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### Square Enix Case Study: Stagnating Development

Game development in the video game industry can be quite a taxing process for a company. It's a process that consumes a vast amount of manpower and resources to complete, often taking millions of dollars in costs and multiple years to produce. In short, video game production on a large scale requires tight scheduling and planning so that games are released and recoup their costs efficiently. In this competitive climate of constant releases of Triple-A titles hitting store shelves, companies that struggle to produce high caliber games often miss out on market opportunities. An example of a company that is exceptional at this is Nintendo. Release schedules are well planned and often fulfilled to great sales. And any release delays ensure the game is polished upon its release. In contrast, Square Enix, a developer with renown and a track record of working with beloved franchises such as Final Fantasy, Dragon Quest, and Kingdom Hearts, is struggling in long development cycles for its major releases. Delays are common and releases are met with glitches or incomplete sections of the game that are received poorly by audiences. Multiple reasons account for this, such as poor scheduling, transferring staff, last-minute direction changes, game engine changes and more. All these issues cost millions of dollars resulting in issues with recouping their development and advertisement costs. By examining Square Enix's recent sales performance, development cost, business strategy, and

game development issues can we learn more about what Square Enix needs to do to improve its development.

Square Enix's business model appears to be focused around the concept of "polymorphic content". This model attempts to create lucrative franchises from media that can be applied and sold through other mediums besides video games. An example of this is the Final Fantasy series, which has had multiple spin-off games, films, trading cards, toys, arcades, and even radio dramas. Former President Yoichi Wada stated that "It's very difficult to hit the jackpot, as it were. Once we've hit it, we have to get all the juice possible out of it" (Bower). This pursuit to create franchises out of games leads to a mixture of problems for developing new and innovative games such as FFXV. Intended to expand the game's success across multiple media platforms, Square Enix released a short anime series to flesh out some of the characters of the story (Walsh). While this show had a middling reception from fans, the game itself left many of its characters underdeveloped since it was expected that fans would watch the show, which many did not. This led to poor reviews for the game decreasing its overall sales (Walsh).

This motivation to franchise something created by artistic talent is often critiqued by many consumers as disingenuous and as taking away from the artistic vision of the original author. These misgivings have yet to affect sales and the success of this method, but an increasing cynicism toward franchises such as Final Fantasy can lead to consumer exhaustion with the product. Square Enix needs to either keep franchises fresh or know when to jump to the next IP before the audience's experience fatigue to not damage their sales and reputation among consumers.

For context let's look at YTD SQNXF stock which is up starting from 27.60 (USD) to now at 41.51. Looking at their stocks from last September stocks seem to have regained ground

that was lost in December of 2018. Looking at the 5-year chart shows that peak Square Enix stock was in the range of late 2017 to late 2018 since the recent drop. Data indicates stock trending upward, but this is uncertain with the only popular major release slated for 2020 being the consistently delayed Final Fantasy VII Remake (Google).

Based on an article written in Feb 2019 examining Square Enix's sales numbers, it seems that they are struggling to turn a profit (Spiller). This is even despite major sales with the release of Octopath Traveler, Shadow of the Tomb Raider, and Just Cause 4. It seems development costs have a lot to do with this issue as the Cost of Revenue has increased over the year. Square Enix says this is due to an increase in advertising as well which may mean they may be banking aggressive marketing to make up for the lost profit in the future. In an investor interview with shareholders, President Yosuke Matsuda said, "Additional sales of "SHADOW OF THE TOMB RAIDER" during the holiday season and the launch of "DRAGON QUEST BUILDERS 2" were also not enough to compensate for the shortfall of "JUST CAUSE 4," (Matsuda). While sales may be up for the last two quarters following Kingdom Heart III, cost of revenue has continued to rise. As seen in the March and June quarterly reports Square Enix has been making a good amount of profit recently (Google). But with many of their major releases done for the year perhaps the final quarter will end up poorly for them. There does appear to be a trend of Square Enix failing to take advantage of American sales closer to the Christmas season. This is indicated by the lack of major company titles released in the Sept. thru Dec. months (FFXV release date was only after multiple delays), and as a result, decreases sales by way of title drought. This is believed to be an untapped corner in the American market and as a result, is a major issue regarding the company's American sales.

These sales are greatly affected in larger part due to the lagged development of major releases. Final Fantasy XV was in development for 10 years originally under the title of Final Fantasy Versus XIII which was mentioned to be in development in 2006. Due to organization issues with its development staff were moved around frequently. The original director Tetsuya Nomura seemed to have a hard time reeling in whatever ideas he seemed to come up with for the project. One source claimed that after watching *Les Miserables*, Nomura was so impressed that he threatened to quit if the game was not made into a musical (Walsh). Nomura was eventually replaced by Hajime Tabata when the company wanted to ensure a release in 2016 (Agnello). The game also went through a game engine change to utilize the technology of the new PS4. They called the new engine the Luminous Engine but had to scrap the first 3 years of development to overall the system (Walsh). On top of this their production had to develop the engine as they were developing the game. Because of this delay, the game had to be outsourced to Plus Mile, Hexadrive, XPEC, Umbra, and Streamline Studios decreasing the quality of the game when it wasn't under the direct supervision of the director. Upon its eventual release, the game was plagued with bugs and was updated with a patch that changed the broken story as well as many (but not all) technical issues. The game was then soured in consumers' minds by Square Enix releasing paid downloadable content (DLC) that filled in part of the story that was left out in the original release.

A separate game that remained in a long development cycle was Kingdom Hearts III, which was long delayed in the conceptual stage due to the director being busy with FFXV which kept the game from developing. Nomura the lead director for Kingdom Hearts III and the lead director for what was Final Fantasy versus, stated back in 2006, "The Kingdom Hearts team has Final Fantasy Versus XIII(FFXV) awaiting, so it's physically impossible at the present [to begin

development]. I feel that it's not the right time to talk about the future of Kingdom Hearts,". The game engine was also changed during development requiring a year's worth of work to be redone in their in-house game engine. Scheduling issues also persisted with Nomura adding this in an interview, "We had a plan of the period that it's going to take for us to create the content at the start of the project, and we laid out, after such and such years, we would need to add more personnel resources. We had submitted it to our headquarters and had it approved, but internal personnel is very limited, and there are various different projects that happen within our company, so, unfortunately, the timing did not work out. So, we had to make do with the timing that was appropriate for the company...the company makes the decisions, so unfortunately sometimes it is out of my control," (Vargo). This statement seems to perfectly encapsulate the problem with Square Enix's management system. Games are scheduled erratically, and staff is constantly moved around. As an individual developer is concerned, it's not entirely clear whether your work will even be in the final game, since the risk of changing game engines may mean the work you produced the last couple of years is useless. Directors are given large amounts of time without any tangible results except for game trailers. Thankfully for Kingdom Hearts III, it was released to a positive critical reception at an 83 on Metacritic, (Metacritic). Critiques of the game included confusing and convoluted writing, which some claim to be in part due to an erratic change to the story in development.

Looking at Square Enix's latest upcoming release Final Fantasy VII Remake, things don't seem to be changing for the better. In fact, it may even be worse. Originally showcased back in a tech demo at E3 2005, the game has had a trend of going silent between convention trailers, the next one being in 2015 with no release date in sight (Hornshaw). It wasn't until E3 of 2019 that a trailer and a release date of March 2020 was announced. The caveat is that this is the

first “episode” set to release. Many are skeptical about this release date since the director Nomura has his reputation for slow game development. A roadmap for the later episodes is unclear and does not inspire confidence with the shoddy track record of this installment. Remake producer Yoshinori Kitase had this to say on the eventual episodes, “Unfortunately, we can't say anything more about the future games after that, because we don't know ourselves, really. We really are still fleshing out that process and fleshing out what we're going to do for the second game in the project, and what kind of story is going to be in that, so we really can't tell you,” (Hornshaw). The issue with this roadmap is that even if the first episode does release, will Square Enix come out with the later installments in a reasonable timeframe. This is vital if Square Enix wants to retain investment from the players in this series.

Square Enix is a prominent company in the Japanese game industry. They are responsible for some of the greatest hits that defined generations of games. The most prominent issue they seem to be facing is the slow development of their main flagship titles. These delays cost the company millions of dollars and create scenarios where games are rarely able to break even. This issue can be reduced by consolidating the division of labor and ensuring that project leads (such as Nomura) are focused on a clear idea of what they want the game to be. Additions of game engines can cost years of work and delay games significantly. Switching directors due to poor management 10 years into a project does not create a quality product. Instead, Square Enix needs to prioritize it's in house development by restructuring the way it makes games. This will ensure a better-quality game that reviews higher, satisfies players, and makes a whole lot more money.

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