

UNIVERSITY OF TEESSIDE

SCHOOL OF COMPUTING

Games Futures

New Business Models in Games

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1 INTRODUCTION

The video game, home console, market has been around since the late 70's and with it the one and only delivery method to get the games from the publishers/developers to the gamers, with the delivery service expanding only within the last twenty years.

This report will talk about the different models that past and current publisher's use as well as the most likely eventual future for video games released only via digital distribution and my proposal of a new model, splitting up the game; giving the gamer choice.

2 THE DIFFERENT MODELS

Other the last twenty years alone video games have had a number of new and expanding models, with the very first from the launch of home consoles, being in store.

2.1 In Store



Since the launch of the home console market gamers have been able to pick up games on the self. This is and has been the standard for some time allowing the publisher to easily advertise their newest games in one place.

There are numerous upsides as well as downsides to this;

One of the many upside is the costumer can easily and quickly see the newest and greatest game from that publisher. But this means, as a downside, the publishers' older games either can't be found in store any longer (even if they don't go out of print) or the price is severely reduced to make more



room in store for other titles, with possible financial loss as well as the concerns of theft, which has happened a lot recently, preowned copy sales and a high percentage of money taking from the publishers/developers.

This I'll discuss more and in depth, in the section; Development Costs.

2.2 Subscription

2.2.1 Console Subscriptions



A subscription based service is greatly under used currently in the industry instead only used for extra services on home consoles such as Xbox Live & Playstation Plus, although this will be changing in the future with games like Agent, DC Universe and Final Fantasy XIV releasing onto the Playstation console.

Xbox Live allows the gamer to take all of their games that have multiplayer online to compete against people around the world, as well as giving them exclusive access to other features such as Facebook, Twitter and game demos earlier than Silver (Free) membership members.

Playstation Plus gives the gamer a number of games, expanding platforms from PS1, Neogeo titles to PSP and PSN games, to play and keep for free, as long as their yearly subscription is prolonged, once it's over the games can no longer be accessed.

However a subscription based service is more commonly linked to MMORPGs.

2.2.2 MMORPGs

Subscription based services weren't too far behind the home console market with MMORPGs, although the first to officially call themselves this was Ultima: Online, it was Island of Kesami that was the first commercially developed, subscription based, MMORPG in 1985 for \$12 per hour to play.

Many other MMOs later repeated this process with Neverwinter Nights being another milestone with it being the first graphical MMORPG to release, in 1991 for \$6 per hour to play.

The first monthly subscription service, although the game could also be bought for an hourly fee, was The Shadow of Yserbuis for \$119.99 per month in 1992.

Figures from http://en.wikipedia.org/wiki/History_of_massively_multiplayer_online_role-playing_games#Early_commercial_development

I would like to just add as well that currently the biggest MMORPG, World of Warcraft, has over 12 million subscribers, as of October 2010. With it's latest expansion, Cataclysm, selling 3.3 million copies on the first day, with the previous best selling launch title being it's previous expansion, Wrath of the Lich King.

Figures from <http://www.bbc.co.uk/news/technology-11991041>

The game has a monthly subscription of \$15.

2.3 Free To Play

“**Free-to-play** (F2P, FTP) refers to any game that has an option of allowing its players to play without paying. Some of these games have both a free version and a Pay to Play version that offers the full version of the game and all of the updates.



...The term "free-to-play" is frequently heard in the context of massively multiplayer online games.”

Quote from <http://en.wikipedia.org/wiki/Free-to-play>

Over the years, and more so recently, a lot of MMOs have gone with the free to play model. Offering players either the full MMO experience, with the need of micro transactions to purchase some equipment, or offering a limited play through, to level 10 for example.

Others like Guild Wars offer the complete game for free with the player only needing to purchase the expansions, if the player wants to experience more.



However recently a few publishers, such as EA, have released full free-to-play games to rival console games such as Battlefield Heroes and the soon to be released Battlefield Play4Free.

Currently Battlefield Heroes has over 6 million registered users.

“Although the publisher hasn't discussed the particulars of the business model for *Battlefield Play4Free*, the game will monetize at least in part on microtransactions as *Battlefield Heroes* does -- the game will feature an in-game store for weapons and equipment players purchase with virtual currency.

The virtual currency can be earned through gameplay, but *Battlefield Heroes* found success by allowing players to make real money purchases as



well. As the title ramped up, developer DICE's Ben Cousins -- who after the game's success became the head of the Easy free-to-play group within EA -- has said that the "vast majority" of players play for free."

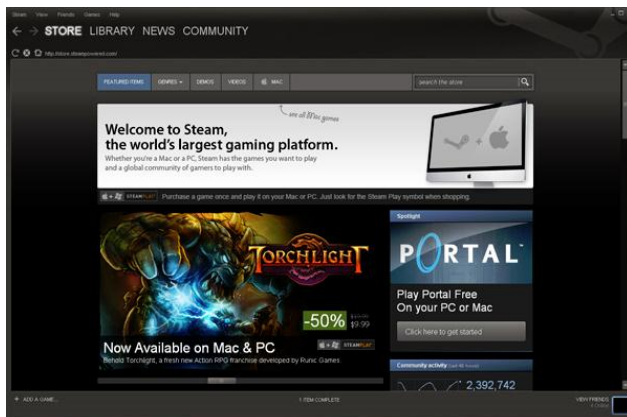
Quote from http://www.gamasutra.com/view/news/31375/EA_Reveals_FreeToPlay_Core_Battlefield.php

2.4 Digital Download Only

With the advent of the internet becoming hugely available in the 90's, and now with connection speeds getting faster, as well as Hard Drives expanding, more and more games have been available to download.

Most notably through game download providers (On PC) such as; Direct To Drive, Good Old Games.com, Gamers Gate and the biggest provider: Steam.

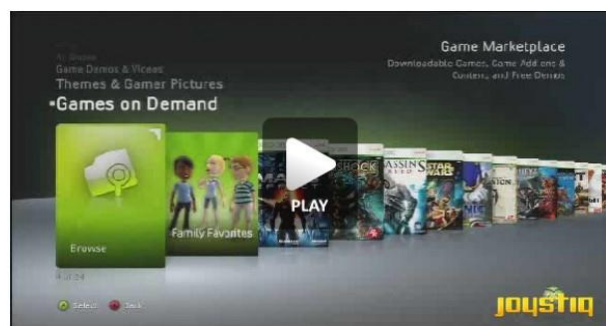
"As of 2010, there are over 1,400 games available through Steam, and over 30 million active user accounts.



Although Valve never releases sales figures, Steam is estimated to have a 70% share of the digital distribution market for video games."

Quote from http://en.wikipedia.org/wiki/Steam_%28software%29

Console manufacturers even started to get involved this generation with many of them offering their back catalogue of games available to download, such as Nintendo with the Virtual



Console on the Wii offering games from the NES, SNES and Turbo Graphix-16 (to name a few), and Sony offering PS1, PSP and recently Neo Geo titles. The Xbox360 and PS3 offer current gen titles, including exclusives, multiple platform titles as well as indie/smaller titles to download as well.

2.4.1 Preowned sales

With a digital distribution method through a provider, it could potentially cut down the chance of theft or piracy; it could even greatly reduce the sale of preowned copies giving the publishers/developers a greater profit.



“Currently, GameStop, the top boutique video games retailer in the U.S., is generating massive amounts of revenue from used games. During the second quarter, it generated \$565.5 million in used video game product sales. It turned a \$260 million profit on those sales, representing over 50 percent of its total gross profit of \$516.8 million.

But developers and publishers only get royalties from the sale of new titles. And that is something that companies have been taking issue with for quite a while now”

Quote from http://news.cnet.com/8301-13506_3-20022957-17.html

A few publishers, such as EA, have launched programs/projects to combat this, such as EA’s Project Ten Dollar/Online Pass that provides a onetime use code with each copy of a new game, once the code is put in, gamers are then given have the ability to "have access to multiplayer online play, group features like online dynasty and leagues," as well as free DLC and more. Without the code, such as being bought second hand, the game will not let you into these features until you have purchased it through their network for \$10.

3 DEVELOPMENT COSTS

With the rise of this generation and HD gaming;

“Budgets have doubled at minimum, tripling or more in many cases. Teams have doubled, and outsourcing is a must to keep up with production needs. Projects are taking far longer to complete. Yet the price on the shelf is roughly the same. Taking inflation into account, games may actually be cheaper!”

Quote from <http://jasonrubinblog.blogspot.com/2010/12/dlc-force-for-good-or-force-for-evil.html>

As someone that hopes to eventually get into the industry and open their own development studio, this is a little worrying to find out; especially what happens to that full retail price.



A console game at \$60 for a standard copy, a retailer's piece of that for selling the game in store is roughly \$12, another \$12 of that goes to the console manufactures.

\$36 then goes to the publisher, which they will then break down, with the industry average being around \$10 to the developer for R&D. An average of \$9 will go to the marketing, this could be more depending how much the publisher pays on the marketing for the game which is on average 15% of what they think the overall game will sell. Leaving a total of \$17 profit.

Figures from <http://www.gametrailers.com/video/christmas-special-pach-attack/708763>

This can be easily over come now with the dawn of digital download providers, allowing for more profit with the avoidance of in store retailers.

“Gabe Newell, CEO of Valve, estimated in 2002 that \$30 gross profit can be made from a \$50 game sold over Steam, much greater than the \$7.50 profit made from games sold through retail.”

Quote from http://en.wikipedia.org/wiki/Steam_%28software%29#Profitability

4 PROPSAL OF A NEW BUSINESS MODEL

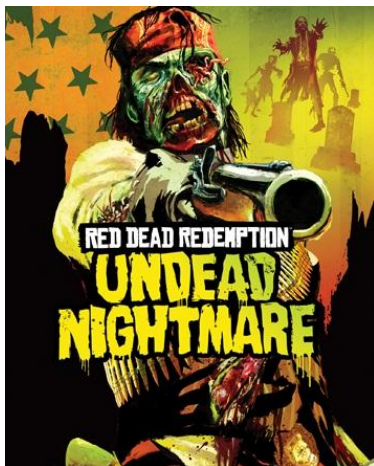
I believe this may become a reality in the not to distance future, maybe not this next console cycle but the one after of freeing games from the box and going straight to digital form and splitting the title into parts, this will free up from the costs of manufacturing discs, covers, instruction manual (on paper) as well as avoiding in store retailers, thus increasing the chance of more profit and reducing the sale of preowned titles, which in turn hopefully leads to more profit.

4.1 Splitting The Title; Giving The Gamer Choice

Other titles could benefit from digital distribution, Red Dead Redemption for example could be split into two pieces, Single player and Multiplayer.

Each individual piece could be £25, almost half the price of the current in store, boxed, price.

This allows the customer more of a choice of what they want to purchase and much cheaper, this method also could produce better information for developers as of this moment they can only tell how many units the game has sold and how many are online at any one time (if the game has multiplayer).



With the sale of each individual piece, they could easily see that, for example; Single player is selling better.

This could then make them decide to release more DLC for the single player side to the game, thus increasing their chance of more profitability for the R&D for that DLC instead of what they're currently doing of making DLC for both single player and multiplayer.

4.2 Splitting The Title; Cheaper/Free To Play

Another way to go could be allowing the player to download a full console title, Mass Effect 3 for example, for free or even just for £10 at launch but this gives the player the first four hours of the game, or even a prologue story, such as what Capcom have done recently with Dead Rising: Case Zero, and depending on the method;

- Free to play – Micro transactions for the player to purchase DLC/Extra missions and weapons/items in the game from shops in game.

- Cheaper - Player can get certain DLC/Extra missions, weapons/items for free but can only play a few hours into the story before they need to pay extra to continue the story.

“Runescape takes this to the limit online by going free for 1/3 of the game and has managed to build up a large paid base.

Hard to understand how people could argue cheaper/free to try!”

Quote from Jason Rubin via E-mail (Appendix 1)



4.3 Sports Title Online



This could also be applied to yearly titles, such as sports games;

“Another clean method that works for recurring titles like madden (or FIFA in Europe) is buy box and get 12 months updates free. From then on updates are \$5. Your game never expires you just get no updates.

Same annual cost to gamer but huge difference to publisher by freeing itself from box.”

Quote from Jason Rubin via E-mail (Appendix 1)

After speaking to Jason Rubin over e-mails, I happen to agree that titles like Madden could offer a more of an Online MMO feel this way with yearly update essentially being expansions rather than a new full price game to the costumer, this may even increase the sales of the game compared to the previous boxed counterparts and again offer more of a profit to the publisher as its freeing them from the box and store, as well as additional staff.

5 CONSULTATION

5.1 Big AAA Titles

I believe with my proposal, the industry could greatly increase its revenue as well as create more varied games/new IPs that do something different instead of each and everyone publisher, and each and every developer hoping that one title they make is a big hit, because of the amount of R&D they might of put into that game.

One example of this is the Assassin's Creed Franchise; officially the series is still up to their second story, although with the first selling well the entire franchise is actually up to their seventh title expanding a number of formats.

With one of the methods above, it would cost roughly the same, if not less overall for the R&D but will greatly increase the profit of said title, without either the publisher or developer feeling like they need to make a sequel out of that world.

5.2 Better Smaller/Indie Titles

The big industry leaders are starting to already use the download space, mostly for DLC atm but studios such as Square-Enix/Eidos, are releasing their big named heroes into the download space, such as Lara Croft and the Guardian of Light, but this is already a big name within the industry.

With a new business model of either cheaper games or free to play this space could quickly go a lot larger with great new titles as an cheaper, development and cost to the gamer, alternative then those Triple A titles.

6 RESEARCH

1. http://en.wikipedia.org/wiki/History_of_video_games#Home_computers
2. <http://en.wikipedia.org/wiki/MMORPG#History>
3. http://en.wikipedia.org/wiki/History_of_massively_multiplayer_online_role-playing_games#Early_commercial_development
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7 APPENDIX

7.1 E-mail with Jason Rubin.

E-mail/Message over social networking site Facebook between myself and Jason Rubin Former CEO & Co-Founder of Naughty Dog, Inc.

Between Jason Rubin and You



Darren Arquette 17 February 2010 at 19:08

Hi Jason,
Hopefully you haven't received too many menacing e-mails, but I kinda agree with you about the changes needed to be made to the industry.

The first idea that comes to my mind is that maybe the players get a game for like £10/\$18, which would essentially be the first three/four hours of a game, after that time they can replay again and again all they like but if they want to play more they then pay a few pounds/bucks more towards DLC (which would be an unlock key.) This would then extend the game's single player until the end, or if they want they could just pay the same amount money towards buy the Multiplayer key.

At least this way Gamer's will likely get what they want from a game, there wont be as much of publishers making a loss (specially with advertisement), publishers will be willing to take more risks and developers/publishers will see what's selling more in their game, i.e. "Okay we were going to make some Single player DLC but most people have the Multiplayer, okay lets make some stuff towards them instead."



Jason Rubin 18 February 2010 at 12:09 Report

I agree. Runescape takes this to the limit online by going free for 1/3 of the game and has managed to build up a large paid base. Hard to understand how people could argue cheaper/free to try!

Another clean method that works for recurring titles like madden (or FIFA in Europe) is buy box and get 12 months updates free. From then on updates are \$5. Your game never expires you just get no updates. Same annual cost to gamer but huge difference to publisher by freeing itself from box.

Thanks for response.

Sent via Facebook Mobile
