and Stan Lee are developing flash fiction on the Internet. Stephen King has sold his Riding the Bullet on-line

and BMG has taken over Napster to distribute music on-line. Television is becoming interactive with Microsoft TV, AOLTV, OpenTV and others.



CHOOSE 1 2 3

Interactive Jeopardy! Lets home viewers play along in real time. In this instance, ad space a link to see local listings share screen space along with the game.

"TV is a really passive experience to begin with. It's called the stupid box for a reason," said Kirsten Jansen, director of new media research for content maker Lunatic Fringe.

Interactive television is another example of convergence. "TV is a really passive experience to begin with. It's called the stupid box for a reason," said Kirsten Jansen, director of new media research for content maker Lunatic Fringe.

"Being able to make a sports game turn out the way you want it to will be a feature that people want," said Ted Turner, Vice Chairman of Time Warner. "If you want to press a button to make your team win when watching a game, no matter what happens in reality, we'll have to deliver that to you. You won't even have to ever deal with reality."

To allow people to amuse themselves (i.e. consume) however they want, whenever they want and from their own homes, wherever they happen to be in the world, is the objective that must be attained. There is no longer any need to go to a store or a cinema, no need to know the times, the address, the programme. Everything is available all the time. Moreover, with the number of intermediaries between the creator and the user being reduced to the minimum, the price of entertainment is considerably reduced.

The user is happy. He can access the services he wants whenever he wants and he is willing to pay for this. The service supplier is happy because he can

create a new economy by taking his content directly to the consumer's home.

Interactive entertainment is at the very heart of all these considerations. It is the paradise of convergence because by its nature it blends all the media. Its content is easily accessible on-line and, above all, it has an added dimension that the other media don't have: interactivity.

For these reasons, interactivity is a development that cannot be ignored.

<Peter I am confused as to why this is separate from Media Convergence>

1.3 Video Game Industry

Historically, the games industry was the first to realise that the public wanted interactivity and that it would therefore become a business.

At over \$7 Billion per year it is now larger than the Movie Box Office receipts and growing at over 20% per annum.

Why Do People Play Games? (Source IDSA 2000)

In 2000, 35% of all Americans rated playing computer and video games as the most fun entertainment activity for the third consecutive year.

- Games are challenging (78%).
- Games are a great stress reliever (55%).
- Games provide a lot of entertainment value for the money (49%).
- Games are engrossing (39%).
- Games are a interactive social experience that can be shared with friends and family (37%).

Because of their complexity, video games are satisfying only for a niche public, although the gigantic Mass Market is crying out for interactivity.

In spite of these turnover figures the video games industry remains very much centered on a young and adolescent public. In the mind of the general public, and often for industrial actors concerned, video games are seen as a complicated toy reserved for a very limited audience.

Because of their complexity, their often simplistic narrative structures and their highly targeted universe, they are satisfying only for a niche public, although the gigantic Mass Market is crying out for interactivity.

PART 2:

THE MARKET AND ITS ACTORS

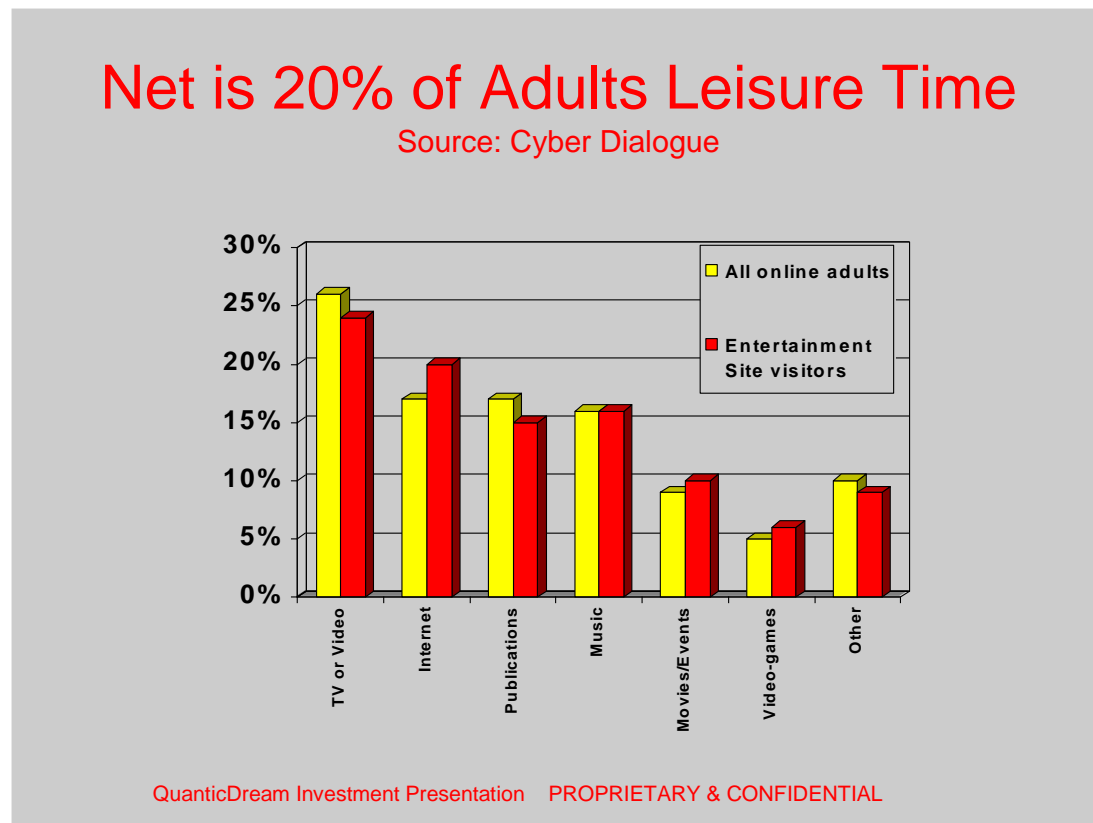
ABSTRACT:

Understanding the Market – Defining the interactive consumers – What do they want? – Who are they?

*The different forms of interactive entertainment – On-line Interactive Entertainment –
The main actors
Defining the Problem*

2 The Market and its Actors

2.1 How are Consumers Using their Leisure Time?



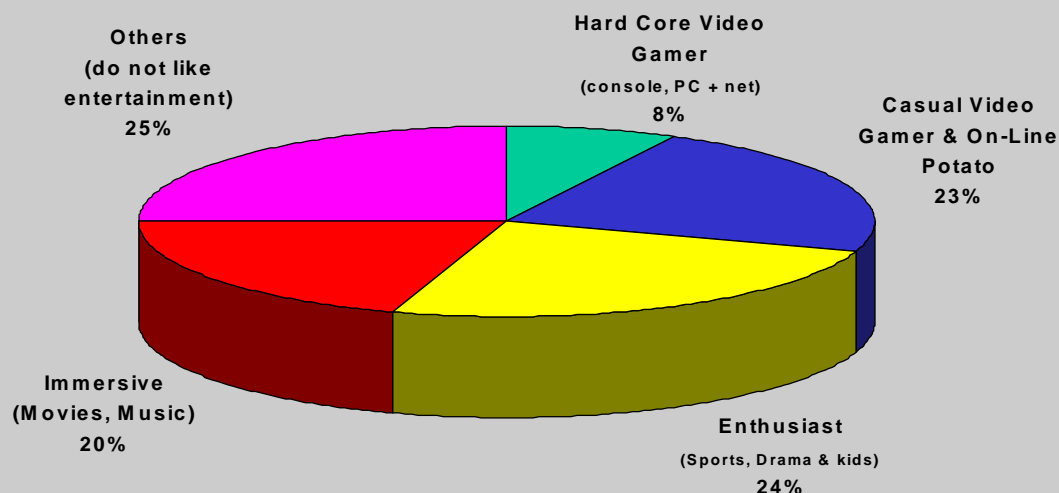
This diagram illustrates the growth of the Internet in competing for attention, however the internet is really just a communication medium. To really understand Interactive Entertainment consumers we need to try to segment them into demographic/behavioral patterns.

2.2 Who are the Interactive Entertainment Consumers?

To help us with this task we have taken studies from the Video Game industry (the Highly-Interactive market) and the Internet/Media space and come up with the following market segments for consumers. All consumers over the age of 12 should fit into one particular segment.

Entertainment Consumer Segments

(Based on all people over age 12)



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The following unique segments and their Video Game and TV behaviour have been identified:

Hard Core Video Gamer

Traditional Hard Core Video Gamer

- Play both PC and Console very heavily
- Doesn't watch much TV

Video Game Console Fanatic

- Play only console games
- TV is for Games

Individual Intellectual Video Gamer

- Play mostly PC games heavily
- Doesn't watch much TV

Casual Video Gamer & On-Line Potato

Casual Video Gamer & Social Player

- Play PC & Console games infrequently
- Watches a lot of General TV

Online Potato(Card, Casino, Board, Quiz)

- Play on-line games very frequently
- Watches a lot of TV. Soaps, Game shows

Enthusiast

Tends to be a Fan of a form of Entertainment, whether it is Sports, Drama or Kids

- Plays online Sports & Kids games &
- TV tends to be Dramas & sitcoms – watch every episode
- Supplement High TV use with Internet

Immersive

Go to Movies and Gigs a significant amount

- Enjoy events. Mainly watches TV for Films, Pay Per View & MTV
- Early adopter

Others

Not interested in Entertainment

- Doesn't play Games
- Seriously, not Entertainment

In conclusion, as the Casual, Enthusiast and Immersive segments become more on-line (75% by 2005 in the US) then they will be enjoying interactive entertainment as well as passive versions of their entertainment.

Assuming no change in the demographics this will be a total available market of over 125M in the US alone (67% of 75% of people over 12 in 2005).

DAVID: Peter, I have re-integrated this paragraph. It think it makes sense and reinforce our strategy. I don't think it is aiming for a gamer audience. It helps to define who are our customers

PETER : There really should not be 2 sections defining the consumer behaviour. Either you define it as Gamers (like you below) or you take a top-down mass-market view and define all consumers. You know what my views are, however, for the sake of expediency I am happy with your gamer definitions – please provide edits.

2.3 The Different Types of Players

Players are usually divided into two distinct groups: "Hard-core gamers" and "Casual Gamers".

Hard-core gamers are people who have been bitten by the games bug. They buy an average of 24 games a year, represent only 14% of the buyer population but account for 52% of the sales. They are attracted by the idea of a challenge and competition. They are ready to sacrifice short-term pleasure in return for a long-term pleasure.

This population is economically very active and very well informed about technology and products. They make up what we call a "niche". The population seems to be stagnating and growing older (42% are over the age of 35).

Casual Games constitute a more "reasonable" population. They buy an average of only 3.4 games a year. They are not specialists but they have the basic skills required to manipulate a video game. For them, the most important thing is easy and immediate pleasure.

Why aren't our parents interested in interactive games although they watch TV and go to the movies?

To these two distinct categories I would add a third, that of "non-gamers", the fringe population that doesn't play games. And this is quite a curious point. Why does a considerable proportion of the population not play? Why aren't our parents interested in interactive games although they watch TV and go to the movies?

The main reasons seem to be:

- playing requires technical knowledge,
- playing requires time,
- playing requires to understand certain conventions.

Understanding non-gamers is not just an intellectual exercise; it is a major economic problem. It is easy to understand how the interactive leisure products of tomorrow will convince hard-core gamers and casual gamers, but how do we attract non-gamers?

The interactive leisure industry is not yet a mass industry but rather an industry that caters for a niche.

It must first of all be said that the majority of the actors in the video games industry who claim to attract the mass market speak of casual gamers, who constitute a different population. Reaching the mass market is the dream of all leisure industries.

Here we must make two points: the first is that the interactive leisure industry is not yet a mass industry but rather an industry that caters for a niche.

Although in the United States alone, more than 140 million people have access to a PC, the best sales for game software only very rarely exceed 1 million copies throughout the world. Why is there such a gap between the potential market and the real market?

The second point is quite bizarre. The interactive entertainment industry divides its consumers into hard-core gamers and casual gamers, a distinction based on their technical knowledge and economic behavior. It even considers the niche to be its main target population.

Distinguishing one's audience according to skills or knowledge is an aberration that is unique to video games.

This split between consumers is absolutely unique to the leisure industry. Does television make a distinction between fans and non-fans? Do film studios make films solely for film enthusiasts? Do we need any special training to go an amusement park? This is nevertheless the distinction that is made by interactive leisure. Distinguishing one's audience according to skills or knowledge is an aberration that is unique to video games. There is nothing comparable in any other entertainment industry. A book presupposes that we are able to read, but this distinction is so basic in industrialized countries that it is no longer a real one.

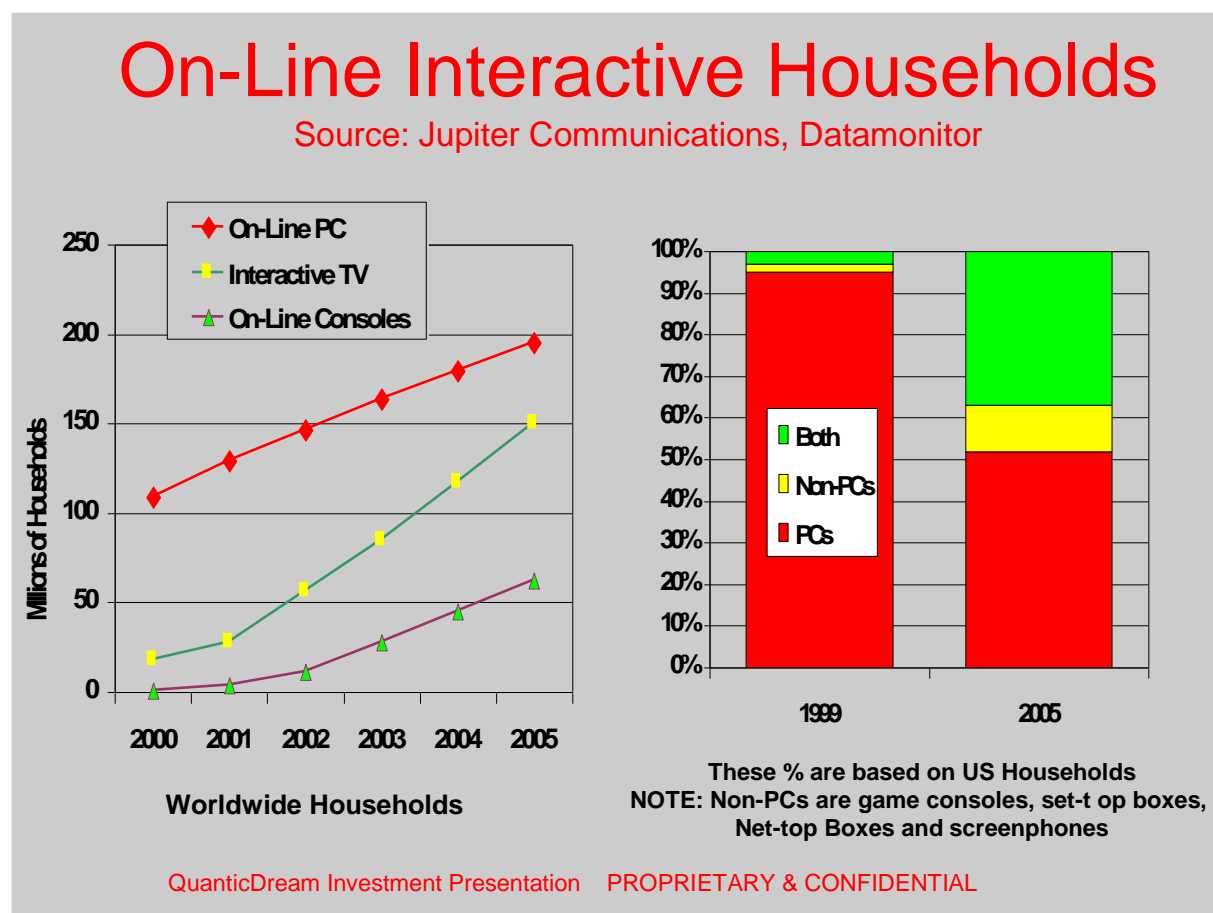
In order to evolve and continue to grow the interactive industry must understand that the gamer/non-gamer distinction is outmoded. It must address the whole population without distinctions of age, sex or skills. It must also understand that the hard-core gamers of the early days are 40 years old with jobs and children and that it is now indispensable to conquer a new and broader public. Otherwise it will stagnate in its own ghetto.

It should learn from cinema and television. Absolutely everybody can enjoy going to see a movie and we can find epic movies aimed at the general public, as well as art films aimed at film enthusiasts. Both co-exist and this is what makes the medium vibrant and living.

2.4 What Platform do Consumers Want?

With the advent of Broadband there is an interesting platform convergence emerging with the TV as the main screen. On the distribution side, the set-top box is becoming digital and smarter, on the consumer electronics side, DVD players want to become interactive, on the video game side, consoles have broadband and hard disks built-in and the general purpose PC derivatives are getting easier to use.

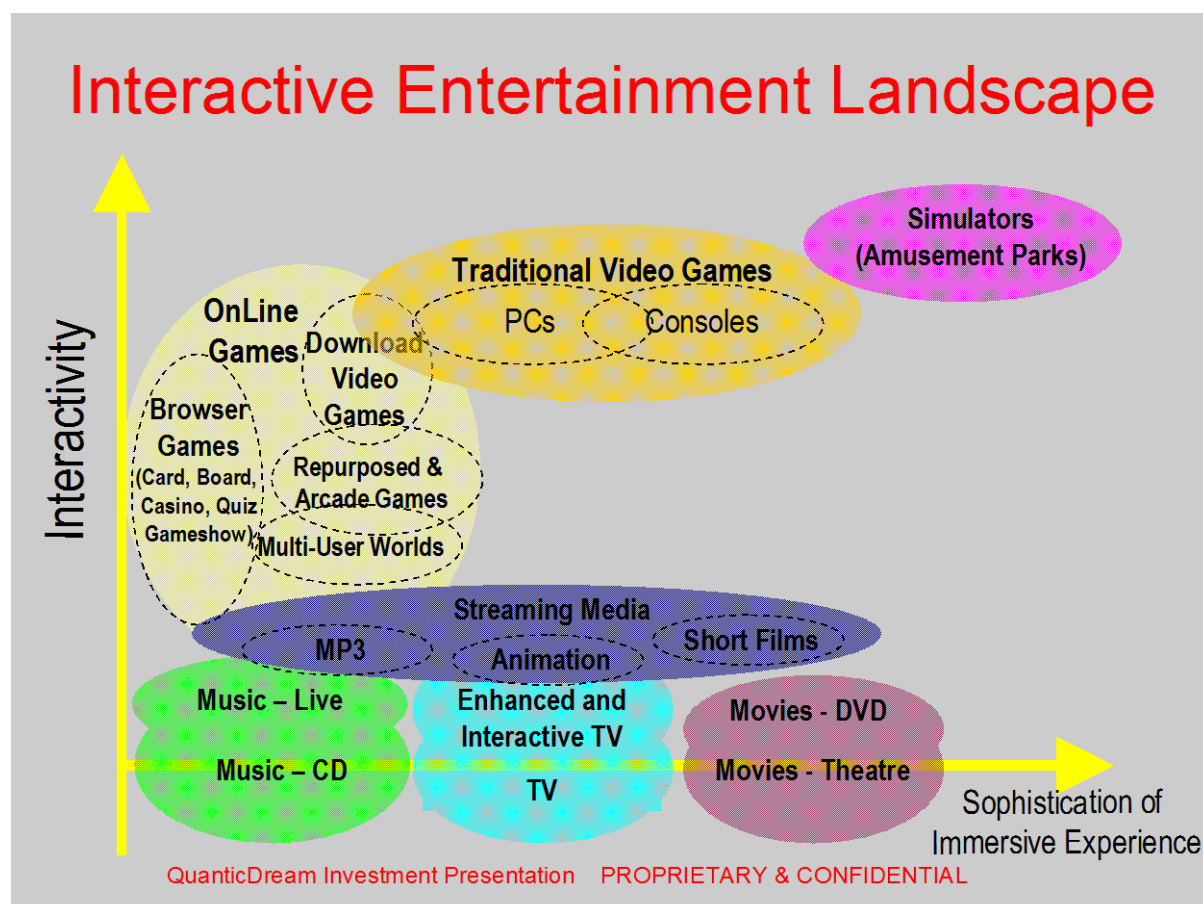
Despite this tremendous convergence taking place it is interesting to note that the PC will remain an important part of the internet/TV.



2.4 What are the Current Forms of Interactive Entertainment?

<DAVID: Peter, are you sure this diagram is right? It is both difficult to understand and I am not sure it helps the understanding of the message

PETER: If you think it is confusing then the audience will – please edit accordingly!



For practical purposes we can group the forms of interactive entertainment into the following categories:

- **Traditional Video Games**

Products: Polycarbonate shipped by Video Game Publishers.

Type of Market: Mainly a Hard-Core gamers niche market.

Platforms: PCs and Consoles.

Interactive Value: High.

Market Size: For a console block-buster, up to a max of 2 million units in US. Market is US \$7 billion in US.

Market price: US\$54.

- **On-Line “Downloadable” Games**

Product: Quick Download, WildTangent Games, Visiware, Real Networks, Lithtech. Repurposed “old tech”: Genesis games for EA.com, Freeloader.

Type of Market: Hard Core Gamers.

Platforms: PC only.

Interactive Value: High.

Market Size: Currently 2% of US Market = US\$150M, growing to US\$2Bn in 2002.

Market price: US \$30

- **On-Line Multi-User “World” Games**

Products: Everquest, Ultima On-Line, Asheron's Call. Shipped by Video Game Publishers.

Type of Market: A niche in the niche of the Hard-Core Gamers market.

Platforms: PC only.

Interactive Value: High.

Market Size: Limited market up to 200 000 monthly subscribers in US

Market price: US \$9.95 a month

- **On-Line “Browser” Games**

Product: Card, Casino, Board, Quiz, Sports, Gameshow, funded and distributed on-line by EA.com, Excite, Yahoo, Gamesville, Shockwave, Zone (MS)

Type of Market: Casual Gamers,

Platforms: PC and Set Top Boxes.

Interactive Value: Medium.

Market Size: 35M users in US

Market price: Free based on an advertising model.

- **Streaming Entertainment**

Product: 3D Webisodic animations: Brilliant (Superman ...etc), Pulse3D, Shorts like Shockwave (Stan Lee), AtomFilms, Icebox, using Audio and/or video streaming.

Type of Market: Theoretically Mass Market but at the moment limited by poor quality and interactivity.

Platforms: PC with Internet.

Interactive Value: Low.

Market Size: Estimate 15M have viewed streamed content in US

Market price: Free based on an advertising model.

- **Interactive TV**

Product: Set-top Box game, DVD players (Nuon, Dragon's Lair), PVR (TiVo)

Type of Market: Mass Market.

Platforms: Set-top boxes, DVD. PVR

Interactive Value: Low - Medium

Market Size: 10M in the US growing to 50M in 2005

Market price: Free or subscription based.

Peter: I think that this is confusing as 2 sections. Again we have tried to define the types of interactive entertainment available for the mass-market and you are talking about Gamers. Either this section should get integrate or chose one section.

2.5 The Market of Interactive Entertainment On-Line

According to leading market research firms Jupiter Communications, Forrester Research and The NPD Group, the on-line interactive entertainment market is poised for explosive growth:

Data repeated

- Overall game industry revenue is expected to grow to more than \$7 billion in 2000 -- The NPD Group
- The total dollars available through online gaming will increase from \$106 million in 1999 to \$770 million in 2003 - Jupiter Communications
- Revenue from sales of online games is expected to grow from just 2 percent of the game market today to 24 percent in 2002 - Forrester Research
- There were an estimated 500,000 pay-for-play online game consumers in 1999, generating \$41 million in revenue; this number is expected to grow to 3.2 million gamers in 2003, generating \$360 million in revenues - Jupiter Communications
- Online game site advertising revenues are projected to jump from \$65 million in 1999 to \$409 million in 2003 - Jupiter Communications

Hard-Core gamer products requires gamer skills, regular and intensive training, perfect mastery of the interface and perfect knowledge of the game.

Today's offer for on-line interactive products can be divided into two parts: products destined for hard-core gamers on the one hand and for casual gamers on the other.

Products for hard-core gamers are massively on-line multi-player games like Everquest, Acheron's Call or Ultima On-line. These products are technologically complex and highly effective in terms of performance. They use typical "gamer" universes and offer broad and varied interactivity.

The community experience is very real but it requires the usual hard-core gamer skills, regular and intensive training, perfect mastery of the interface and perfect knowledge of the game.

Their success is nevertheless very relative, allowing them to reach only about 150 000 monthly players paying a subscription of about 10\$ US.

Casual gamer products are extremely simple, if not absolutely elementary both from a technical and from a play point of view.

Casual gamer products represent the opposite extreme. They are essentially card poker-style games like with cards or checkers or little 2D/3D more or less interactive scenes.

They are extremely simple, if not absolutely elementary both from a technical and from a play point of view. Interaction and technique are reduced to the strict minimum. Everyone knows the rules and no training is necessary. They can be amusing and pleasant to play for a few minutes.

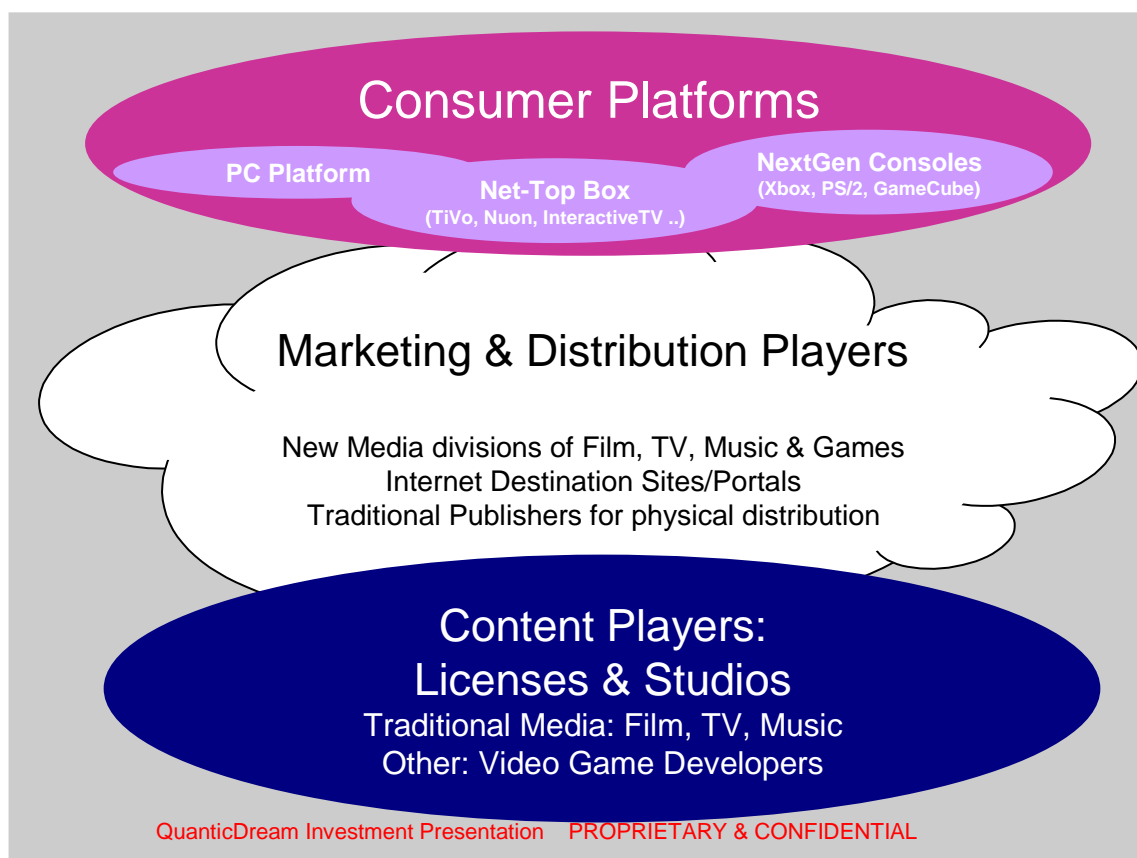
However, the sites hosting this type of product easily clock up more than 5 million visitors daily. It's true that they are free, because usually paid for by advertising.

In this context interactive television is beginning to make its appearance with games that are clearly identifiable as mass market i.e. easy to understand, no training required and providing immediate pleasure.

This imbalance in the offer cannot continue as a durable basis for on-line entertainment. On the one hand the products are all too similar and do not correspond to what the public is looking for, on the other the value of the content is too low for it to be able to create an economy. There is therefore a real void in the present offer.

2.6 The Interactive Entertainment Actors

Who are the Main Actors able to Play a Role in the Future Interactive Entertainment Space?



- **Content Players**

- License owners:

The main actor is the license owner (films, comics, television games, musical or other universe). The owner creates and exploits an intellectual property on a non-interactive format.

His demands are many: of course he wants the interactive version to be as close as possible to the original work, to extend the original target and to generate mixed revenue and lastly to consolidate the image of his product.

Many film licenses have been exploited in games, with greater or lesser degrees of success. Interactive products that responded to these criteria have been very rare. To adapt a non-interactive product to an interactive format requires experience and skills that are often lacking.

To adapt a non-interactive product to an interactive format requires experience and skills that are often lacking.

- Video Game Developers:

Video Game Publishers fund and bring to the market video games developed by themselves or by third-party developers.

They generally suffer from a certain slack in relation to the rapid evolution of their sector. The size of their companies, weighty structures and decision-making procedures, long Time-to-Market (generally no less than 18 months) and the difficulty they experience in changing economic model all put a brake on their ability to seize the incredible opportunities that are being created.

Developers create and develop content paid by publishers. They usually don't have the infrastructure and financial means to bring their product to the market.

- **Marketing Distribution Players**

- New Media Channels:

The new actors come from the Internet and television are mainly people with the information channels in their hands. Today they want to find a content to enhance their channels, particularly where Broadband is concerned. In order to convince consumers that they need more powerful and faster transmission means they have to be able to give them a content that justifies the price difference. Interactive leisure is the loss leader par excellence since, as we have already seen, the demand is great. The main problem for Broadband companies is that it is difficult today to find appropriate products that offer real technical and artistic quality while being resolutely aimed at the general public and exploiting the formidable flow rates of Broadband.

- Internet Destination Sites

The internet portal space has quickly consolidated to a few players who aggregate content or provide the Internet service (ISP). These sites are the first port of call for consumers looking for entertainment and have successfully created viable business models to recruit & maintain a critical mass of users.

- **Platform Players**

The manufacturers of PCs, consoles or Net-top Boxes all encourage the use of the features of their particular box. The main trend in this space is the

increase in the service subsidizing the box. So broadband service providers give free boxes in exchange for a number of years service or console manufacturers discounting the platform to recoup with software royalties and, of course, the free-pc! All of these initiatives require good quality content so increasingly the service provider is interested in making sure there are valuable products taking advantage of the respective service/box offering.

2.7 Defining the Problem

PETER – seem to be talking about Video Games only – what about DVD, what about on-line entertainment, what about Interactive TV

The Current Interactive Offer is Not Satisfactory:

An extremely popular PC video game will sell a million copies throughout the world, whereas in the United States alone 130 million homes are equipped with a PC.

So far, our study has brought out one important point: although the interactive offer is apparently large and varied, it still reaches only a minute fraction of its potential market.

At best, an extremely popular PC video game (Tomb Raider, FIFA) will sell a million copies throughout the world, whereas in the United States alone 130 million homes are equipped with a PC.

5 million users can play with a Browser Game but for the moment this does not generate a viable economic model because of the low value of the product.

98% of American homes are equipped with television but less than 30 million have interactive TV.

Why is the video game industry unable to respond to this strong market demand?

Firstly because it is often a victim of its own conventions. It generates products that are too complicated, adolescent-targeted, and in universes and stories that are too strongly typecast. In a word, it is unable to adapt to the situation.

Having started out as a niche industry, it is having difficulty in evolving in such a way as to satisfy the Mass Market.

The public expects the same quality as it finds in the movies and television, only with interactivity added.

The weakness of today's on-line interactive offer is caused by a certain number of shortcomings and incomprehension. The traditional games publishers are incapable of answering to the new challenge posed by the mass market and the possibilities of the on-line experience, while on-line companies do not have the necessary game experience to be able to create really interactive products. And those holding high-profile licenses do not know how to convert their mass market product into a quality interactive product.

Regarding content, the public expects the same quality as it finds in the movies and television, only with interactivity added. There is no question of pulling the wool over the public's eyes: the

interactivity must be real in order to satisfy the mass market.

What responses can we imagine in order to create an interactive entertainment format that is qualitatively satisfying and able to generate a viable financial model?

PART 3:

DEFINING THE FUTURE

ABSTRACT:

Types of Interactive Experiences - What do Consumers Want? – Defining new forms of Interactive Entertainment – Conclusion.

3. What do Consumers Want?

3.1 What are the Types of Interactive Experiences?

We have already made the point that consumers want interactivity. But just what kind of experience do they want?

We can identify three types of interactive product:

- the Casual Game:

The user is confronted with his own skills and must prove to be more intelligent than the program. This is the case for most games like cards, chess, checkers, obstacle games, etc.

The platforms hosting them are principally the Internet (Browser Games, Flash Games), Set-Top Boxes and mobile telephones (WAP).

These programs are generally entertaining but have only a very weak play and interactive power. For this reason they have little value in the eyes of the user.

- Confrontation:

The video game industry excels in this type of product. Of course we can find combat games in which we have to confront a human or machine opponent, and various other products of the same type. Only one type of product seems to have been really understood by a larger public: sports games. Electronic Arts, the world leader in video games, owes its success to this observation.

This type of product has the advantage of offering rules that are already known to the general public. But the complexity of the controls often prevents them from having a real impact on the Mass Market. Moreover, the target public is limited to sports fans equipped with a sufficiently powerful interactive platform.

- Narration:

This type of product tells a story in interactive form. The general public has assimilated and is perfectly familiar with film-type narration. These products therefore have good potential for the mass market.

With few exceptions this form of interactivity has so far been badly exploited. It is nevertheless incontestably the form of interactivity with the most potential today.

3.2 What do Consumers Want?

The quality of the scenario, the quality of the acting, the directing and music must not in any way be inferior to that of a television series.

The user is therefore willing to accept a compromise in terms of realism on condition of gaining increased interactivity.

The **Quality of the Experience** is of primordial importance. The general public is used to a certain degree of quality in the entertainment products they use habitually (cinema, television). The fact that we are introducing interactivity does not allow us to reduce the level of quality. The quality of the scenario, the quality of the acting, the directing and music must not in any way be inferior to that of a television series. The visual aspect must also be as close as possible to what the user knows.

From a **Technological** point of view, although the user wants more than anything else an experience that is as realistic as possible, he is nevertheless willing to make some compromises in the interests of interactivity.

The general public is not shy of computer generated images. They are becoming familiar in films (Toy Story, A Bug's Life, Dinosaur) and video games are beginning to become a part of the public's visual universe (Myst, Tomb Raider, Pokemon, etc.).

The user is therefore willing to accept a compromise in terms of realism on condition of gaining increased interactivity.

Ease of Use is a key factor. The majority cannot adopt an interactive format if it does not comprehend its functions almost instantaneously. This contributes to the popular success of Browser Games. They are based on rules that are known to all and thus do not require an apprenticeship period.

The Internet is assimilating this principle increasingly and this is making it a popular interactive platform.

On the other hand, video games require an apprenticeship period that is often long and complex and they demand that the player perfectly memorise many different controls. This partly explains why they remain a niche market.

In terms of **Interactivity**, many people misunderstood the expectations of the general public, thinking that limited interactivity would be enough to seduce the majority.

Wrong: interactive films at the beginning of the 90s are now just a memory. Today's DVDs are timidly

The general public wants simple but real interactivity and they do not want to be misled by the product.

and without much success filling the gap left by interactive movies. The same applies for Multi-Path Webisodes, which are too limited to offer a real gaming experience. And digital television is still finding it difficult to impose a gaming dimension for the same reasons.

It cannot be disputed that the general public wants simple but real interactivity and they do not want to be misled by the product.

The quality of the **Immersion** is also a crucial point. To become interested and involved in a form of entertainment the general public needs to "believe" it. Everything that leads to increased immersion enhances the quality of the experience.

Here again, Webisodes seem to be too limited to be able to offer any real immersion. On the other hand, video games, particularly thanks to technologies like 3D Real Time, offer immersion of an excellent quality. As we have already seen, the importance of this point is reduced because of their great complexity, which often spoils the experience for an uninitiated public.

The **Format** is the last point that has to be worked out. By format we mean both the duration and the accessibility of the product.

In terms of duration, the offer seems to be particularly varied. Video games offer durations that usually fall somewhere between 20 and 50 hours. Webisodes, on the other hand, rarely last more than a few minutes.

Generally speaking, the general public will here again be attracted by products with formats similar to those they already know, particularly television.

It seems to be a fact that the uninitiated public finds it difficult to follow a story that runs for 50 hours. Television provides a good solution with formats of between 20 and 60 minutes, long enough to provide immersion and short enough to avoid boredom.

In terms of accessibility, each format seems to have its own constraints: movies demand that spectators travel to see them; television comes into the home but so far it obliges viewers to respect programme times.

In this respect Webisodes provide a perfectly satisfying response. By distributing a content over the Internet it benefits from ideal accessibility (the product is available all the time all over the world).

Webisodes provide a perfectly satisfying response.

If we add to this the observation we have already made that interactive Narration is the form of interactivity with the greatest chance of attracting the general public, then we begin to distinguish the principal lines of our new format.

3.3 Defining New Forms of Interactive Entertainment

What makes an Immersive sticky Interactive Entertainment ?

Based on what we have seen so far, let's try to define the ideal profile for our new general public interactive entertainment product.

Our format must include:

- Compelling Episodic Content
- Easy to use Interface
- Realistic Immersive Experience
- Internet Community & Distribution

Let's look at each point in detail in order to see how it works.

3.4 Compelling Episodic Content

- **The Episodic Format**

Many of the points we have mentioned in our analysis would be resolved by an episode-type format like what we find in TV series:

- the excessive length of the classic games would be brought into line with the duration of an episode. All players would be able to reach the end easily without spending hours and hours getting there. A format of between 20 and fifty 50 minutes would surely be ideal.

- the narration mode is a format that is known to all. Everyone has watched a TV series and is familiar with the conventions used. Moreover, this format is very popular and has been adopted universally.

- an episode-type content is also eminently adapted to Internet distribution, mainly for two reasons: first of all the quantity of data to be downloaded is smaller than that of a full game, which makes it easier to download; secondly, the community aspect of the

Internet is more than suitable for episode-type content.

- production costs are easier to control. An episode-type content allows for the creation of a real production line similar to that used for a classic TV series. The fact that sets and characters from one episode can be reused in another is a natural consequence of the format.

- Time-to-Market is also reduced, enabling us to more quickly adapt the product to the market.

Everything that can be done in a movie can also be done in this new format.

It is worth pointing out that we no longer have to ask what type of game is in question. Is it an arcade game, an adventure game or an action game? None of the above and all of them at the same time: it's an interactive **series**. Everything that can be done in a movie can also be done in this new format.

In the same way as certain films stress action, sentiment or suspense, our interactive **series** can offer a broad variety while still remaining interactive cinema.

Finally, this format can be adapted to different types of audience by taking the form of dramas, soaps, sitcoms, plays or video clips.

A final point: compatibility. Televised programmes can function on all brands of television. The same holds for our interactive format: it must be independent of the platform on which it is used.

Interactive narration also requires techniques that are different from those of linear narration.

- **Compelling Interactive Storytelling Techniques**

The film industry has been writing excellent scenarios for more than a hundred years and many writing techniques have proved their worth in terms of providing a unifying content. The interactive industry can learn a lot from this experience of storytelling for mass market.

Interactive narration nevertheless also requires techniques that are different from those of linear narration. It is essential to have user interaction with the story while nevertheless preserving the quality and continuity of the scenario. The player's choices must modify the nature and the quality of the interactive experience in a manner that is clearly visible to him.

The ideal would be to create a Interactive story that the player could pull in one direction or the other.

Generally, interaction with the story presents more interest than interaction with the environment.

Peter: I have removed the words Bungee and replaced with interactive stories

The ideal would be to create a Interactive story that the player could pull in one direction or the other. The framework would remain continuous and coherent but the experience the player lives through would depend totally on his choices.

The relationship between the user and interactive narration must also change. He should now become a sort of screenwriter/director/audience. He is no longer the hero; he is more than that; he is all the characters, he is fate, he is the story. He should be able to interact with the whole story rather than just with one character.

- **Script Writing & Directing Tools**

It is also of key importance to create a new generation of tools. They must serve to promote immersion and the story. They should also enable the creation of credible virtual actors in complex sequences. Management of "interactive stories" must be directly integrated in them.

Our format must visually approach the quality of directing that we find in movies.

Camera management is another essential element. 3D real time provides total freedom that must be exploited. Our format must visually approach the quality of directing that we find in movies.

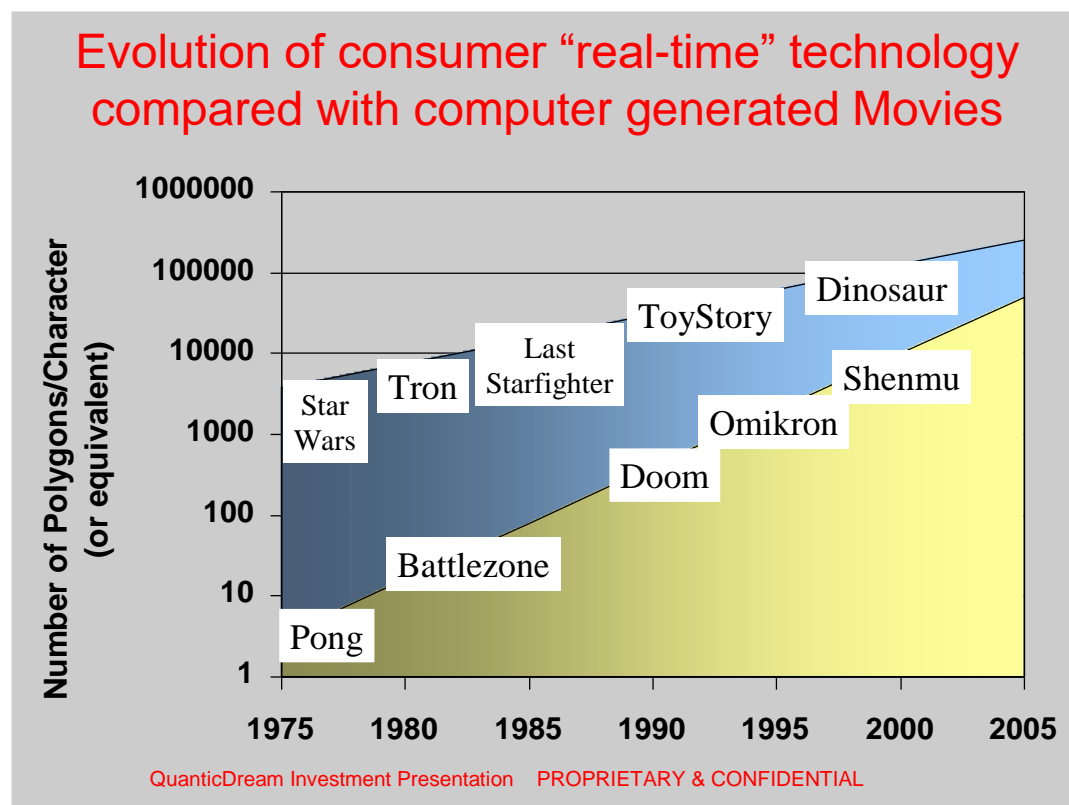
A Virtual Editing Table would enable movie-quality directing with the adaptability of real time. Its design must be sufficiently close to that of a real editing table in order for it to be accessible for traditional film directors.

- **Production Issues**

By using powerful tools sharing a common format we can provide convincing answers to the classic problems of production:

- Time-to-Market is considerably reduced,
- the episodic form enables us to quickly adapt the product to the market.
- production times can be guaranteed, the main uncertainty generally being programming and playability. In our example both would be defined in advance.

3.5 Realistic Immersive Experience



The difference in the number of polygons between computer generated superproductions and real time is dwindling with time.

Shenmue is the same resolution as Toy-Sory!

<DAVID: Unfortunately not. This diagram is based on a lot of guesses...

PETER: If you do not feel comfortable putting in the graph then suggest removing it

The best interactive technology available today is real time 3D.

- **Real Time 3D**

Having a narrative format that is familiar to the user is of no interest if we cannot also offer visuals that are close to what he knows. We might then consider video to be the simplest means, were it not for the fact that it contravenes one of our basic principles: our interactive content must offer the user true interactivity. If this is not the case the user would have no reason to be a passive spectator in front of his PC screen and would no doubt prefer to watch television. The interactive films of the early 1990s are there to remind us that they were definitely not the type of product the public was looking for.

The best interactive technology available today is real time 3D. It gives the user ideal freedom of

Real Time 3D, when mastered, can even be considered to be a superior support to video

movement, action and visualization. Moreover, the power of today's processors, confirmed by the famous Moore's Law (computers double their power every eighteen months), gives quality that is up to the standard of the general public.

3D technology even allows us to go further than video by introducing extraordinary special effects and camera shots, incredible stunts and supernatural transformations at a lower cost.

Real Time 3D, when mastered, can even be considered to be a superior support to video because it allows for different types of rendering: realistic, Cartoon (soft 3D), Manga, and anything the creators can imagine, since they are no longer prisoners of reality.

By virtue of the total interaction it offers and its great flexibility in the hand of creators, Real Time 3D is therefore without any doubt the technology for the interactive content of the future.

- **Virtual Actors**

The characters are what really carries the story. To get the general public interested we must first make sure the characters are credible. We must not allow the comfort of 3D real time to cause us to lose the quality of the emotion.

The ideal technology would be a "Cinema" 3D engine that allows us to create sets, virtual actors and cinema-quality filming.

By creating virtual actors we can provide a response to this difficulty. Technologies like Motion Capture give us a type of acting that is very close to that of a real actor. Facial and body Motion Capture can contribute to create convincing virtual actors and generate a compelling and emotional experience.

To conclude, the ideal technology would be a "Cinema" 3D engine that allows us to create sets, virtual actors and cinema-quality filming.

License adaptation would thus be able to avail of interactive conversion, both in terms of transcribing the characters and sets, as well as camera style. This reassures license owners that their property is respected.

3D technology today can be a vehicle for emotion and become an acceptable support for quality narration.

3.6 Easy to use Interface

The interface allowing the player to interact with the game is undoubtedly the most crucial point of all.

Based on what we have already seen, we accord it the five following characteristics:

It is:

- Simple to understand,
- Simple to use,
- Independent of the cameras,
- Adapted to all the actions we can find in a film,
- Independent of the controller and the platform.

Casual gamers and non-gamers want "instant fun". The product must be easy to learn and easy to use.

The interface should be as transparent as possible in order not to interfere with the interactive experience. The player should be able to forget it so that it becomes his natural extension in the world of the game. Of course, it should be freed of all the usual video game conventions (life gauges, manna bars, ammunition, etc.) that clutter the screen and are off-putting for people who are not familiar with them.

The hard-core gamer derives his pleasure from challenge, the learning curve, the fact of overcoming the machine or an adversary, even if in order to do so he must go through long phases of frustration. Casual gamers and non-gamers represent the opposite trend. They want "instant fun". The product must be easy to learn and easy to use. They do not derive pleasure from the difficulty and the learning period but simply from the joy of the experience.

Natural and easy-to-use, the interface must enable a complex range of interactions, in fact all the actions we could see in a real film.

<DAVID: Still no answer to that...>

PETER This is discussed below – so should have some views !!!>

Multi-User play leverages the internet community

- Synchronize with a group of players

Collaborate and communicate during the experience

3.7 Internet Community & Distribution

As a means of distributing interactive entertainment the Internet has many advantages:

- **Product availability:**

We no longer have to travel to acquire an entertainment product, the product goes directly to the consumer. Accessibility is practically instant since the player can buy and play at home.

Game products become accessible 24 hours a day. The choice is much broader because storage and display costs are relatively low.

- **Cost Effective Delivery:**

"In the near future the price of games will have to come down to make them accessible to the greatest possible numbers", announced Bruno Bonnel, chairman of the number 2 video game company, the French Infogrames.

More than 50% of the sales price of software today goes straight into the distributor's pocket. The best means of reducing prices without sacrificing quality is to reduce the number of intermediaries between the creators and the consumers. This is what Internet does by significantly reducing the manufacturing, distribution and marketing costs.

- **Consistent underlying experience:**

The Internet offers many possibilities for prolonging the experience. For example, it facilitates the creation of communities within which players can communicate and interact. Many services could be based on these communities, whether forums, chats, boutiques, news, etc.

The Internet gives the product real added value, which is impossible on all other supports.

- **Experience Improved by latest Broadband services**

"We must not forget that until we have broadband Internet (cable or satellite), the electronic games market will remain a niche market" says Bruno Bonnel.

The arrival of Broadband in itself constitutes a revolution within a revolution. It opens up technology to new highly-evolved applications and entertainment will be one of the first to benefit from this. Its contribution is not limited to faster loading times. It

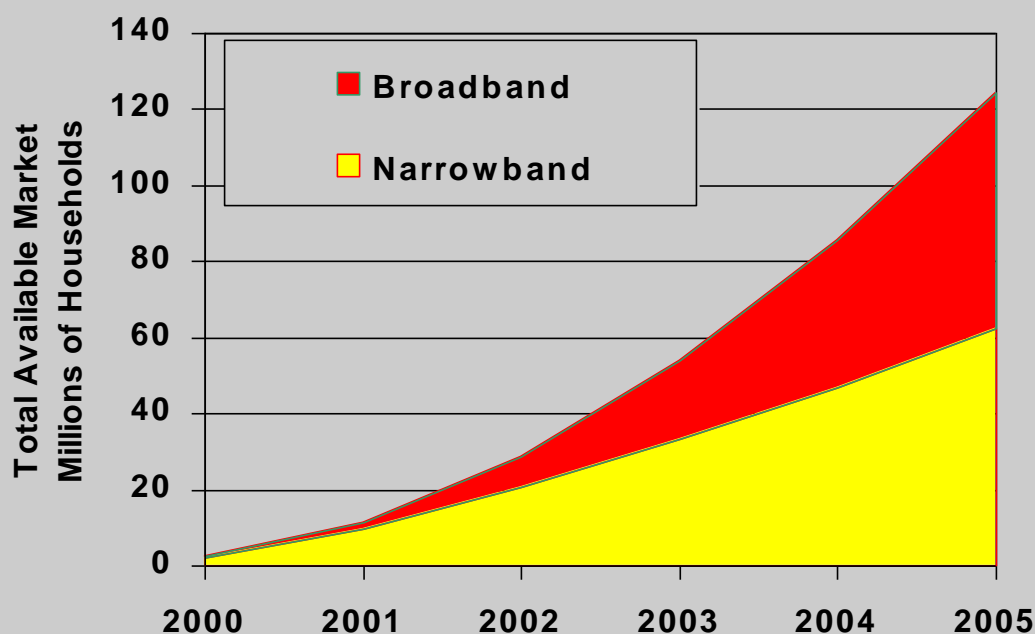
The Internet offers many possibilities for prolonging the experience.

Broadband must also contribute to improving the quality of the interactive experience. Only by this means will the general public come to see its real use.

must also contribute to improving the quality of the interactive experience. Only by this means will the general public come to see its real use.

Interactive Households with “Immersion-capable” platforms

Source: Jupiter Communications, Datamonitor



QuanticDream Investment Presentation PROPRIETARY & CONFIDENTIAL

PETER : Is this part of the next section or what ?

6.- Conclusion

As we have already seen, the Internet seems to be the best means of distributing our interactive TV series. Low costs, accessibility and the sense of community make this an unparalleled support. The progressive democratization of Broadband will open up new dimensions, as will interactive television. The goal is to reach the public in their own homes, whether by means of the PC or television.

4. Conclusion

In the course of this study we have observed that in spite of a strong market demand for interactivity, both old and new entertainment industries are finding it difficult to provide a response that really satisfies the general public.

The current offer is usually ill-suited, badly targeted and badly defined. This is why it is finding it difficult to reach the mass market.

General public interactivity demands a new approach.

Having determined the public's expectations in terms of interactive entertainment, we went on to define the following characteristics for the ideal product:

- it should be distributed in the form of **episodes** in order to offer a format that is familiar to the general public in terms of duration and quality,
- it should use "**3D Real Time Cinema**" that integrates credible virtual actors and directing quality on a par with classic cinema,
- it should offer **real interactivity between the user and the story**, thanks to the concept of interactive stories and other techniques of interactive narration,
- it should use **a simple but complete interface**, that allows for all the actions we find in classic cinema,
- it should be **distributed on-line** in order to enjoy all the advantages of the network in terms of accessibility and community.

Interactivity is an extraordinary market that has opened up for the years to come.

Interactivity is an extraordinary market that has opened up for the years to come. No entertainment product will ever again be commercialised without an interactive version of its content.

The arrival of interactivity in traditional entertainment constitutes a veritable revolution that affects all the existing media, whether cinema, television, books, toys or music.

We must now provide solutions in order to seize the extraordinary opportunity opened up by this new market.

It is up to us to imagine the future of the interactive revolution.

About the Author

David Cage

CEO and Founder of Quantic Dream

With his ten years of experience in the game industry, David Cage defines the strategy of Quantic Dream and provides the vision for the future. Uniting strong entrepreneurial experience with a solid knowledge of the interactive industry has given David a singular understanding of the technical, creative and business qualities needed to facilitate the future of interactive entertainment. He is undoubtedly the embodiment of the Quantic 'Dream'.

As the Founder of Quantic Dream, David has created the direction and developed the initiative on most of the key aspects of the company including business development, marketing and management.

Prior to this, David worked in the music industry. He founded and ran for four years "Totem Factory", a company dedicated to the creation of music for television and games. His clients include Phonogram, Virgin, Sega, Psygnosis, and Gaumont.

About Quantic Dream

Quantic Dream enables the next generation of Interactive Entertainment.

Over the next 12 months consumers will benefit from the widespread availability of high-speed Internet connections coupled with increasingly powerful, inexpensive set-top appliances & games consoles. This combination of digital communications, sophisticated graphics processing and other "immersive" technologies will allow users to easily interact with actors and settings, and to participate in whatever 'story' is being told - giving an incredibly compelling experience in the 'world' that the drama creates.

Quantic Dream will provide the technology that enables developers of the next generation of content to create their own interactive component, including the tools and infrastructure needed to reach consumers quickly & cost effectively. Quantic Dream is helping to create the Interactive Content of

tomorrow. After developing the popular video game experience 'Omikron: The Nomad Soul', voted one of the top-ten technologies of the year by Time Magazine and starring a digital David Bowie, Quantic Dream has acquired the unique mix of creative and technical skills necessary to produce these enabling products & services. With recent investment, by leading French venture capitalists, Quantic Dream has been able to build the technical, creative & business management team necessary for such a ground-breaking enterprise, and has recently opened a West Coast office in San Francisco to meet the demands of this new wave of interactive technology.