What's the problem with cloud gaming?

Cloud gaming is set to play an increasingly significant role in the gaming industry, however in recent years we have seen the collapse of major cloud gaming services such as Google Stadia. This article will explore some of the problems associated with launching cloud gaming services through an examination of the failure of three specific cloud gaming platforms.

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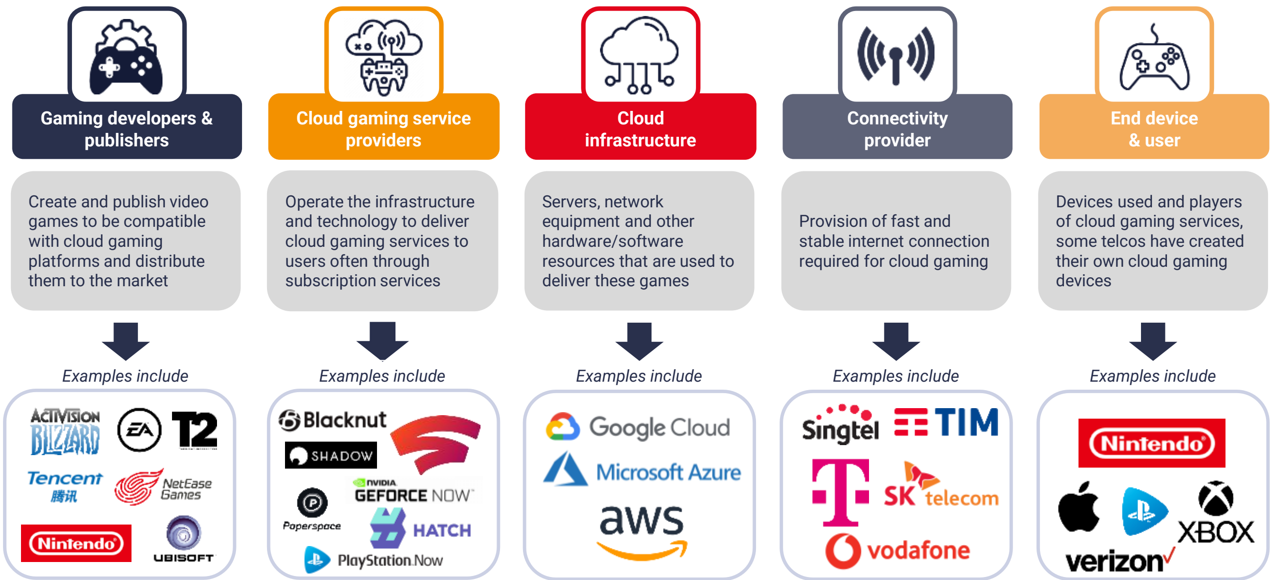
What is cloud gaming?

In recent years, there has been growing interest in the concept of ‘cloud gaming’. Cloud gaming is a new way of consuming video games over the internet without the need to run the game on a console or gaming PC. It involves streaming games to the device from remote servers (the cloud), streaming the output in real-time back to the user’s device. This reduces the need for players to purchase dedicated gaming hardware and physical games. Cloud gaming therefore relies on high-speed internet connections and powerful servers to deliver a smooth and responsive gaming experience.

Find out more in our report: Cloud gaming: what is the telco play?

While this type of gaming is still not as popular as console and mobile gaming, a number of companies across the ecosystem have been entering the cloud gaming fold to capitalise on the opportunity offered, each taking a different role.

Different roles across the cloud gaming value chain



Source: STL Partners

Whilst several companies have attempted to launch cloud gaming services, they have not all been successful. There are a number or challenges to address when launching these platforms and we examine these by looking at three companies that have seen the collapse of their cloud gaming services in recent years.

Case Study 1: Magenta Gaming

Deutsche Telekom launched a cloud gaming service in August 2020 in Europe for a monthly cost of 6.95 euros a month. The service aimed to reduce latency and prevent buffering. The service offered 120 games across multiple devices including Garfield Kart, Gravel and Ghostrunner and was launched on Android smartphones and PC devices. However, the service was announced to be shutting down on February 26th 2022, less than two years after the launch: This was due to the following reasons:

- **Brand Awareness:** Deutsche Telekom are primarily known for providing connectivity services across Europe. Their offering failed to capture the attention of the gamers segment with DT being unsuccessful in positioning themselves as a cloud gaming provider.
- **Device availability**: service was unavailable to users on Apple devices such as iPhones and iPads, limiting their ability to capture significant market share.
- **Limited content library**: the gaming service offered predominantly older or smaller titles with no exclusive blockbuster popular games, such as Super Mario, Call of Duty, World of Warcraft.
- **Competitor offerings**: Magenta Gaming failed to compete with established rival market players such as Microsoft, Sony and Nintendo, which all possessed gaming catalogues with blockbuster titles such as those available on Xbox Cloud Gaming.
- **Acquisition of cloud gaming platform provider**: RemoteMy App, which provided and maintained the streaming technology for the cloud gaming service, was acquired by Intel which created potential uncertainty around RemoteMy App's partnership with Deutsche Telekom.
- **Geographic limitations:** the service was only available in Europe and did not seek to expand its global reach, while rival platforms such as GeForce Now are now available in over 100+ countries.

Case Study 2: Google Stadia

Google launched its cloud gaming service on November 19th 2019 with two tiers of service, a free level known as Stadia and a monthly subscription called Stadia Pro. Stadia let users stream up to 1080p and offered free titles such as Destiny 2 and Super Bomberman R alongside the option to pay for games. Stadia Pro cost $9.99 US per month but offered users access to higher streaming rates, up to 4K resolution, access to a greater library of free games and discounts on paid games.

Google also created a dedicated Stadia controller that connected via Wi-Fi to reduce latency (about 30 ms lower compared to Bluetooth controllers). However, Google announced that the service would be discontinued from 18th January 2023, with customers receiving refunds on all prior purchases. Its closure was potentially due to the following reasons:

- **Closure of first-party studio**: Google decided to close its own gaming studio in February 2021 and move away from developing unique content, instead focusing on acquiring third-party content. This resulted in limiting Google's ability to offer exclusive titles for gamers which would have attracted them to the platform.
- **Lack of exclusive/original content**: despite the service having an impressive library of games, all launch titles were available on other platforms such as PlayStation and Xbox. Without exclusive content it was difficult for Google Stadia to attract gamers who were already invested in other platforms.

- **Connectivity issues:** the service launched with several connection issues with users experiencing frame rate drops and were unable to play the games without crashes. Many countries were also lacking the infrastructure to run Stadia feasibly. These technical issues detracted from the overall gaming experience and made it difficult for Stadia to compete with other platforms.
- **Geographic limitations**: Stadia was only available for users in 23 countries whilst rival platforms such as GeForce Now are now available in over 100+ countries.
- **Competitor offerings:** Stadia's direct competitors, such as Microsoft, offer a superior service e.g. Xbox Game Pass ultimate includes EA Play and over 512 games, compared to 29 free titles with Stadia. Other alternatives such as Nvidia GeForce Now also cater more for a direct market e.g. PC gaming.

Case Study 3: Hatch

Hatch was launched by Rovio (Angry Birds gaming company) in 2018 with two tiers of service, similar to Stadia. The free version of the platform had a smaller number of gaming titles, while there was a premium version which offered access to over 100 premium games, including Monument Valley, and no advertisements. The service was predominantly available in the UK and the US and was only available on mobile devices. However, the service was closed down on December 31st 2020, due to the following reasons:

- **Limited content library**: majority of the gaming library on the service was available to download straight from app stores with only 100+ games available and limited unique content.
- **Target market:** Majority of the games available on the service were favored by more casual mobile gamers who were not interested in the cloud gaming element. Rovio has billions of users across the globe but failed to captivate them for their cloud gaming service.
- **Device availability**: service was only available on mobile devices limiting their ability to capture significant market share.
- **Competitor offerings**: Cloud gaming market became increasingly crowded and competitive, and Hatch could not compete with established rival market players such as Microsoft, Sony and Nintendo.

What next?

There are a number of challenges that the cloud gaming industry must overcome to become a viable alternative to traditional console, PC and mobile gaming. Entering as a newcomer to the industry has been particularly hard as these new entrants often lack exclusive content to drive subscribers to their platform. As the cloud gaming industry is still containing to develop, at STL Partners we have come up with some considerations for ecosystem players to focus on when looking to launch a cloud gaming service:

Key characteristics required to launch a successful cloud gaming service

Gaming Catalogue	Brand Awareness	Device Availability	Geographic Expansion	Targeted Offering
Extensive collection of titles including **unique blockbuster hits** such as Super Mario and World of Warcraft to ensure unique proposition to incentivise consumers to subscribe.	**Ensure they are commercially recognised** as a gaming provider alongside highlighting the added **connectivity advantages** of their proposition.	They need to either focus and **target one particular device type** or ensure the proposition is **available on all possible devices to** maximise the revenue opportunity	Ensure **they are able to scale operations** and have the infrastructure to deploy their offering across several markets.	Develop a unique proposition which **differs to their key competitors** and fills a gap in a crowded market place

Source: STL Partners

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