Developing Business Models in the Video Game Industry

An evaluation to strategic choices made by small and medium-sized development studios

Master’s Thesis within IT & Management

Author: Christiaan Visser
Peter Zijlstra

Tutor: Andrea Resmini

Jönköping June, 2012
Master’s Thesis in IT & Management

Title: Developing Business Models in the Video Game Industry
Author: Christiaan Visser & Peter Zijlstra
Tutor: Andrea Resmini
Date: 2012-06-06
Subject terms: Video Game Industry, Independent Business Model Development, Digitalization, Paradigm Shift

Abstract

Digitalization has given rise to new opportunities for small and medium-sized video game development studios. No longer bound by physical products and creative restraints, the developer has been empowered with independency. This qualitative study is aimed to understand how a development studio develops their business model and how underlying strategy is formulated. Additionally we evaluate the degree of innovativeness of the business model in terms of radical and incremental innovation according to Damanpour (1991). To achieve this we present a comprehensive literature review as to gain a more theoretical understanding of industry mechanics and to be able to comprehend reasoning behind existing business models. We structure the dynamics of the business model by analyzing nine business model aspects as suggested by Osterwalder, Pigneur and Clark (2010). Following our theoretical framework we gain practical input from four separate case studies. An interpretative research method is used to gain better understanding of reasoning and choices made. We interpret our findings following a narrative approach which shows that the digitalization has preluded a paradigm shift in the sense that development studios have started to adopt activities otherwise performed by key partners. As barriers dissipate small and medium-sized development studios try to make sense of the current industry, but struggle in doing so. Having to reinvent themselves we conclude that a focus towards creating thicker customer relationships is considered and the idea of seeing games as a service is acknowledged to depict the future of the industry. The conclusions of this study contribute to both academic science and industry practice.
Acknowledgements

Reading this chapter implies that our thesis has come to an end and with it our time here in Jönköping, Sweden. We would therefore like to use this opportunity to express our gratitude to everyone who has been involved in the realization of this thesis. Thoughts go out to our family and friends who continuously gave their support, ideas and inspiration. Our supervisor, Andreas Resmini, who provided structure, feedback and creativity in times of uncertainty. “Do not get lost in semantics!” are truly words of wisdom that put things back in perspective. In addition, we would also like to thank our opposition group and coordinators/examinators for their continuous feedback and for encouraging us to write such an entrepreneurial and international thesis topic. We hope to have represented the heart and mindset of the university.

Also, a special thanks goes out to four great inspirational leaders who, despite their limited time, voluntarily allocated precious time to this thesis; the interviewees. Thank you Oskar Burman from Easy Studios, Rickard Blomberg from Fatshark, Remco de Rooij from Triangle Studios, and Björn Larsson from Legendo. We also kindly thank Kars Alfrink from Hubbub who shared a completely different light on our thesis. Despite deeming the field of pervasive and applied gaming to be of particular interest, it did not fit the scope of our study and was therefore not admitted in this final version.

Finally, we would like to collectively thank Jönköping University, and especially JIBS, for giving us, being international students, the opportunity and environment to grow not only as a professional, but as a person as well.

We have truly enjoyed this journey and literally could not have done it without you!

Christiaan Visser & Peter Zijlstra
Jönköping University, June 2012
Introduction

This document depicts a master's thesis in IT & management at Jönköping University. Chapter one is written to introduce our research study. The background regards a clear problem statement and elaborates key concepts to better interpret our purpose. We introduce two research questions to help give a clear view of what is researched. Perspective and delimitations are defined to give a realistic scope and to allocate the position of our study.

Chapter two highlights the methods used, where we chose to follow a qualitative study with an interpretative approach. By describing how we gather data and review existing literature we hope to warrant the validity and reliability of the thesis.

An in-depth literature review is given in chapter three. Structured by Osterwalder, Pigneur and Clark (2010), we discuss nine aspects of the business model as to gain a better understanding of the industry whilst creating a framework to help evaluate practical implications in a structured way.

Following the theoretical framework results an interpretation of four different case studies. These development studios have committed themselves to aid in better understanding the industry and the strategic choices made by small and medium-sized development studios. Additionally we evaluate in what sense studios can be considered innovative and what induces the necessity to actually innovate.

Chapter five concludes our study by answering the suggested research questions. We discuss implications for future studies and practitioners in chapter six: discussion. Finally, we include appendices after the six thesis chapters.

The next page represents a reader's guide which we urge you, the reader, to consider as the presented thesis has a breadth use of specific terminology, abbreviations, and definitions.
Reader’s guide

This thesis is written to also be comprehended by readers not familiarized with the video game industry or game studies. Illustrated below is the list of abbreviations and definitions used in this paper. With small aid from Wikipedia (2012) we aim to give concise descriptions of terminology used whereas most terminology is better explained in specific sections of the thesis. Note that we purposely exclude concepts such as development studio and video game industry as they are more comprehensively discussed in the Key Concepts chapter 1.3.

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESA</td>
<td>Entertainment Software Association</td>
</tr>
<tr>
<td>IGDA</td>
<td>International Game Developers Association</td>
</tr>
<tr>
<td>MDF</td>
<td>Market Development Funds</td>
</tr>
<tr>
<td>MMG</td>
<td>Multiplayer Games</td>
</tr>
<tr>
<td>MMO</td>
<td>Massive Multiplayer Online</td>
</tr>
<tr>
<td>MMOG</td>
<td>Massive Multiplayer Online Game</td>
</tr>
<tr>
<td>NDS</td>
<td>Nintendo DS</td>
</tr>
<tr>
<td>PSN</td>
<td>Playstation Network</td>
</tr>
<tr>
<td>VG</td>
<td>Video Game</td>
</tr>
<tr>
<td>XBLA</td>
<td>Xbox Live Arcade</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Definition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon</td>
<td>Example of a retailer selling products via the Internet.</td>
</tr>
<tr>
<td>arcade games</td>
<td>Used to refer to a video game that was designed to look like a classic arcade game (adopting an isometric view, 2D graphics, scores, lives, etc.) but instead released on platforms such as XBLA or PC.</td>
</tr>
<tr>
<td>brick-and-mortar</td>
<td>A traditional &quot;street-side&quot; business that deals with its customers face to face in an office or store that the business owns or rents.</td>
</tr>
<tr>
<td>business model canvas</td>
<td>Tool introduced by Osterwalder, Pigneur &amp; Clark (2010) to describe a business model.</td>
</tr>
<tr>
<td>console games</td>
<td>Video games offered on the console platform such as the Playstation 3, Nintendo Wii and Xbox 360.</td>
</tr>
<tr>
<td>contractual development</td>
<td>Video game development performed by a development studio according to a contractual agreement with another party (e.g. investor or publisher).</td>
</tr>
<tr>
<td>digital distribution</td>
<td>The offering and distribution of video games via digital channels such as Steam, PSN and Xbox Live.</td>
</tr>
<tr>
<td>digitalization</td>
<td>The adoption of digital distribution for development studios.</td>
</tr>
<tr>
<td>E-commerce</td>
<td>E-commerce (electronic commerce) is the buying and selling of goods and services on the Internet, especially the World Wide Web.</td>
</tr>
<tr>
<td>episodic content</td>
<td>Video game content that appears in the form of episodes, usually released by the video game developer in addition to the original game.</td>
</tr>
<tr>
<td>fire-and-forget</td>
<td>The video game depicts a typical short product life cycle. As such the video game is &quot;fired&quot; on the market, played, and &quot;forgotten&quot; (Teipen, 2008).</td>
</tr>
<tr>
<td>free trial</td>
<td>The customer is allowed to try the product for free.</td>
</tr>
<tr>
<td>free-to-play</td>
<td>The video game is free to play.</td>
</tr>
<tr>
<td>game design studies</td>
<td>Studies regarding game design, which is towards designing and building a video game.</td>
</tr>
<tr>
<td>game psychology studies</td>
<td>Studies in the field of psychology regarding the implications of playing video games</td>
</tr>
<tr>
<td>GameStop</td>
<td>Example of a retailer selling products via a physical store.</td>
</tr>
<tr>
<td>game</td>
<td>Interactive product used on PC, MAC, handheld or console aimed at providing digital leisure activity (synonyms in our context include: video game).</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>---------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>gamer</td>
<td>The typical consumer of a video game (synonyms in our context include: player, user, customer, and consumer)</td>
</tr>
<tr>
<td>game engine</td>
<td>System designed for the creation and development of video games.</td>
</tr>
<tr>
<td>handheld</td>
<td>Mobile console to play video games on. For example the NDS.</td>
</tr>
<tr>
<td>independent (indie)</td>
<td>The state of being independent from other parties’ (creative) influences in the production process of a product.</td>
</tr>
<tr>
<td>in-house development</td>
<td>Type of development with which every step of the video game production process is organized by the development studio itself (Teipel, 2008).</td>
</tr>
<tr>
<td>microtransactions</td>
<td>Revenue model depicting the sales of so-called virtual goods.</td>
</tr>
<tr>
<td>mobile phone games</td>
<td>Video games offered on the Smartphone such as the Apple: iPhone or Android.</td>
</tr>
<tr>
<td>PC games</td>
<td>Video games offered on the PC platform.</td>
</tr>
<tr>
<td>Mac games</td>
<td>Video games offered on the Apple: Mac platform.</td>
</tr>
<tr>
<td>PlayStation Network</td>
<td>Online multiplayer gaming and digital media delivery service provided/run by Sony Computer Entertainment for use with the PlayStation 3.</td>
</tr>
<tr>
<td>prosuming/prosumer</td>
<td>Actively utilizing the customer in the creative and content creation processes of game development. The customer becomes more than just a consumer as customer driven production can be exploited. The consumer consumes what he produces (Tapscott and Williams, 2008).</td>
</tr>
<tr>
<td>publisher</td>
<td>A third party responsible for bringing the video game to public attention. Publishers often organize the financing for the game development, the whole production process and the marketing of a video game (Teipel, 2008).</td>
</tr>
<tr>
<td>Steam</td>
<td>Digital distribution, multiplayer, and communications platform developed by Valve Corporation. It is used to distribute games and related media online, from small independent developers to larger software companies.</td>
</tr>
<tr>
<td>subscriptions</td>
<td>Revenue model depicting the income of money on a subscription basis. The payment receiving company will receive a payment from its customer depending on whether the customer wants to continue the service.</td>
</tr>
<tr>
<td>triple A titles</td>
<td>High quality games with a big budget.</td>
</tr>
<tr>
<td>video game developer</td>
<td>Company that produces the ‘actual’ product (synonyms in our context include: development studio and studio).</td>
</tr>
<tr>
<td>Unity</td>
<td>Type of video game engine.</td>
</tr>
<tr>
<td>Xbox Live</td>
<td>Online multiplayer gaming and digital media delivery service created and operated by Microsoft Corporation.</td>
</tr>
</tbody>
</table>
Table of Contents

1 Background .................................................................................................................. 1
   1.1 Problem .................................................................................................................. 1
   1.2 Purpose ................................................................................................................... 1
   1.3 Key concepts .......................................................................................................... 2
      1.3.1 Business model and business strategy ............................................................. 2
      1.3.2 Video game industry ......................................................................................... 3
      1.3.3 Small and medium-sized game development studios ...................................... 3
      1.3.4 Innovation ......................................................................................................... 3
   1.4 Perspective .............................................................................................................. 4
   1.5 Research questions ................................................................................................. 4
   1.6 Delimitations .......................................................................................................... 4

2 Methods ......................................................................................................................... 6
   2.1 Introduction ............................................................................................................. 6
      2.1.1 Interpretative research approach ..................................................................... 7
      2.1.2 Qualitative data analysis ................................................................................. 7
   2.2 Stage 1: Secondary Data ......................................................................................... 9
      2.2.1 Reviewing existing literature .......................................................................... 9
      2.2.2 Creating a theoretical framework .................................................................... 9
   2.3 Stage 2: Primary Data ............................................................................................ 11
      2.3.1 Semi-structured interview .............................................................................. 11
      2.3.2 List of suitable studios .................................................................................... 11
      2.3.3 Contacting the studios .................................................................................... 13
      2.3.4 Conducting the interview ............................................................................... 14
   2.4 Stage 3: Data analysis ............................................................................................ 16
      2.4.1 Transcribing the results .................................................................................. 16
      2.4.2 Coding the results .......................................................................................... 16
      2.4.3 Interpreting the results ................................................................................... 17
      2.4.4 Concluding and discussing the results ............................................................ 18
   2.5 Validity .................................................................................................................... 18
      2.5.1 Internal validity .............................................................................................. 18
      2.5.2 External validity .............................................................................................. 20
   2.6 Reliability ................................................................................................................. 21

3 Theoretical framework .................................................................................................... 22
   3.1 Introduction ............................................................................................................. 22
   3.2 Customer Segments ............................................................................................... 24
      3.2.1 Approaching gamer mentalities ...................................................................... 24
      3.2.2 Social gamers ................................................................................................. 25
      3.2.3 Casual gamers ............................................................................................... 25
      3.2.4 Committed gamers ....................................................................................... 26
   3.3 Value Propositions ................................................................................................... 26
      3.3.1 Single play and multiplayer focus ................................................................. 27
      3.3.2 Product and service orientation .................................................................... 30
   3.4 Channels .................................................................................................................. 31
      3.4.1 Physical and digital distribution ................................................................. 31
      3.4.2 Video game promotion .................................................................................. 33
   3.5 Customer Relationships ......................................................................................... 34
   3.6 Revenue Streams .................................................................................................... 36
      3.6.1 Fire-and-forget .............................................................................................. 36
      3.6.2 Subscriptions ................................................................................................. 37
      3.6.3 Microtransactions ......................................................................................... 38
   3.7 Key Activities .......................................................................................................... 40
3.7.1 Contractual to independent shift ............................................ 41
3.7.2 Implications for small- and medium sized studios .................. 43
3.8 Key Resources .......................................................................... 45
3.8.1 Competencies ....................................................................... 46
3.8.2 Content delivery .................................................................. 47
3.9 Key Partnerships ....................................................................... 47
3.9.1 Partnerships and Alliances ..................................................... 48
3.9.2 The consumer as co-creator .................................................. 50
3.10 Cost Structure .......................................................................... 52
3.10.1 Production costs: contractual and independent .................... 52
3.10.2 Service costs ....................................................................... 53
4 Interpretation ............................................................................... 54
4.1 Introduction ............................................................................... 54
4.2 Easy Studios ............................................................................ 54
4.3 Fatshark AB ............................................................................ 59
4.4 Triangle Studios ....................................................................... 62
4.5 Legendo Entertainment AB ...................................................... 66
5 Conclusion .................................................................................. 71
6 Discussion ................................................................................... 73
6.1 Implications for future research ................................................ 73
6.2 Implications for practitioners ................................................... 73
6.3 Contribution and limitations of study ....................................... 74
List of references ........................................................................... 75

Figures
Figure 1: different stages of research execution ............................... 6
Figure 2: data collection approach (modification of De Mast & Bergman, 2006) ............................. 8
Figure 3: visual representation of theoretical framework (as applied from Osterwalder et al. 2010) ............................................................... 23
Figure 4: customer segments ............................................................ 24
Figure 5: gamer classification (Kallio et al. 2011) ............................ 25
Figure 6: value proposition .............................................................. 26
Figure 7: motivations for playing online network games (Choi & Kim, 2004) ................................. 28
Figure 8: channels .......................................................................... 31
Figure 9: customer relationships ...................................................... 34
Figure 10: revenue streams ............................................................. 36
Figure 11: fire-and-forget model (Nojima, 2007) .............................. 36
Figure 12: subscription model (Nojima, 2007) ................................. 37
Figure 13: microtransactions model (Nojima, 2007) ......................... 38
Figure 14: key activities .................................................................. 40
Figure 15: seven stages and inputs of the VG production network (Johns, 2006) ............................ 40
Figure 16: traditional VG industry interconnectivity model (Johns, 2006) .................................. 41
Figure 17: key resources ................................................................. 45
Figure 18: key partnerships ............................................................. 47
Figure 19: cost structure ................................................................. 52
Figure 20: conceptualization of the independent VG production network (adopted from Johns, 2006) ................................................................. 79
Figure 21: the authors ................................................................... 111
Tables
Table 1: overview of topics addressed within study .................................................. 10
Table 2: selection of suitable studios ........................................................................ 12
Table 3: contact phone call template .......................................................................... 13
Table 4: contact e-mail template ................................................................................ 14
Table 5: interview guide ............................................................................................. 15
Table 6: relationship between interview and business model aspects .................... 16

Appendix
Appendix 1: Conceptualization for revised VG value chain model ......................... 79
Appendix 2: Easy Studios ........................................................................................... 80
Appendix 3: Fatshark AB .......................................................................................... 88
Appendix 4: Triangle Studios .................................................................................... 95
Appendix 5: Legendo Entertainment AB .................................................................... 102
Appendix 6: About the authors .................................................................................. 111
I  Background

1.1  Problem

The video game industry depicts an ultra-competitive environment, characterized by spiraling production times and development costs, which has forced video game developers to search for alternative approaches of doing business. As a consequence, digital distribution systems, subscription-based models and microtransactions have challenged the traditional circuits of game development, play and distribution (Sotamaa & Karppi, 2010). In the last decade a notable shift has occurred from big ‘fire-and-forget’ retail games to small and often ‘free-to-play’ digital games. Statistics show promise and opportunities for various free-to-play games such as ‘DC Universe Online’ where its player base has seen a 1000 percent growth ever since switching to a free-to-play business model (Downin & Magrino, 2011). In similar respect, Moore (2009) explains how ‘Unreal Tournament 3’ has seen a player increase of 2000 per cent when they started to offer their title as downloadable as opposed to only offering it as a physical product. By also including a free trial weekend it eventually allowed for enough sales for game developer Epic to no longer consider the release a commercial failure.

The mentioned game development studios depict rather large studios, whereas little has been written regarding the implications for small and medium-sized studios. However, it does become apparent that digital distribution or rather the ‘digitalization’ has various implications for the industry as a whole. When initiating this thesis, we wondered whether this phenomenon could be related back to academic terms. Our problem statement is thus perhaps more suited to be treated as an opportunity statement as we aim to evaluate the degree by which small and medium-sized studios require to be innovative within their business model. By doing so our study thus presents opportunity for studios to develop their business model according to our theoretical and practical implications. We concur with Chesbrough (2010) who argues that business model innovation is often of more importance than general product innovation. Although efforts to innovate the business model do not always warrant success, we believe that our study should still give opportunity to small and medium-sized studios whom are developing their business model.

1.2  Purpose

As the video game industry is characterized by rapid development and constant turmoil (Sotamaa & Karppi, 2010; Williams, 2002; Johns, 2006; Ip, 2008), this study is an attempt at gaining a structural understanding of the industry in hopes to assist small and medium-sized video game development studios to further strengthen practical strategic alignment. Preston (2000) cited by Williams (2002) inspired us by stating that when previous media (read: other entertainment industries) emerged, academics played an important role in making sense of the industry and informing policy, and also in providing an important gateway between the public and the industry. We feel that we have a responsibility to do so again. In attempting this we find aid from Osterwalder et al. (2010) who mention nine building blocks to analyze and build a full-fledged business model. These building blocks have been adopted to fit our analysis in order to specify characteristics and conditions of a business model in a structured manner. The theoretical framework should thus assist small and medium-sized studios in developing their business model in a structured manner. Therefore, aside from being evaluative, this study is also explorative in the sense that we aim to broaden the overall knowledge and understanding of the video game industry from an IT-economics perspective.
1.3  Key concepts
In order to better understand our study we introduce the most important concepts, which according to Ghauri and Grønhaug (2010) is a critical element, because they direct what is captured. Even though many concepts used in everyday life are ambiguous (e.g. 'democracy' and 'influence'), they must be clear and agreed upon to be useful in research. We define the following key concepts.

1.3.1  Business model and business strategy
Osterwalder et al. (2010) state that “a business model describes the rationale of how an organization creates, delivers, and captures value”. Following this we share a common belief that a business model can be best described through the following nine basic building blocks that show the logic of how a company intends to make money:

1. Customer Segments (CS)
   An organization serves one or several customer segments.
2. Value Propositions (VP)
   An organization seeks to solve customer problems and satisfy customer needs with value propositions.
3. Channels (CA)
   Value propositions are delivered to customers through communication, distribution, and sales channels.
4. Customer Relationships (CR)
   Customer relationships are established and maintained with each customer segment.
5. Revenue Streams (R$)
   Revenue streams result from value propositions successfully offered to customers.
6. Key Resources (KR)
   The assets required to offer and deliver the previously described elements.
7. Key Activities (KA)
   The activities required to offer and deliver the previously described elements.
8. Key Partnerships (KP)
   Partnerships are established as some activities are outsourced and some resources are acquired outside the enterprise.
9. Cost Structure (C$)
   The various business model elements result in the cost structure.

These nine aspects cover the four main areas of a business: customers, offer, infrastructure, and financial viability. Also, Osterwalder et al. (2010) state that the business model is like a blueprint for a strategy to be implemented through organizational structures, processes, and systems. We would like to denote that this also outlines the fact that there is a substantial difference between a business model and a business strategy. The latter more of less fuels the business model and explains choices made within the model. It implies that by utilizing this business model canvas we will be better equipped to explore and understand development and innovations within the video game industry. The canvas will however not help us to frame underlying strategy. The latter should, more or less, follow from interviews with development studios to relate the business model canvas for a more practical evaluation.
1.3.2 Video game industry
When discussing the video game industry we mainly address the Western video game industry as to purposely exclude the Asian video game industry. Reason for this is that these two markets are mutually exclusive as they have completely different customer segments, value propositions, etc. This is represented in most game studies when a notion is made to specify the Asian market when the Asian video game industry is addressed. We believe the separation has most likely to do with vast cultural differences. In our discussion, however, when talking about the global market and the video game industry we specify the West-European and American video game industry.

1.3.3 Small and medium-sized game development studios
With small and medium-sized game development studios (also referred to as development studio or studio) we imply companies in the business of video game development with a workforce of one to 100 employees. Although this excludes video game publishers, it does not mean that video game development studios cannot adopt publishing activities. A more detailed distinction is illustrated in chapter 3.7 of the theoretical framework.

1.3.4 Innovation
When discussing innovation for business model aspects within the video game industry we purposely define innovation according to Damanpour (1991) who focused on the adoption of innovations in organizations and examined organizational properties that enhance or hinder organizational innovativeness. The adoption of innovations is conceived to encompass the generation, development, and implementation of new ideas or behaviors. As such, innovation is defined as the adoption of an internally generated or purchased device, system, policy, program, process, product, or service that is new to the adopting organization (Daft, 1982; Damanpour & Evan, 1984; Zaltman, Duncan, & Holbek, 1973; cited by Damanpour, 1991). For example, when a video game studio wants to develop a new product (video game), organizational efforts might have to be reconsidered as new strategic choices could be implied. As such, organizational innovation is applied in accordance to Damanpour (1991).

Additionally Damanpour (1991) adds more levels to this concept as organizational innovation can be further distinguished as incremental or radical. Radical innovations produce fundamental changes in the activities of an organization and represent clear departures from existing practices. For example, a studio can choose to change the platform on which they produce games for (e.g. changing from console to Mac/PC). Incremental innovations in contrast result in little departure from existing practices. For example, a studio can adopt the use of Twitter additionally to previously using Facebook in order establish communication with customers.

In regards to why organizational innovation should be considered, Damanpour (1991) argues that the adoption of innovation is generally intended to contribute to the performance or effectiveness of the adopting organization. This depicts that innovation is a means of changing an organization, whether as a response to changes in its internal or external environment or as a preemptive action taken to influence an environment. Hage (1980) cited by Damanpour (1991) stresses that as even the most stable environments change, organizations adopt innovations continually over time. Hence, organizational innovativeness is more accurately represented when multiple rather than single innovations are considered. We believe this to be most applicable when discussing multiple aspects of business models within the video game industry. As such, the application of Damanpour’s (1991) definition of innovation is most accurate for our intended study.
1.4 Perspective
This study is written from a video game developer perspective. While including aspects of other parties such as the consumer, the publisher and the distributor, we purposely ensure that our study is applicable and helpful for small and medium-sized video game developing studios active or prospecting to be active within the video game industry. As such we look at the video game industry from an IT-economics perspective. Finally, seeing as strategy, business models, and describing an industry in general can comprehend multiple research areas, we actively seek boundaries with other fields of study when applicable. Related fields of interest are Management/Business-, Behavioral Science- and Information System (Management) studies.

1.5 Research questions
Considering the before mentioned we define the following two research questions:
1. How have small and medium-sized video game development studios developed their business models?
   a) What was/is needed to be a competitive video game developer in the past, present, and in the future?
   b) Is there a need for business model innovation?
   c) Can the business model be considered innovative?

2) What business strategy do small and medium-sized video game development studios deploy when prospecting for a successful gaming title?
   a) How do studios develop their business strategy?
   b) How do studios differentiate themselves from competitors?
   c) How do studios measure success?

1.6 Delimitations
Scope of study
We need to clearly delimit the scope of our research. In its current state most research performed in game studies is focused towards (innovating) game design and game psychology. Even though we often touch boundaries, our study is positioned outside of these research areas as we believe the business side to be a completely different topic from these fields of study.

Swedish and Dutch studios
Making inferences about the entire video game industry is limited due to the fact that we only have practical application from small and medium-sized Swedish and Dutch development studios. However we feel that evaluation could still be made as these studios compete within a global market. Also in accordance to Saunders, Lewis and Thornhill’s (2009) take on interpretivism (see chapter 2: methods), our aim is to better understand the industry, and therefore feel that any interpretation of small and medium-sized video game development is valid despite base of operation.

Opportunities and trends
The overall arc of this study initially involved starting points that were focused on identifying opportunities and trends within the video game industry. However, we soon realized that this was not feasible as related sources were often of a non-scientific nature. Most sources addressing opportunities and trends originate from blogs, reports, and the like.
Thus, while our original intention of understanding the video game industry still remains, we are looking at the industry from a scientific point of view and will therefore not attempt to forecast future trends and opportunities. The latter is also more or less speculated by ESA (2011) and IGDA (2008) who make effort to stereotype business models.

**Independent (indie) studios**

Finally, as developers are often contracted to develop for publishing companies we delimit our research to small and medium-sized studios that have developed or are in development of their own independent game titles. Reasoning for this is that it is more interesting to contrast and evaluate the standpoint of a studio that has experienced both contractual and independent development.
2 Methods

2.1 Introduction

This study encompassed an explorative and evaluative research. Following Ghauri and Gronhaug (2010) we explored the most trending video game industry developments and evaluated whether they could be considered innovative and/or feasible. The latter implies that we wished to evaluate whether strategic choices made have aided to the success of a studio. In order to determine this we created a theoretical framework to clearly describe various developments and innovations within the industry for the past decade and create a base of theory (DePoy & Gitlin, 2005). Ultimately, the framework enabled us to approach studios for a more practical application to better discuss choices made, evaluate the degree of innovativeness, and optionally, to better discuss their perception of the future of the industry.

This study followed three stages in which we addressed our research questions:

<table>
<thead>
<tr>
<th>Stage 1: Secondary data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review existing literature</td>
</tr>
<tr>
<td>Create theoretical framework</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stage 2: Primary data</th>
</tr>
</thead>
<tbody>
<tr>
<td>List suitable studios</td>
</tr>
<tr>
<td>Contact studios</td>
</tr>
<tr>
<td>Conduct interviews</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stage 3: Data analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transcribe results</td>
</tr>
<tr>
<td>Codify results</td>
</tr>
<tr>
<td>Interpretation</td>
</tr>
<tr>
<td>Conclusion and Discussion</td>
</tr>
</tbody>
</table>

Figure 1: different stages of research execution

1. The creation of a theoretical framework following research of an explorative nature (secondary data);
2. The pursuit of practical input (primary data);
3. The interpretation and evaluation of accumulated data.

This approach allowed us to explore and evaluate our findings in a structured manner, resulting in a thorough and academically founded research method. The next sections will elaborate our approach in more detail.
2.1.1 Interpretative research approach
Looking at our research questions, it is important to further narrow down our research approach as this significantly impacts not only how we conduct our research but also how we understand what it is that we are investigating (Saunders et al., 2009). The state of existing literature within our research domain implies that due to the rapid environmental and technological changes within the video game industry, game development studios have very distinct product portfolios. We thus believe that there is a more complex combination of approaches present on which these studios base their decisions. Strategy formulation, vision, operational management, innovation, creativity are all examples of aspects which we believe to be part of a sociological system within which a studio acts. In accordance with Saunders et al. (2009), we thus pursue interpretivism as our research approach as we aim to create an understanding from various organizational standpoints. We believe gaining insight in subjective meanings and motivations is the first step in realizing a new knowledge base for small and medium-sized studios in the video game industry. Since the overall objective is to explore and understand the above mentioned (subjective) phenomenon, an inductive approach is suitable for our cause (Saunders et al, 2009). Accordingly, Davies (2007) adds that the interpretive approach refutes the idea that any investigator can adopt a truly neutral approach to research. All research is guided by a set of beliefs and feelings about the world and how it should be understood and studied. The consequence of this argument is to say that all knowledge is relative to the person interpreting it, but the qualitative researcher aims to overcome this risk by rigorously and continuously checking a postulated theoretical position against the evidence that the investigation throws up. This is why we initially approach existing theory as a base for discussion to better interpret practical findings.

2.1.2 Qualitative data analysis
Inspired by De Mast and Bergman (2006) and modeled in figure 2, our data analysis consists of three concurrent flows of activity: data reduction, data display, and conclusion drawing/verification (Miles & Huberman, 1994). The structure presented in this figure is in accordance with the inductive approach as described by Saunders et al. (2009). To our knowledge we have applied the concept of data reduction as we have continuously selected, focused, simplified, abstracted, and transformed data to written-up field notes or short transcriptions. Even before we actually started to collect data, anticipatory data reduction occurred as we made decisions regarding which conceptual framework, which cases, which research questions, and which data collection approaches to choose.
Data collection proceeded as further episodes of data reduction occurred. The data reduction process continued after fieldwork, until the final report was completed. Miles and Huberman (1994) state that data reduction is not something separate from analysis. It is part of analysis. Our decisions, regarding which data chunks to code and which to pull out, which evolving story to tell – were all analytic choices. In this sense, data reduction is a form of analysis that sharpens, sorts, focuses, discards, and organizes data in such a way that “final” conclusions can be drawn and verified (Miles & Huberman, 1994).

Generally, a data display is an organized, compressed assembly of information that permits conclusion drawing and action (Miles & Huberman, 1994). We found data display in various theory which helps us better understand theory and sometimes enabled us to take further action. The latter also rejoices in the sense that we construct own data displays when suitable. An example of this can be found in the theory chapter, where data display is continuously used to highlight key concepts and to give an overall red line.

Since the start of our data collection we have verified what things meant by noting regularities, patterns, explanations, possible configurations, causal flows, and propositions. We held any theoretical conclusions lightly to maintain openness and skepticism. Verification may be as brief as a fleeting second thought crossing our minds during writing, with a short excursion back to the field notes, or it may be thorough and elaborate with lengthy argumentation (Miles & Huberman, 1994). The meanings emerging from the data found had to be valid. As such we secured secondary data sources mainly from journals and scientific articles as suggested by Miles and Huberman (1994). Additionally we utilized reports exploring opportunities within the video game industry, but chose not to discuss them in our literature review as they remain theoretical notes. However, despite being speculative of nature, we feel that they still greatly impacted our perception and overall understanding of the video game industry.
2.2 Stage 1: Secondary Data

2.2.1 Reviewing existing literature
Following DePoy and Gitlin (2005) we follow six steps to conduct our literature review:
1. Determine when to conduct a search;
2. Delimit what is searched;
3. Access databases for periodicals, books, and documents;
4. Organize the information;
5. Critically evaluate the literature;
6. Write the literature review.

Our research was set out to explore existing literature in order to further leverage theoretical evaluation with actual video game development studios. By creating a theoretical framework we established a solid foundation from which we were able to make more practical inferences. The main source of secondary data ranged from journals, scientific articles, books and other Internet findings. Realizing that journals are regarded as top tier data, we have thankfully used databases available to us via the library network of Jönköping University. When initially searching for journals related to “Game” we ended up reading journals such as: Games and Culture, Game Studies, and Games and Economic behavior. Additionally often times Google Scholar has been utilized to find the more specific subjects. Our criteria was here that the paper should have a high amount of citations referring back to the original paper and/or be part of a scientific journal related to our research domain. As such we have kept note of a long list of literature since the start of our study. Finally, we have often crossed the border to management/business-, behavioral science- and information system (management) studies as to construct a more comprehensive study.

In order to conclude a solid theoretical framework we have applied data reduction as previously discussed. The initial search for sources has led to deduct the first bulk of data in the sense that we narrow down our search criteria to better target underlying business as opposed to the more popular topic of game design. Searches often redirected to blogs and discussion amongst industry leaders and studio managers. This in turn further influenced our search criteria as we gained more insight to past, current and future industry challenges or even opportunities. However, realizing the requirements of empirical data, we often only used the previous mentioned blogs and discussion to gain better understanding of concepts and ideas, but remained hesitant to include it in our literature review.

2.2.2 Creating a theoretical framework
Our theoretical framework is structured by utilizing the business model canvas as described by Osterwalder et al. (2010). To us, elements presented in this canvas represent one of the more complete collections of the most important elements of a business model.

In order to explore existing literature we have comprised a framework to reflect the most researched topics within the field of game studies regarding our topic. Our study will not lead to a long list of viable business models, but instead will describe the nine building blocks in a comprehensive manner as to discuss various developments and individual organizational innovation. Our literature research depicts a number of authors which we acknowledge to have made significant contributions to the related topics and are listed in table 1.
<table>
<thead>
<tr>
<th>Topics addressed</th>
<th>Main authors</th>
<th>Journals (inter alia)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Segments (CS)</strong></td>
<td>❖ Casual, committed and social gaming</td>
<td>❖ Games and Culture</td>
</tr>
<tr>
<td>❖ Benford, Magerkurth &amp; Ljungstrand</td>
<td>(2005)</td>
<td>❖ Games studies</td>
</tr>
<tr>
<td>❖ Kallio, Mäyrä, &amp; Kaipainen (2011)</td>
<td></td>
<td>Search key: casual gaming, social gaming, mobile gaming, hardcore gaming</td>
</tr>
<tr>
<td><strong>Value Propositions (VP)</strong></td>
<td>❖ Single player focus and multiplayer focus</td>
<td>❖ Games and Culture</td>
</tr>
<tr>
<td>❖ Ducheneaut, Yee, Nickell &amp; Moore</td>
<td>(2006)</td>
<td>❖ Games studies</td>
</tr>
<tr>
<td>❖ Yee (2006)</td>
<td></td>
<td>Search key: service, single play, multiplayer</td>
</tr>
<tr>
<td><strong>Channels (CA)</strong></td>
<td>❖ Physical and digital distribution</td>
<td>❖ Games and Culture</td>
</tr>
<tr>
<td><strong>Customer Relationships (CR)</strong></td>
<td>❖ Short- and long term relationships</td>
<td>❖ Economic and Industrial Democracy Journal</td>
</tr>
<tr>
<td>❖ Teipen (2008)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenue Streams (RS)</strong></td>
<td>❖ Fire-and-Forget, subscription fees, and microtransactions</td>
<td>❖ Communication &amp; Society</td>
</tr>
<tr>
<td>❖ Oh &amp; Ryu (2007)</td>
<td></td>
<td>Search key: virtual goods, microtransactions, fire-and-forget, subscription, revenue</td>
</tr>
<tr>
<td><strong>Key Activities (KA)</strong></td>
<td>❖ Contractual and independent development</td>
<td>❖ Games and Culture</td>
</tr>
<tr>
<td><strong>Key Resources (RR)</strong></td>
<td>❖ Internal and external development</td>
<td>❖ European Management Journal</td>
</tr>
<tr>
<td>❖ The consumer and the prosumer</td>
<td>❖ Duysters &amp; de Man (2003)</td>
<td>❖ R&amp;D Management</td>
</tr>
<tr>
<td>❖ Readman &amp; Grantham (2006)</td>
<td></td>
<td>Search key: prosuming, competencies, creativity management</td>
</tr>
<tr>
<td><strong>Key Partnerships (KP)</strong></td>
<td>❖ Competitive and cooperative partnerships</td>
<td>❖ Journal of Management Information Systems</td>
</tr>
<tr>
<td><strong>Cost Structure (CS)</strong></td>
<td>❖ Production and service costs</td>
<td>❖ Search key: partnerships, Value Net, alliances</td>
</tr>
<tr>
<td>❖ Williams (2002)</td>
<td>❖ Quantitative Marketing and Economics</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>❖ The International Journal on Media Management</td>
</tr>
</tbody>
</table>
2.3 Stage 2: Primary Data
As our research is of an interpretative nature we were looking to understand the thought process of strategic choices made by individual development studios. In order to draw any conclusions regarding this more in-depth investigation of game development studios was required. According to Ghauri and Grønhaug (2010), this signifies a qualitative study. Moreover, as highlighted in paragraph 2.2.1, interpretivism constitutes an inductive approach in which we are enabled to gain understanding of various business model aspects (Saunders et al, 2009), which also stipulates the use of qualitative data collection methods.

2.3.1 Semi-structured interview
We perceived the interview method as the most suited approach to obtain primary data as it allowed us to perform a more detailed evaluation of current theoretical findings. According to Robson (2002), interviews are suitable for creating an understanding of phenomenon which is aligned to our intended purpose. In accordance with our research philosophy, we pursued to explore managerial situations, conditions, and underlying reality behind their actions (Saunders et al, 2009). In order to make some sort of subjective comparison, our interview questions were semi-structured and partly generalized for every studio. The interviews were conducted with a management representative of the concerning video game development studio. It was vital that the individual had a thorough understanding of the studio’s business practices and perhaps more importantly insight in any strategic plans which describe the direction the studio is headed for.

2.3.2 List of suitable studios
As there are quite a few small and medium-sized video game development studios active in Sweden and The Netherland. We comprised a list of suitable studios that met our selection criteria. Our research is aimed towards studios that were:

- small and medium-sized (around 10 to 100 employees);
- active in the video game industry situated in the Netherlands or Sweden;
- developing or having developed at least 1 independent video game title;
- developing or having developed at least 1 contractual video game title.

As some studios have been or are still active on a multitude of video game platforms (Playstation, Xbox, PC, Handheld, Mobile), we did not restrict our research based on this. We believed that this did not affect our research as comparable business could be conducted regardless of which channels studios utilized. We found around 30 suitable studios and randomly selected the four showcased in table 2 as our intention was to interpret various unique settings in an explorative and evaluative setting.
Table 2: selection of suitable studios

<table>
<thead>
<tr>
<th>Studio</th>
<th>Employees</th>
<th>Known for (selection)</th>
<th>Country</th>
<th>Established</th>
</tr>
</thead>
</table>
| Easy Studios          | 70        | • Battlefield Play4Free
                      |            | • Battlefield Heroes                                      | Sweden        | 2009        |
| Fatshark              | 11 – 50   | • Bionic Commando
                      |            | • Lead and Gold: Gangs of the Wild West
                      |            | • Hamilton's Great Adventure                              | Sweden        | 2008        |
| Legendo Entertainment | 10        | • Pearl Harbor Trilogy - 1941: Red Sun Rising
                      |            | • The Three Musketeers: One for All!                      | Sweden        | 1998        |
| Triangle Studios      | 10-20     | • Graffiti Wars
                      |            | • Cross of the Dutchman                                   | The Netherlands | 2006 |

**Easy Studios**

Founded in 2008 in Sweden, Easy Studios originates from a subsidiary from EA DICE with the objective of experimenting with alternative revenue streams. Inspired by the free-to-play concept from the Korean video game industry, Easy Studios took on development of ‘Battlefield Heroes’. Today, Easy Studios’ major titles all are based on free-to-play. Their biggest success is still the ‘Battlefield Heroes’ title with an accumulated user base exceeding 10 million players.

**Fatshark AB**

Founded in 2008, Swedish development studio Fatshark AB has been active with consultancy-based work for various companies. Fatshark’s biggest client has been game development studio GRIN, for which they performed various development activities. However, in 2009 GRIN went bankrupt and Fatshark felt the need to change its direction and started developing own independent titles. The studio’s main objective is set on developing downloadable games for the PC, where they believe to witness significant growth in the market.

**Legendo Entertainment AB**

In 1998 Swedish studio Legendo started out as a small publisher called Iridon Interactive. At that time Legendo was licensing video games for other developers for about six years. Afterwards Legendo decided to develop their own games, due to the complexity in finding and managing good development studios. Henceforth it became known as Legendo Entertainment in 2004 where Legendo refers to an arcade / retro style that would become the main theme for their video games. Today Legendo is developing a multitude of games simultaneously; each with different business models and strategies to support them.

**Triangle Studios**

Triangle Studios is a Dutch studio founded in 2006. In 2009, Triangle Studios made its shift towards developing video games for the iPhone, iPod touch. Triangle also pursues games for the PC market and aims at releasing games via Steam. Today, projects are supported mainly by Dutch investors and clients, which in most cases determine their target audience. Triangle is currently developing its own intellectual property for the PC with their ‘Cross of the Dutchman’.
2.3.3 Contacting the studios

We initially contacted the studio via phone call and followed up by sending an e-mail more specifically directed to the right person. In hopes to get a positive respond we pitched our research topic to make participation interesting for all parties involved.

Phone call
The phone call had to be short and concise as it was meant to be straight forward in terms of purpose and to whom we wished to speak to. Depending to whom we got to talk to we requested an e-mail addresses as to send more specific information. The phone call roughly went as follows:

Table 3: contact phone call template

| Hi there! My name is Christiaan (Peter) and I am master student at Högskolan i Jönköping currently writing my thesis. I am researching trends and opportunities within the video game industry and am looking to get some practical input.  
Do you think that there is anyone that can help me with this?  
Last year a well-received study was performed which helped identify various opportunities and trends within the video game industry in the Netherlands. We are looking to perform a similar research for Sweden.  
Is it ok if I e-mail you additional information so you can get back to me? |

E-mail
When the studio showed interest we requested to send out an explanatory e-mail. The e-mail was usually directed to the person we wished to interview and roughly looked as follows:
Dear PERSONX,

We are two Dutch students studying at Högskolan i Jönköping looking to gain practical input for our thesis, which is related to opportunities for Swedish companies in the video game industry. We believe COMPANYX to be an interesting company for our thesis. We believe innovative business models to be one of the most pressing concerns which the industry is facing. As a matter of fact, last year, a well-received study has been conducted in The Netherlands about business opportunities and trends within the video game industry. We are looking to perform a similar research here in COUNTRYX.

In a nutshell; we are interested in what your company has done to get where you are today and what vision you have for the future. This should aid us to map out viable business models within the video game industry from an economical point of view. We are basically making an attempt to gain feedback from a more practical point of view. Our thesis should, in the academic sense, allow for more understanding of the characteristics and conditions of a viable business model and the underlying strategic choices.

We recognize that anything related to your business operations can be considered highly sensitive and would therefore not exclude the use of an NDA. We are considering to publish any finding/results anonymously.

We truly hope that COMPANYX is willing to spare a bit of their time somewhere in April and are looking forward to hear from PERSONX in the near future.

Kind Regards,

Peter Zijlstra & Christiaan Visser

Contact info:
E-mail: zipe1086@student.hj.se
Phone: +46762285292
Skype: pmw.zijlstra

### 2.3.4 Conducting the interview

In correlation with Robson (2002) regarding the qualitative nature of our study, the interviews were semi-structured. Since we wanted to make a comparison between respondents, pre-determined questions in combination with open questions seemed most appropriate. When applicable, depending on the response, we would deviate from the interview guide. By utilizing open questions, we were more likely to extrapolate the respondents’ true beliefs on various business aspects and the conditions in which these might be applicable. In addition, open questions could possible lead to unanticipated answers which further aligns to the explorative nature of our study (Robson, 2002). The interviews were conducted face-to-face in the office of the concerning studio. In addition the style and language choice was informal and English. In the case of the Dutch video game studio we choose to follow the native language as we both speak it. Considering ethics according to Saunders et al. (2010) we offered the respondent the option to stay anonymous. Also, we requested to record the interview as to be better capable to conduct the interview without the distraction of having to note everything down. Finally, we requested follow-up interviews if required and asked to stay in touch via e-mail. The table below should give an impression of how the semi-structured interviews were conducted.
Table 5: interview guide

**Introduction**
Today we would like to take the time to ask a few questions regarding the business model of your studio. These questions should help us in our Thesis which addresses innovative business aspects, opportunities and trends within the video game industry. We respect the confidentiality of data and would respect the need for anonymity. After the interview is concluded we will take the time to analyze our findings and you will be able to proof-read our final interview results and will have the opportunity to decide whether to stay anonymous when our thesis is published. Upon request you will also receive a copy of our final dissertation.

**General Questions**
A. In a few sentences, who is *STUDIO NAME* and what do you do?
B. Who is your target customer? (Platform, casual, social, hardcore)
C. What makes for a fun user experience? (Gameplay, peer connectivity, etc.)
D. What makes a successful gaming title?
E. What makes a successful development studio?

**Development Questions**
A. What influences the decision to develop a new video game title? (Own Vision, 3rd party publisher, customer demand, sequel franchise, spot a certain market opportunity)
B. What are the benefits of independent development over contractual development?
C. What do you think is the most viable way of gaining profit from a video game title? Which revenue streams do you apply?
D. Have you ever considered partnering with your competitors to co-develop a video game title? If so, in which aspect of the development process.
E. How do you market your video game title? What are the reasons for this approach?
F. How do you distribute your video game title? What are the reasons for this approach?

**Customer Relationships**
A. Do you involve your customers in the production process in any shape or form? (Pre, during, post – production)
B. Do you gain or manage any feedback from your customers regarding your video game title? If so, what concrete action can be taken from their feedback?

**Visionary Questions**
A. How do you experience business innovation?
B. What is the biggest challenge when developing a video game title? (Marketing, Resources, Planning, etc.)
C. How would you measure success?
D. Which opportunities do you see in the industry and how do you plan to capitalize on them?

The overall aim of the interview was to gain insight in the thought process and underlying strategic choices studios made in relation to various business model aspects. The primary data was later evaluated according to our theoretical framework.
2.4 Stage 3: Data analysis

As mentioned by Robson (2002), our choice for open questions puts significant strain on the difficulty of the data analysis. The process of transcribing the interview data is the primary input for the second stage of our data analysis: data display. In total, data collected has been based on interview responses of four video game development studios, each answering roughly 15-20 questions with the possibility of more in-depth questions. Following Robson (2002), we applied various levels of categorization of each question to help map out possible patterns in the data analysis. Since our data is structured by the business model canvas (Osterwalder et al. 2010), table 6 represents the relationship between each question and their implication to the various aspects within the canvas. The table helps to ensure that all aspects are sufficiently covered during the interview. The abbreviations have initially been presented in paragraph 2.2.2.

Table 6: relationship between interview and business model aspects

<table>
<thead>
<tr>
<th>Interview question</th>
<th>Business Model aspect</th>
</tr>
</thead>
<tbody>
<tr>
<td>1A</td>
<td>CS, VP, CA, KA, KP</td>
</tr>
<tr>
<td>1B</td>
<td>CS, CA, VP</td>
</tr>
<tr>
<td>1C</td>
<td>VP, CR</td>
</tr>
<tr>
<td>1D</td>
<td>CS, VP, CA, CR, R$, CS</td>
</tr>
<tr>
<td>1E</td>
<td>CS, VP, CA, CR, R$, CS, KA, KP</td>
</tr>
<tr>
<td>2A</td>
<td>CS, CR, KA, KP</td>
</tr>
<tr>
<td>2B</td>
<td>KS, KP, KR, C$</td>
</tr>
<tr>
<td>2C</td>
<td>R$</td>
</tr>
<tr>
<td>2D</td>
<td>KR, KP, KA</td>
</tr>
<tr>
<td>2E</td>
<td>CA</td>
</tr>
<tr>
<td>2F</td>
<td>CA</td>
</tr>
<tr>
<td>3A</td>
<td>CA, KR, CR</td>
</tr>
<tr>
<td>3B</td>
<td>CA, CR</td>
</tr>
<tr>
<td>4A</td>
<td>Various</td>
</tr>
<tr>
<td>4B</td>
<td>Various</td>
</tr>
<tr>
<td>4C</td>
<td>Various</td>
</tr>
<tr>
<td>4D</td>
<td>Various</td>
</tr>
</tbody>
</table>

2.4.1 Transcribing the results

Following the interview we transcribed the interview results by listening to the recording and noting down everything in the form of a verbatim transcription (DePoy & Gitlin, 2005) to preserve subjectivism. Separate documents were created according to the conducted interview with a specific studio. If requested the studio had the option to proofread the verbatim transcription. When approved the transcription was subjected to the codification process highlighted in paragraph 2.4.2.

2.4.2 Coding the results

When coding the results we had to consider that most of the interview questions differed per interview since the interviews were conducted in a semi-structured way. Moreover, the respondent would often provide a more elaborate answer which could cover a multitude of answers. This in turn stressed the necessity to perform a re-codification of the derived answers for every question. Thus codification is according to the answers given and not based on the questions asked. In order to reduce validity threats we have performed an initial codification after receiving the results and once more when actually starting the analysis process. The structure depicted in table 6 is the main foundation of our codification process.
The following is an example of our codification:

The question asked:  “How would you approach the players then?”  [Peter]
The answer given:  “Now we have this direct communication with our community every day. So it’s much more about talking to the community; what do they want to see – it’s more dialogue than us producing something and you play it”.  [Oskar Burman – Easy Studios]

Although this is a follow-up question, we intended to find out more about how this studio handled promotion [Business Model Aspect: Channels]. While answering the question the respondent also indirectly elaborated about service orientation [Business Model Aspect: Value Propositions], while simultaneously sharing his view on *prosuming* [Business Model Aspect: Key Partnerships].

In this example we mark aspects covered in the answer by marking the question with the designated aspect abbreviation(s):

“[CA, VP, CR] How would you approach the players then?”

The full codified transcripts can be found in appendices 2-4. Where the following legend was used:

CS  Customer Segments
VP  Value Propositions
CA  Channels
CR  Customer Relationships
R$  Revenue Streams
KR  Key Resources
KA  Key Activities
KP  Key Partnerships
C$  Cost Structure

Sentence(s) cited directly in chapter 4: Interpretation
Sentence(s) cited, but rephrased in chapter 4: Interpretation

2.4.3  Interpreting the results

Although the codified transcripts provide a very solid foundation for our analysis, we found it relevant to include a separate interpretation chapter. Since we are following an interpretive approach, ‘JIBS writer’ states that results should not be separated from the analysis. Therefore, we chose to combine our results and analysis in four separated narrative cases. Following Saunders et al. (2009), we found that the narrative approach is most applicable for interpreting our findings. Saunders et al. (2009) define the narrative analysis as follows: “narrative analysis allows the nature of the participants’ engagement, the actions that they took, the consequences of these and the relationship events that followed to be retained within the narrative flow of the account without losing the significance of the social or organizational context within which these events occurred”. The verbatim transcript contains details of events in an unstructured and non-chronological manner. We believe that highlighting the sequence of events is an essential part of understanding the strategic choices made by these studios. This is in concurrence with Ghauri and Gronhaug (2010) as we made interpretations to grasp the meanings of interviewees. Consequently, we attempted to understand interviewees by grasping a concept, an experience or an idea in their terms. In doing so we grasped the interviewee’s meaning by 'translating' their sayings into
our own insights and understanding. This implied seeking correspondence between the interviewee, our own experiences, and understanding which response could be related back to our theoretical review. In this sense we have used direct citations when we felt that it emphasized a point to our interpretation and when we felt that it had to be expressed verbatim as to not lose any value.

Throughout our research we put synergy and structure as our core approach. Therefore, we have chosen to keep our discussed (theoretical) framework as the core for the analysis as well, hereby following Saunders et al. (2009) citing Yin (2003). Taking the concerns highlighted in Saunders et al (2009) into consideration, we utilized our framework primarily as a starting point. Since we are interested in understanding the strategic choices made, we ensure that each business model aspect per studio case is directly or indirectly addressed. We believe that understanding the strategic choice behind their current title requires insight in what the studio has done before. Thus, following the interpretative approach, we found it essential to investigate each studio’s background in more detail by looking into the context of each studio’s video game portfolio.

2.4.4 Concluding and discussing the results

By answering our research questions we attempt to seek patterns in meaning. Ghauri and Grønhaug (2010) state that we can make conclusions by forming coherent patterns. Thus by aggregating previous interpretation into larger wholes, we are able to identify unified themes by which the different studios make their strategic choices and represent their respective business models.

Additionally, having found that some studios addressed ideas that were not covered by existing literature we have added a discussion chapter to explain implications for future research and practitioners. We also felt the need to scrutinize our own work as, even though ambitious, we do see weaknesses within our study.

2.5 Validity

2.5.1 Internal validity

Validity is concerned with whether the findings are really about what they appear to be about (Saunders et al., 2009). Within our research we are aware that there are various threats to not only the actual internal validity of our findings, but to the research process itself as well (reliability). We still foresee numerous factors that could influence the quality of our findings. First-off, the validity of secondary data gathering has somewhat been restricted to what sources could be accessed in our literature review. Extensive as the university library might be, we have often times not been able to access all the sources that we wanted to. This is something to be considered in future refutations. Furthermore, following Ghauri and Grønhaug (2010) and Saunders et al. (2009) we recognize the following validity threats:

Instrumentation: Did the way we conducted the interviews have any effects on the results?

Our primary data gathering was conducted via interviews in which we aimed to evaluate numerous causes for our presumed effects found in existing literature. The thoroughness of our interview questions as well as the interview itself will determine whether our interview influences the respondent’s answers. We have taken necessary precautions to minimize these threats. By utilizing our interview guide, we aim to reduce the threat that the respondents deviate too much from the subject.
Morality: Are the interviewees likely to drop out?
At a very early stage, we established telephone and e-mail contact with our intended respondents. We realized that time is precious to our respondents, we let them decide the time and place around three to four weeks ahead from the first contact. Also, we safeguarded their willingness to participate by maintaining contact as the interview date came closer.

Translation and Maturation: Did a change of opinion or translation have any effect on the results?
We have foreseen validity threats in translation of the interview results. Deriving the wrong meaning of an answer could jeopardize the integrity of our research and our findings (Robson, 2002). By allowing respondents to proofread our interview results, we aimed to eliminate any ambiguity in the interpretation of their answers. Moreover, the only feedback we got after the proofreading concerned some clarifications.

Interview and interview process: Did the interview itself have any effect on the results?
Saunders et al. (2009) mention how the interview itself can influence the behavior and thus answers of the respondents. Due to our interpretative approach, subjective meaning is an important aspect to begin with. That said, in their answering, the respondents may not give an accurate representation of the reality. Although we cannot safeguard this threat completely, we did believe to have minimized it by asking follow-up questions in later stages of the interview to root out contradictions or inconsistencies. By managing a strict time plan and carefully defining an interview guide, we aimed to further reduce this validity threat. Moreover, according to Robson (2002), the interview questions themselves can influence the outcome of the respondent. By being aware of these liabilities, our interview questions were optimized as much as possible to disclose long questions, double-barreled questions, use of jargon, leading questions and biased questions. Robson (2002) believes the interviewer’s social skills to be an important factor where we had confidence in our ability to adequately conduct interviews based on our own interview experience from previous education and work experience. Appendix 6 gives a brief impression of the authors.

Ethical implications:
During the initial phase in which we contacted potential participants, we stressed that we recognize the sensibility of the information which we aim to proclaim. Following Saunders et al. (2009) we safeguarded ethical implications by assuring our respondents that any findings, if requested, can be published anonymously. Beforehand, we also asked for permission to record the interview for personal use to ensure a full open and friendly interview conditions. Additionally, establishing an interview environment in which the respondent feels willing to freely release specifics which reflect reality was essential. Also, we offered our respondents the chance to supplement anything to the interview if they perceived something to be misinterpreted.

2.5.2 External validity
A concern we had in the design of our research is the extent to which the research results are generalizable: that is, whether findings may be equally applicable to other research settings, such as other studios (Robson, 2002). This was a particular worry as we have conducted case studies on four different studios. All studios can be marked as ‘different’ in some way. As such, according to Saunders et al. (2009) the purpose of our research will have limitations producing a theory that is generalizable to all populations of the video game industry. However, as our research is of an interpretative nature the robustness of our conclusions and discussion should be further exposed in another research setting.
2.6 Reliability

Our research design is written to enable replication. If it were to be repeated under the same circumstances, the design should yield the same results (DePoy & Gitlin, 2005) by other observers and even on other occasions (Saunders et al. 2009). We hope to warrant reliability by explaining the thought process of data gathering as depicted in previous paragraphs. Moreover, our considerations in the validity chapters should aid in strengthening our reliability as well.
3 Theoretical framework

3.1 Introduction

This chapter presents our theoretical framework which depicts nine aspects to describe a business model as suggested by Osterwalder et al. (2010). Sotamaa and Karppi (2010) believe that the wide range of forms that a video game can take should be considered as an opportunity. For example, the game packaging, delivery, distribution and marketing can be implemented in multiple ways. Additionally, the game experience can fulfill various gamer needs. A game can enable or be based on a wide range of social activities. Also the monetizing and the business logic can be almost anything. Far and foremost, it is important to note that it is possible and often common to make a game which utilizes several parallel ways of doing – the same game can have parallel computational architectures, several complementary business models, and provide a range of experiences (Sotamaa & Karppi, 2010).

In order to make an interpretation of the current video game industry we formulate a solid theoretical knowledge base. Figure 3 illustrates a visual representation of our theoretical framework which showcases the nine business model aspects and the main topics discussed within every aspect. The framework is used to facilitate communication with game development studios. It further plays a key role in understanding the video game industry and viable business models. Following Saunders et al. (2009) the combination of framework and practical input will allow us to induct grounded interpretation of the video game industry. This chapter is thus dedicated to a theoretical approach to further understand the past, present and future of the video game industry. We do this by describing past industry developments, exploring current innovations, and attempting to discuss future projections.

Finally, it should be noted that this chapter is written to understand the industry. As such this chapter is not so much towards reviewing existing literature as it would not benefit our research purpose. Instead the theoretical framework is purposely descriptive as it is hard to understand decisions from a practical setting without understanding what is being discussed.
Figure 3: visual representation of theoretical framework (as applied from Osterwalder et al. 2010)
3.2 Customer Segments

According to Osterwalder et al. (2010) customers comprise the heart of the business model. In order to better satisfy customers, a company may group them into distinct segments with common needs, common behaviors, or other attributes. While there are more specific customer segments within the video game industry we believe that, following the history of the industry, we can distinct the social, the casual and the more committed gamer. While customer segments can always be specified further (e.g. male/female casual gamers), we believe that these three segments are most logical to establish a base of discussion. We should note that after going back and forth on this aspect we have learned that there is a clear distinction between gamer type and game type. Often a game will be noted as being a casual game, where in fact it is a game addressed to the casual segment. Whether it is casual or not depends on the gamer that plays it. A game can be perceived differently by the individual and is therefore very much determined by individual perception. As such we also do not intend further discuss game types, but see find it more fit to discuss gamer types – or rather customer types.

3.2.1 Approaching gamer mentalities

In order to better discuss customer segments we address the work of Kallio, Mäyrä, and Kaipainen (2011) who have studied player mentalities that are not dedicated to a certain domain or genre of games. This is most fitting as our study is also not intended to distinguish or bound by a specific domain, platform or genre of games. Kallio et al. (2011) developed a model designed to be inclusive enough to address very light, casual, and social gaming motivations and practices as well as those involving dedicated attitudes and heavy playing. Utilizing their findings and suggestions we intend to define our previously mentioned customer segments.

Kallio et al. (2011) state that in order to define gamer classification we have to identify key mentalities lying behind common gaming styles. Analysis suggests that three groups could be divided according to the intensity and sociability of their gaming:

- Committed gamers – play frequently and/or long sessions and/or are socially attached to digital gamer communities;
- Casual gamers – play occasionally and/or short sessions and/or alone and/or are not engrossed in the gaming situation;
- Gaming companions – play with children and/or mates and/or spouse for accompaniment.

Figure 5 depicts how gamer classification has been adopted. Intensity of gaming is approached from three points of view: in terms of the length of gaming sessions, the regularity of gaming, and the level of concentration. Using these three indicators, composed on the basis of joined data, Kallio et al. (2011) have defined gaming mentalities on a continuum that ranges
from heavy to light gaming. Sociability in gaming is also understood to be a continuum in the analysis, ranging from (solely) lone gaming to (entirely) sociable gaming. This social aspect refers to sharing ideas, understandings, tips, opinions, successes, and other experiences of games and gaming with other people. The games played component consists of three separate indicators: 1) individual games and devices, 2) game genres, and 3) accessibility – that is the easiness of “picking up” a game. The games played are chosen and used according to one’s personal preferences but, on the other hand, the games themselves direct the habits of gaming, thus creating and reproducing certain kinds of gaming mentalities. From this point of view, the individual games, certain game genres or series, and the game devices can all be understood to be active shapers of gaming mentalities, different from but related to the aspects of intensity and sociability.

As such, insight provided by Kallio et al. (2011) allows us to define our own working definition for the various customer segments.

3.2.2 Social gamers
Social gamers can be defined as people that need games to be easily accessible and learned, familiar, and inexpensive. The mentality is quite “light” (non-committed) in terms of intensity of gaming. Sociability in gaming is most important as the main idea is playing together with gaming companions. Social gaming can occur in a shared physical space or in the digital space.

Accordingly, one could also argue that pervasive gaming is a form of gaming committed to social gamers. Pervasive games extend the gaming experience out into the real world – be it on city streets, in the remote wilderness, or a living room. Players with mobile computing devices move through the world. Sensors capture information about their current context, including their location, and this is used to deliver a gaming experience that changes according to where they are, what they are doing, and even how they are feeling. The game player becomes unchained from the console and experiences a game that is interwoven with the real world and is potentially available at any place and any time (Benford, Magerkurth & Ljungstrand, 2005). Sotamaa and Karppi (2010) state that recently, location-based games, such as Foursquare, have become popular, and it is probable that the popularity of pervasive and location-based games will continue to grow in the future alongside the amount of social gamers.

3.2.3 Casual gamers
The term “casual” has many interpretations and certainly in the video game industry may refer to, for example, the characteristics of the game, the way of playing, the gaming situation, the game device, or something else (Kuittinen, et al., 2007; Tams, 2006; Wallace & Robbins, 2006; Waugh, 2006; cited by Kallio et al, 2011). In concurrence to Kallio et al. (2011), our definition of being casual is understood as the opposite of commitment. As
such, casual gamers can be defined as people that play games in a casual sense to either kill time, fill time gaps, or relax. When killing time sociability is very low overall. Games played include mostly classic and puzzle games that are easily learned and accessible on any computer and free of charge. However, when one is killing time, the intensity of gaming can vary notably. When filling time gaps, casual gamers chose simple, easily accessible games that are quick to start and finish and can be played on a PC at work or at home and on a mobile phone when traveling. All sociability aspects are irrelevant within this mentality as there is nothing to share in this manner of gaming. The intensity of gaming is consistent as gaming sessions are short and the regularity of gaming is occasional but not random. Finally, casual gamers that play to relax only play when nothing else to do. They want to relax from their routines by playing, but often not in between two tasks. Rather, they play quite regularly at home in the evening or at night, typically alone or with strangers on the Internet (most importantly online poker), for a lengthy period of time (Kallio et al. 2011).

3.2.4 Committed gamers

Quite the opposite of casual gaming (in terms of commitment) are people that play video games in typically long sessions with an intense regularity of playing. The committed gamer can play for a weekend or a week every now and then when there is time to “get immersed,” but they can play every day just as well if it suits their schedule (Kallio et al. 2011). The level of commitment can be rooted and framed in many different ways. Games played with the immersive mentality are mostly complex and extensive games where it is possible to put one’s soul into it, for example, role-playing games (e.g., The Elder Scrolls IV: Oblivion), MMORPGs (e.g., World of Warcraft), action adventure games (e.g., Grand Theft Auto III, Half Life, and Halo series), simulation games (e.g., The Sims), strategy games (e.g., Civilization), and so on (Kallio et al. 2011). Different aspects of sociability are present as gaming can be performed by lone playing or on large-scale.

3.3 Value Propositions

Value proposition is the reason why customers turn to one company over another. Companies look to solve a customer problem or satisfy a customer need (Osterwalder et al. 2010). Ultimately, value propositions still conclude to the notion of Porter (1985). As in other industries, a video game studio should ask itself how they are differentiating their studio from the competitor as to create a sustainable competitive advantage. A studio should either be a cost leader, produce clearly distinguishable games or focus on an area that others are not focusing on. In the video game industry value propositions can be vary quite a lot. For example, studios can determine a need for developing a classic game on a newer platform. A studio can also address a specific customer segment (paragraph 3.2) over another because of a clearly differentiated need within that segment. Attempting to make evaluative statements about the more general value propositions we discuss value propositions that in the past have clearly depicted a paradigm shift. Therefore, we choose to dis-
cuss the topics of single play and multiplayer focus, and additionally, the perceived paradigm shift from product to service orientation.

### 3.3.1 Single play and multiplayer focus

Choi and Kim (2004) say that as the Internet has spread into our society on a broad scale, it has been used to trade various kinds of contents. One of the most popular online contents is the game, in which a person can play not only with the computer, but also with other people connected via the Internet. We discuss single player and multiplayer games (MMGs) as playing a video game alone (single) or with others (multiplayer). Note that even though a lot of studies regarding MMGs concern Massive Multiplayer Online Games (MMOG), we intentionally do not cite from these studies when discussing multiplayer as they do not apply to any of our four case studies. Over the last years multiplayer support in games of almost all genres has developed from an option to a feature essential for the success and the longevity of a product (Fiedler, Wallner & Weber, 2002). Although seemingly having some close relations to game design we feel it to be relevant to to discuss single player and multiplayer focus as consequential design decisions affect the business model. We believe the value proposition here has much to do with social studies and therefore expand our literature review to include this research domain.

The premise of most MMGs is that of a large shared game world inhabited by thousands of players. The emphasis is often on social interactions and exciting story lines (Knutsson, Lu, Xu, & Hopkins, 2004). Work from Ducheneaut, Yee, Nickell and Moore (2006) state that the social factor in MMGs is often advanced to explain their popularity: in the words of one player, “it’s the people that are addictive, not the game”. Even though activities often offered by a MMG (e.g. developing a character, fighting monsters) are already present in single player games. What makes a difference for many is apparently the shared experience, the collaborative nature of most activities and, most importantly, the reward of being socialized into a community of gamers and acquiring a reputation within it.

Yee (2006) has studied what motivations people have to play games. The study is an attempt to articulate the myriad of motivations of play among MMO (Massive Multiplayer Online) players, and to explore how these motivational factors can provide us with analytical tools to describe and understand the preference for and effects of game-play for different kinds of players. Although specified and limited to the setting of the MMO, we feel that similar motivations can possible be applied to help understand motivation for multiplayer game-play in video games in other settings. Yee (2006) describes different motivational components presented in table 6.

<table>
<thead>
<tr>
<th>Achievement</th>
<th>Social</th>
<th>Immersion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advancement</td>
<td>Socializing</td>
<td>Discovery</td>
</tr>
<tr>
<td>Progress, Power,</td>
<td>Casual Chat, Helping Others,</td>
<td>Exploration, Lore,</td>
</tr>
<tr>
<td>Accumulation, Status</td>
<td>Making Friends</td>
<td>Finding Hidden Things</td>
</tr>
<tr>
<td>Mechanics</td>
<td>Relationship</td>
<td>Role-Playing</td>
</tr>
<tr>
<td>Numbers, Optimization,</td>
<td>Personal, Self-Disclosure,</td>
<td>Story Line, Character History,</td>
</tr>
<tr>
<td>Templating, Analysis</td>
<td>Find and Give Support</td>
<td>Roles, Fantasy</td>
</tr>
<tr>
<td>Competition</td>
<td>Teamwork</td>
<td>Customization</td>
</tr>
<tr>
<td>Challenging Others,</td>
<td>Collaboration, Groups,</td>
<td>Appearances, Accessories,</td>
</tr>
<tr>
<td>Provocation, Domination</td>
<td>Group Achievements</td>
<td>Style, Color Schemes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Escapism</td>
</tr>
</tbody>
</table>

**Achievement component**
Advancement – the desire to gain power, progress rapidly, and accumulate in-game symbols of wealth or status

Mechanics – having an interest in analyzing the underlying rules and system in order to optimize character performance

Competition – the desire to challenge and compete with others

Social component
Socializing – having an interest in helping and chatting with other players
Relationship – the desire to form long term meaningful relationships with others
Teamwork – deriving satisfaction from being part of a group effort.

Immersion component
Discovery – finding and knowing things that most other players don’t know about
Role-Playing – creating a persona with a background story and interacting with other players to create an improvised story
Customization – having an interest in customizing the appearance of their character
Escapism – using the online environment to avoid thinking about real life problems

It can be argued that single player games also incorporate components such as the achievement and immersion component, but we believe it is the social components that make the difference. Yee’s (2006) model explains very clearly that, while games should incorporate above mentioned components within game design, the social component can only ever exist when truly interacting with other players. Socializing, establishing relationships and teamwork is something that is absent in single player games and as such we believe that the multiplayer can be considered a logical development within the video game industry. It is not aimed to replace the single player paradigm, but merely to enhance its core components.

Additionally Choi and Kim (2004) have proposed a theoretical model using the concepts of customer loyalty, flow, personal interaction, and social interaction to explain why people continue to play MMGs. In order to gain better understanding and input for discussing we will briefly describe their work.

Figure 7: motivations for playing online network games (Choi & Kim, 2004)

Choi and Kim (2004) argue that people want to play specific online games repeatedly because they have a high level of customer loyalty to the games. The more loyalty a customer has toward a specific online game, the more he/she keeps playing the game.
The *optimal level of experience* during work or play is defined as *flow*. If a person enters the flow state while playing an online game, this means that the person is interested in playing the game, is curious about the game, has full control over the game, and is focused on playing the game with no other distraction. According to the flow theory, when a person is in the state of flow, the person wants to maintain the state. Therefore, as shown in Figure 7, Choi and Kim (2004) believe that if a person experiences the flow state more often while playing an online game, the person will have higher customer loyalty to the game.

*Interaction* is considered one of the most important aspects related to optimal experience with computer games. Interaction is defined as the behavior of communicating with two or more objects and affecting each other. Choi and Kim (2004) classify interactions while playing online games into two types: the first is the interaction that exists between the user and the system (*personal interaction*), while the second is the user-to-user interaction (*social interaction*).

The numerous features of *personal interaction* can be classified into three categories: goals, operators, and feedback. A goal can be defined as the specific target that each game participant wants to achieve during the game. An operator, which is defined as an instrument for problem solving, is given to players to accomplish their goals. Feedback is an appropriate response from the game system in response to the player’s handling of an operator. These terms can be exemplified as follows. A player has a goal to kill a monster in the game. The game gives instruments for killing the monster in shape of in game weapons. Upon killing the monster the system gives feedback in the form of responding to the player by giving the player a reward.

*Social interaction* implicates that many users are able to meet in virtual space. Choi and Kim argue that the interaction among the users may be an important factor leading to an optimal experience. Communication place and communication tool to sustain social interaction and function that gamers have a place and tool to relay their opinions in a virtual world. For example, two players could meet somewhere in game (place) and communicate utilizing the chat system (tool).

Disregarding the implications on game design Choi and Kim (2004) state that their research verifies that efficient interaction features positively influence customer loyalty, which leads them to believe that this finding could answer the question of why players are repeatedly playing specific online games. This helps us understand why players keep playing MMGs and how studios could work around incorporating components to sustain value propositions from single-play and multiplayer focus.

Finally, from an economic standpoint, Humphreys (2009) mentions that single player games, with their point-of-sale economic returns, don’t need to retain players over long periods for further economic gain. A player masters the single player game and moves on to the next game. But a player who masters the MMOG stays because their friends are in the game, and they are to some extent conducting their social life within the game. All that content and engagement from other players is what keeps their subscription rolling in each month. Although we will see that single player games have also developed ways to sustain customers over long periods (e.g. episodic content) and even though Humphreys’ (2009) study is within MMO context, we believe that this further stipulates the value of socialization within game play.
3.3.2 Product and service orientation

Although we would argue that service is an ambiguous and slippery term, and in relation to games used in a variety of contexts (more often technical services), Stenros and Sotamaa (2009) would agree that the lack of theoretical literature further complicates the objective of stating a clear definition of service orientation in the video game industry. Attempting to define the service paradigm we primarily discuss work from Stenros and Sotamaa (2009) who have put effort in better understanding this phenomenon and discuss its implications to the video game industry.

The change from product to service paradigm is explained by Stenros and Sotamaa (2009) citing Rifkin (2005), who argues that as goods become more information-intensive and interactive and are continually upgraded, they change character. They lose their status as products and metamorphose into evolving services. This implicates that as the world evolves our view on video games will also change over time. One of the consequences of the emphasis on services is that “instead of thinking of products as fixed items with set features and a one-time sales value, studios now think of them as ‘platforms’ for all sorts of upgrades and value-added services. Business operation and opportunities thus evolve accordingly. However it should still be noted that the emergence of the service paradigm does not so much represent a change in the nature of the game itself – both as an abstract system and an activity – but the service paradigm is more towards the expedients of bringing them to the players. Thus, rather than considering games bluntly “as services” Stenros and Sotamaa (2009) rather suggest that contemporary games are often both based on and provide a basis for various kinds of services. For example, Humphreys (2009), who studied games as a service within the field of ‘EverQuest’ (predecessor of ‘World of Warcraft’). Within this domain Humphreys (2009) argues that service does not just consist of just keeping the technical side running smoothly. Service also requires facilitating community interactions. Stenros and Sotama (2009) call this the socialization of player where the studio delivering the game – or rather service – gives the player the tools needed to communicate with other players as to be regarded as community interaction as depicted in Key Activities (paragraph 3.7).

From an economical point of view studios would argue that instead of selling a game to the player once, why not create a continuous relationship where the player pays a fee at regular intervals (Stenros & Sotamaa, 2009). Thus maintaining a long term relationship seems to be most profitable (paragraph 3.5). Addressing revenue streams (paragraph 3.6) we idea of creating games where new story content is constantly available seems like a perfect solution. The idea is that in a way the game system becomes a platform for stories and other player activities. Stenros and Sotamaa (2009) exemplify that in the PC games industry, expansion packs as specific mode of branched serialization have become a popular way to exploit existing intellectual property and to expand the life span of a game. Console game expansions are also becoming increasingly prevalent, particularly due to the proprietary online services like Xbox Live and PlayStation Network. Currently various kinds of add-ons from map packs and team packs to skin packs are already provided via these services. Business-wise the objective behind the different kinds of upgrades and add-ons is again to create a long term service relationship with the customer (paragraph 3.5). Thus the link to service orientation seems to be very much interrelated to establishing long term relationships with the same customer. Although new, and perhaps hidden costs (paragraph 3.10), will be introduced with this service paradigm it seems accurate enough that any service orientated adoption would impact quite a lot of other aspects of the business model.
3.4 Channels

According to Osterwalder et al. (2010) channels describes how a company communicates with and reaches its customer segments (paragraph 3.2) to deliver value proposition(s) (paragraph 3.3). Recent development within the video game industry has seen the incremental adaptation of digital distribution channels to reach the customer. Coming from an era depicted by the brick-and-mortar distribution model we have always seen products delivered through retailers. Today we are experiencing more digital distribution; the offering of a video game is no longer limited to a boxed product, but can simultaneously be offered as downloadable or even offered via cloud-based services.

Additionally promotion channels seem to also have witnessed a shift as development studios adopt the role of publisher and vice versa. As shown in Key Activities (paragraph 3.7), the independent studio now needs to think of innovative ways to promote own titles. No longer having big marketing budgets studios are perhaps looking into cheaper ways of promoting. It could be that peer promotion plays a more influential role than in the past. Game reviews written by actual players have perhaps gained more value than those written by journalists. Either way, traditional journalism seems to no longer be the only source of critique.

3.4.1 Physical and digital distribution

Brick-and-Mortar and digitalitization

The means of distribution has changed. Where it was most common to buy a physical copy of a video game at a retailer (e.g. GameStop) or via online purchase (e.g. Amazon) we are now starting to see a trend in offering video games via digital distribution. This means that one can purchase a video game online and then proceed to download it on the hard disk. While the PC market has adopted this concept in a faster pace we see that the console is slowly following suit and it can be expected that the new generation of video game consoles will only offer their products via digital distribution. Additionally, in the light of startup studios, It could be said that digital distribution is perhaps more favorable towards new market entrants. Martin and Deuze (2009) stipulate that platforms such as mobile phones, browser-based Internet sites, digital distribution networks on the major game consoles, and the market for handheld games all provide new opportunities for low-risk entry into game development. Towards the more independent developers, Martin and Deuze (2009) state that the Internet allows direct access to consumers without the investment required for a physical distribution channel (such as retail space). Digital distribution has a significant influence in shaping the structure and identity of the independent (indie) game developer. (Martin & Deuze, 2009).

Considering value proposition (paragraph 3.3) it is argued by Toivonen and Sotamaa (2010) that quite a lot of gamers still prefer to have a physical copy of their video game. Practical issues like accessibility/availability to fast Internet connections can partially explain this but
another explanation is the fact that there is no easy way to resell the games you do not play anymore when one downloads a video game. Also, to be able to look and touch the game cartridges and booklets gives gamers a concrete feeling of ownership. And finally, as games are intimately tied to the personal histories of players, a physical copy becomes a sort of symbolic guarantee that even after years they can return to the significant experiences.

Following Moore’s (2009) note on digital distribution there is a potential to reduce the need of physically transport commodities but also supporting consumer practices to further reduce e-waste as to stipulate green IT (Unhelkar, 2011). Another interesting note Toivonen and Sotamaa (2010) discuss is the fact that as development costs are spiraling and the risks associated with producing triple-A titles are increasing, many game developers are directing their creative investments towards downloadable games. Another benefit of digital distribution is that the developers will have much more information available concerning their users. While within the classic brick-and-mortar model developers often do not have information on the people that actually play their games. Online services can provide detailed data on the buying habits and play behavior of users (Toivonen & Sotamaa, 2010). In the USA, spending on PC games for 2011 is estimated to be split at $2.5 billion for downloads and $1.8 billion for retail. So downloads have overtaken retail in the USA (Newzoo, 2011). It would seem that the near future will see an increase in digital distribution. The question is how developing studios still enable value creation through this development. In its current state, NCSOFT’s ‘Guild Wars 2’ (2012), is actively considering this as they intend to offer their latest title as downloadable only. However a physical collector’s edition can still be ordered with slight extra cost. This would seem to still cover some value propositions as previously proposed by Toivonen and Sotamaa (2010) whilst capitalizing on the advantages of digital distribution and enabling a justification for the physical variant.

Cloud distributed video games: “Games-on-Demand”
In addition to digital distribution we see the development of cloud distributed video games. The concept is based on cloud computing, which according to Ojala and Tyrväinen (2011) can be defined as software applications delivered through the Internet, and also the hardware and system software that is used within data centers to provide those services. Looking to better understand cloud distributed video games we further examine Ojala and Tyrväinen’s (2011) work. G-cluster is a company that converts licensed games (PC or console) to a gaming platform and delivers the game to gamers through the Internet. The processing of the game is dealt with on the server side, and sent to the end-users (gamers) through video streaming technology. This means that users can play a game without downloading and installing it onto a device. It also makes it possible to play against other players through the Internet. This relatively new concept is introduced as Games-on-Demand by G-cluster (Ojala & Tyrväinen, 2011). For the gamer, Games-on-Demand implies that because the actual game is executed from a server. All that is needed from the gamer’s computer is the ability to decompress a MPEG stream. This makes it possible for gamers to use existing computers without investing in new equipment. The service is also not bound to a specific operating system which allows the use of any operating system. This could leave us to wonder how operating system providers will respond to Games-on-Demand. In addition, the service frees gamers from worrying about processor power, graphics cards, and other technical issues that would be important if they were buying boxed games from a retailer or via online purchase. This again, leaves us to wonder whether hardware manufacturers are keen on this development. All in all, the gamer would seem to benefit most from Games-on-Demand. In terms of promotion (paragraph 3.4) gamers are also able to test the game before deciding to buy. This reintroduces old fashioned demo play, except without the
need for physical disks or downloads as a game is always ready-to-play because there is no need to download anything (Ojala & Tyrväinen, 2011).

While the subject is relatively new in games studies, Bhanoo (2009) states that this technology would allow companies to access computing power and resources through the Internet, and pay for services based on usage. The video game industry, though, may reap an additional benefit from cloud computing: piracy protection. If computers games were purely Internet-based there would be no need to sell software or download programs, unlike the current industry model, in which games depend on PC or console processing. Bhanoo’s (2009) statement is in concurrence with Ojala and Tyrväinen (2011) who also state that as game content is streamed to end users, the end-users do not get the game code. This makes illegal copying (piracy) impossible. We see that early adopters of Games-on-Demand are OnLive (2012) and Gaikai (2012), where high-end video game content is ‘streamed’ from the cloud directly to a device of the user’s choice (PC/MAC, TV and mobile) without the need for discs or downloads. Although it seems that there are a lot of benefits within the Games-on-Demand concept, we worry that not every party will assist on diffusing this innovation.

3.4.2 Video game promotion

Additionally, when discussing channels, we should mention developments of promoting a video game title (Osterwalder et al. 2010). Especially when opening the chapter on digital and cloud distribution it seemingly becomes a whole new challenge to make a game visible to the end-user. After all, the retailer was always used to market the boxed product. Little is studied specifically towards video game promotion, but we found understanding in work from Sotamaa and Karppi (2010), who dedicated a chapter in their book "Games as a Service" towards discussing marketing implications within the video game industry.

Sotamaa and Karppi (2010) believe that the traditional way of marketing with paid advertisements is still a functional way to operate, but it is extremely expensive and therefore mainly available for big budget games. There are other marketing mechanisms a video game studio can use for making their games more visible in media clouds. Thom (2009) claims that visibility is the key most important factor in the success of video games. However, visibility is an expensive commodity. The passionate game developer with zero marketing budgets has to get creative and super industrious to find ways to viral marketing. Online distribution channels have a long list of free marketing communication items that studios could focus on. Following Sotamaa and Karppi (2010), a few examples are:

- **Website (forums)** – the use of a website (forums) to establish communication with the end-user, or rather community;
- **Game videos** – videos showcasing some in game footage;
- **Promotional freebies** – giving away freebies such as closed beta keys to the most active users on the forums;
- **Press release** – writing own press releases to keep the community informed about game development progress and other key activities (paragraph 3.7);
- **Word-of-mouth** – utilizing the community to promote the video game utilizing word-of-mouth mechanisms;
- **Review lobbying** – approaching review writers (critics) to write a review about the video game;
- **Playable game demos** – developing a playable game demo giving an impression of the video game.

These are all trending marketing mechanisms to be applied for developing studios of most sizes. It would however be very time consuming to enable these mechanisms and would
not always be favorable for smaller studios. However, as marketing is significant it still advised to consider said activities, whether as a key independent activity or outsourced (paragraph 3.7). In regard to playable demos we see notable synergy with digital distribution as a downloadable or cloud-based demo would be more likely to reach a broader audience. Therefore, Sotamaa and Karppi (2010) argue that game developers should allocate significant resources on designing good demos as they are more prevalent than ever before. However in its current state Thom (2009) would argue that the low conversion rate is not worth the additional development cost. Sotamaa and Karppi (2010) would in turn advice to consider the development of a demo during the conceptualizing process of the video game. Realizing, in an early stage, in what way the game will be promoted will benefit the objective of becoming visible within the media cloud. It seems that studios can, and perhaps, have to be very creative in findings ways of communicating towards -and utilizing the community. To get a better understanding of the challenges of promotion we will have to look at practical implications lying within the interpretation chapter.

3.5 Customer Relationships

An interesting shift in the way studios are establishing their relationships with customers is how it is becoming more commonly accepted to involve the customer in the development process. The keyword here is long term relationships which depict the fact that perhaps studios are more focused to establishing tighter relationships with their customers. Stenros and Sotamaa (2009) cite Chang (2009) who believe that the days of the typically short term focused fire-and-forget business model is numbered. It is perceived that the video game industry is actively moving from providing discrete offerings towards establishing ongoing relationships with players. Additionally, maintaining a strong customer relationship can lead to actively utilizing the customer in the creative and content creation processes of game development. In this sense the customer becomes more than just a consumer as customer driven production can be exploited. In this regard we call the consumer a prosumer as, according to Tapscott and Williams (2008), the consumer consumes what he produces. The latter will be somewhat touched upon in this paragraph, but more thoroughly discussed in the Key Resources paragraph (3.8).

The fire-and-forget business model depicts a typical short product life cycle where development investment has to flow back within a short time after publishing the game (Teipen, 2008). As we are noting a shift from a product to a service orientation (paragraph 3.3.2) customer relationships are seemingly becoming more important to focus on. Sotamaa and Karppi (2010) believe that customer relationship should go hand in hand with game logic and would view customer relationship as an integral part of the total game experience. Game experience is thus not traditionally restricted to an in-game environment. This is also implicated by Ang, Zaphiris and Wilson (2010), who say that as various forms of play emerge around computer games we see types of play, known as out-of-game play or rather extrinsic play, which actually takes place beyond the original game context. In contrast, Ang et al. (2010) call the in-game play intrinsic play. Ang et al. (2010) developed a model in which
they were able to analyze game tools, play actions, goals, and outcomes to understand the relationship between intrinsic and extrinsic play, which they believe can provide insights into how games can be designed to facilitate social interaction. One conclusion is that games should be designed to support community building as players are motivated to play by reflective play in which they want to talk about the game with others and be part of the player community. This can supported in-game by including a chat system or out-of-game by maintaining a forum. Furthermore, Ang et al. (2010) also found that players are also motivated to explore what they can do with the game to test the game boundary and to expand the game through expansive play (Ang et al. 2010). An example of the latter is the writing of a player-created guide to help other players in the game community or simply sharing an own created sketch of your favorite character. Sotamaa and Karppi (2010) in turn believe that establishing a community is not only a game design challenge, but also implicates a social interaction challenge. All games, including those that do not have multiplayer aspects (paragraph 3.3.1), should focus on developing intrinsic and extrinsic game elements and thus commit to creating long term customer relationships.

Following this notion, Martin and Deuze (2009) suggest to not only establish interactive relationships amongst developers, but also between developers and the customer. The customer can at times be seen as a critic, and/or as a participant in user forums. In a less common regard they could also edit a level or submit a mod based on the original game. In all regards the customer should actually be seen as developers. The latter is stipulated by Postigo (2007) who argues that a possible mean to focus more on creating long term relationships can be accommodated by involving gamers through development tools, server space, and level editors. According to Ang et al. (2010) this would work towards answering the need for extrinsic game experiences. Postigo (2007) states that any add-ons, tutorials, and other fan activity contribute to the longevity of a game and thus extend the product life cycle of the average video game. However, production tools to stimulate extrinsic game play is not always a cheap endeavor in terms of development costs as Stenros and Sotamaa (2009) would argue that player-created content necessitate a variety of services for players creators. However, better supporting socialization of players and community building is something studios need to learn to do better. Simple services such as community forums and creating tutorials should be stimulated by the development studio from an early stage of the development process.

Perhaps a fair conclusion is that, whilst considering an adoption of service elements (paragraph 3.3.2), a clear focus on establishing and maintaining long term customer relationships depicts better game business. This can be achieved by focusing more on customer relationships and creating good play experiences, both intrinsic as extrinsic, instead of delivering basic game products. Sotamaa and Karppi (2010) believe that where it previously has been important to attract players to just buying the game, in the future, it will be more important to sustain the player relationship in order to gain higher aggregate benefits in a longer run. As with an extended product life cycle, monetizing can take place along game play and in multiple ways as we will later discuss in Revenue Streams (paragraph 3.6).
3.6 Revenue Streams

Osterwalder et al. (2010) describe revenue streams to represent the cash a company generates from each customer segment (paragraph 3.2). If customers comprise the heart of a business model, revenue streams are its arteries. A company must ask itself, for what value is each customer segment truly willing to pay? Successfully answering that question allows the firm to generate one or more revenue streams from each customer segment.

Even though the standard revenues for developers are royalties from publishers (Williams, 2002), we believe that when perceiving a shift towards more independent development activities (paragraph 3.7), it becomes interesting to discuss viable revenue streams for small and medium-sized development studios. The video game industry can be considered to be quite innovative when it comes to introducing new revenue streams. A few developments are microtransactions, subscription fees, and episodic content. In the context of small and medium-sized development studios we address the most common revenue streams. Where in the past video game titles commonly applied the fire-and-forget model reflecting relatively short product life cycles, we now see a trend towards extending the product life cycle in terms of adding to the average lifespan of a video game title and thus becoming more focused towards the longevity of customer relationships (paragraph 3.5).

In our discussion, even though in the context of MMOGs (Massive Multiplayer Online Games), Nojima (2007) provides an extensive study to better understand and communicate various revenue models within the video game industry. The following equations represent the degree of customer satisfaction (CS) in relation to a price/time spend ratio for three separate revenue models. The shaded area represent the total amount of received payments from customers.

3.6.1 Fire-and-forget

The first equation (figure 11) shows the classic prepaid package model or rather the fire-and-forget model. Nojima (2007) states that the model represents a marketing standpoint that the sale is a sum of individual user’s purchasing behavior. The model depicts that users estimate the value prior to purchase and consumption. The estimate will base on the information from mass media or their experience of previous consumption. When the reputation or previous experiences are favorable, customers are willing to pay for the new game. Then advertisement and trial are effective to increase the estimated values for the game, which Nojima (2007) considers to be high-perceived risk goods. The fire-and-forget model front-loads the timing of collecting money, and the entrance barrier of perceived risk be-
come high. In other words, timing, marketing and reputation play a tremendous role in this business model as most revenue is made on launch day. Additional post-launch revenue is not uncommon when the game is well-received among critics and customers. It is also common that this revenue stream is meant to be one-time only; as such the product has a typical short product life cycle. Successful titles will often use acquired reputation for future productions. Additionally, Nair (2007) focused on the problem of setting prices over time for a product that is “creative” and durable (e.g. books, CD’s, and video games). Durability implying that consumers who buy the product are not in its market in subsequent periods. Thus video game companies face a shrinking market and lower average willingness-to-pay for the product over time. This generates an incentive to “skim” the market, by starting at high prices and lowering these over time. Skimming enables the firm to intertemporally price-discriminate by selling to high-valuation consumers at high prices early, and to low-valuation consumers at low prices later. This implies that the customer could delay purchase of the video game when initially released. Which in turn results in a possible delay of revenue (Nair, 2007).

Another perspective concerning the frequency of revenue and title releases is depicted by Martin and Deuze (2009). In referring to Andersson’s (2006) Long Tail theory, their perception on title is how a small number of big hits with mass appeal will make the same amount of money as an almost infinite number of amount of small successes if the costs for distribution and access are minimal to zero (Martin & Deuze, 2009). Coming to this, we wonder whether a combination of short term strategies can ultimately embody a long term strategy, through in this case accumulating a mass audience. The next two sections illustrate more concerning other long term revenue strategies.

3.6.2 Subscriptions

Nojima (2007) says that in the subscription model (figure 12), money is collected continuously (e.g. the end of every month or the subscription is temporarily terminated), regardless of the level of CS. This model implies that the value of game lies in continuous membership. Theoretically, efforts to extend the users’ playing periods and encourage continuous play style will increase the amount of (continuous) subscriptions. Practically this is commonly done by deploying a service orientated (paragraph 3.3.2) business model which releases updates (e.g. patches) on a regular basis to keep the level of CS and game immersion high.

Nojima (2007) concludes that the profitability of a subscription based model depends on whether the game has had a good launch. Here a good launch equates the same dependencies as the fire-and-forget revenue model. A game that has failed to attract the right amount of users will often not be able to make up for this post-launch. In this sense the game could turn to adopt the microtransactions revenue model, which is more towards attracting users and gaining revenue during play.
3.6.3 Microtransactions

Nojima (2007) claims that the microtransactions model represents the middle course (figure 13). Both purchase frequency and unit purchase amount will effect on the company’s revenue. Expressed in another way, a company has several alternatives to make change in revenue; rate of charge, purchase frequency, item price, and sold amount. Players are explicitly divided into two types, free users and paid users. Compared with the subscription revenue model, microtransactions games often have a smaller population of paid users, but have a larger amount of average paying of paid users. This implies that it is more common to make purchases during consumption of play, as opposed to before consumption of play as seen in the fire-and-forget and subscriptions revenue model.

Following the East Asian video game market (Oh & Ryu, 2007), Hamari and Lehdonvirta (2010) reflect the past years to have introduced the era of microtransactions to the Western video game market. Microtransactions rely on sales of so-called virtual goods which could be in the form of virtual items, avatars or virtual currency (which can then be used to buy virtual items). Perhaps most frequently, an object would be sold via virtual currency acquired through buying virtual currency with real money. Virtual items can range from weapons and armor in online games to clothes in virtual worlds (Hamari & Lehdonvirta, 2010).

Nojima (2007) says that in recent years, the growth of the market has increasingly been driven by video game operators selling goods directly to their users. Instead of requiring users to pay a monthly subscription fee, operators allow users enter the service for free, with the expectation that some users will nevertheless spend money on virtual good microtransactions. For this reason, virtual good sales-based games are often called free-to-play games. Free-to-play services appeal to a much larger audience and users that are willing to pay a subscription fee often belong to a fairly limited segment of hardcore users (Hamari and Lehdonvirta, 2010).

Lehdonvirta (2009) addresses possible drivers for doing microtransactions one could have when committed and emerged in a virtual world. As displayed in table 7, Lehdonvirta (2009) argues that virtual items focusing on gaining in-game functional attributes do not always respond well within a community. For example, a player able to spend more money on the game and thus gaining more of a functional advantage over other players has often proven unfruitful to the longevity of the game. In contrast, Lehdonvirta (2009) states that the application of hedonic attributes would be a better consideration as no apparent functional advantage is gained. The challenge here, however, is design implications of virtual goods as the appreciation of appearance is often relative. There-
fore, having only studio designed hedonic content could perhaps be likened to having a city full of people wearing the same brand of clothes: consistent but potentially dull (Lehdonvirta, 2009). User-created content, as later discussed as *prosuming* (paragraph 3.9.2), introduces diversity but comes with its own challenges as Lehdonvirta (2009) depicts. Finally, *cultural attributes*, as Lehdonvirta (2009) highlights, imply that in some cases seemingly desirable aesthetics prove to not always be connected with desirability within a commodity. Instead it is more connected to the *rarity* of a virtual item. Players would sometimes feel more inclined to buy that which will not return to the virtual world in a later stage. As such, the virtual object becomes a souvenir driven by social attributes as rarity is only appreciated when other people do not own it.

Hamari and Lehdonvirta (2010) further argue that design implications of the virtual world should concern marketing activities as to create underlying needs and conditions for customers to become incentivized to actually buying virtual goods. The design and creation of virtual goods should thus be regarded as *separate* design iterations. For example, when a game is too simplistic, or when the game fails to engage, or when the commercial motive is blatantly obvious it would prevent immersion in the game. And a game without immersion is pointless to capitalize upon as stated in Value Propositions (paragraph 3.3). Therefore, a perfect balance between game design and monetization design must be struck. Thus Hamari and Lehdonvirta (2010) would suggest approaching the marketing task as a serious game design challenge. Studios should consult the large body of literature on game design while simultaneously striving to create engaging games around their products and services; the whole customer relationship, from acquisition through retention to monetization, could be modeled as an interactive game. Further emphasizing the challenge of striking a balance, Lehdonvirta (2009), observed that due to the novelty of this revenue model, designing virtual goods is still an undisciplined pursuit. While the larger video game operators are putting considerable effort into overall design and marketing by identifying the tastes of their target consumer and positioning their service favorably among competing offerings, it seems, however, Lehdonvirta (2009) states that when it comes to designing the virtual goods inside the service that ultimately generate the revenues, similar rigor is rarely applied. Virtual commodity design is driven by artists and concept designers, while the marketing department, which in theory has the analytical tools and customer insight necessary to maximize customer value, is rarely involved. This is a perceived challenge when implying design issues within the microtransactions revenue model.

Following Oh and Ryu (2007); Nojima (2007); Lehdonvirta (2009); Hamari and Lehdonvirta (2010), one could argue that successfully deploying microtransactions as a revenue stream requires a game with multiplayer elements (paragraph 3.3.1). Self-expression (Lehdonvirta, Wilska & Johnson, 2009) and social motivation (Nojima, 2007) implying social distinction can arguably only be achieved when in the company of another. Thus, the added value of hedonic and social attributes would seem to have lesser impact in a single player game. As such, designing a virtual world could imply a multiplayer focus and a strong emphasis on game and monetization design.
3.7 Key Activities

The whole value chain of a product activities highlight the most important actions a company must take to operate successfully. They fulfill an important role in shaping the value proposition delivered by a company (Osterwalder et al. 2010). Throughout our discussion, the development process and surrounding activities are central as depicted below (Johns, 2006) various actors make their contribution in various stages of the development process.

In this process, various compositions of roles can be distinguished, either:

- A studio performs the role development and publishing itself. We call this independent development. Studios either develop games independently, or are operating under platform manufacturers, usually console manufacturers (Johns, 2006). Here the studio is mostly funding the entire project.
- A publisher seeks out independent studios to fulfill the development tasks and provides most, if not all funding for the project. We call this contractual development.
- A publisher establishes (or acquires) their own internal development studio, for example EA Games acquiring DICE in 2006 and funds, creates and publishes their own video game titles (Edge Online, 2006).
- A console manufacturer establishes its own internal development studio and funds, creates and publishes own video game titles. For example Microsoft game studios.

Video game console research performed by Johns (2006) mentions how developers are relatively isolated and is thereby unable to capture extra value opposed to publishers and console manufacturers. In the sub-chapters below, we further investigate both facets of these compositions and interrelationships in a broader sense. Since our research is focused on small- and medium sized studios, we firstly highlight the shift that has been observed in the value chain. Both compositions have different implications on key activities and value crea-
tion. Each of these signifies a strategic choice which a studio makes before the actual development of a (series of) video game title(s). To our perception, this choice impacts the whole business model of a studio and especially small- and medium sized studios and will thus be discussed in the following subchapters.

3.7.1 Contractual to independent shift

The original (simplified) value chain from the previous decade is depicted by Readman and Grantham (2006). Readman and Grantham (2006) state how most independent developers make pitches to publishers in order to win the rights to develop an intellectual property (IP). They do this by presenting working models which demonstrate not only what the developers might do with the characters in terms of story and ‘gameplay’, but also demonstrate various technological and managerial capabilities. Corts and Lederman (2008) state that it can also be the publisher that seeks out the game development studio to realize a game title.

To our perception, contractual development embodies the process in which a studio mainly fulfills the role of production. By definition of Tschang (2007), the development studios perform all the creative tasks from designing and developing, whereas the publisher fulfill the financing and distribution as well as provide the studio with resources for testing and actual development (see Figure 16). For console retail-products, the publisher takes care of the manufacturing and related licensing deals with the manufacturers. Traditionally, the
publisher is known to be responsible for marketing the product’s launch (Williams, 2002). As for revenue, the standard revenues for developers are royalties from publisher as seen in the book publishing industry where the creator of the product typically works on advances against future royalties. Here the royalties are paid out based on pre-established progress milestones (Williams, 2002). In the same retail-context, Williams (2002) describes how distributors are responsible for the physical storage and delivery of the product. Hereafter, the retailer itself fulfill the role of the display and thereby accessibility/promotion of the product. We see that retailers charge substantial margins for not only the physical shelf display of products, but charge the publisher so called ‘Market Development Funds’ (MDF) for title-related promotion material like posters or special designated shelf space. As depicted in Figure 16, the publisher has to make a substantial financial investment, depending on the type of game which the publisher is aiming for. Corts and Lederman (2008) emphasize how trends in the past decade have leaned towards console video game titles being financed more and more by publishers rather than developers. Due to this change, some publishers have grown substantially in size and are finding a tendency to create their own development studios in order to exert more control over the resources they allocate and on the development process itself (Tschang, 2007). Since the financial investment in a studio can reach up to several millions, it is not surprising that publishers would want some assurance of success.

Following Tschang (2007), publishers can heavily influence the type of game the studio makes. He stipulates that the influence can be greatest at the conceptualization or pre-conceptualization stage. It is here when the publisher decides on the genre it wants, in effect subjugating the initial creative process. This process of control exertion is supported by Johns (2006) as he mentions how publishers often retain the intellectual property to games. He further elaborates how these rights still apply despite the initial concept and creative input originating with the developer. Moreover, in work of Teipen (2008), a contract between developers and publishers involve even more conditions which tend to favor the publisher. Not only are publishers usually only willing to work with a studio for a period of two years, the studio can only cover their costs during the development period and a few months after (Teipen, 2008). This implies that studios are bound to a relatively short product life cycle.

The above mentioned conditions related to the contractual development structure signify a phenomenon found in micro-economics literature called the ‘hold-up problem’ (Besanko, Dranove, Schaefer & Shanley, 2010). The publisher-developer relationship can be regarded as vertical market contracting relationship. We see similarity with the characteristics of the hold-up problem where publishers seek most of the royalties. Martin and Deuze (2009) in citing Schumacher (2009), highlight how it is the financing party has an advantage in terms of IP control when prospecting for future developments initiatives such as franchising. In this sense, where the publisher holds the IP rights, the developed product becomes relationship specific as seen in Besanko et al. (2010). The theory suggests that vertical integration (joint venturing) might be a good alternative to market contracting, especially the described incomplete contracting and relationship-specific assets. The next sub-chapter describes the implications on the value realization activities of independent small- and medium sized studios.
3.7.2 Implications for small- and medium sized studios

To our perception, the nature and conditions of the contractual-based development setup are anything but favorable for the development studio. Although it is evident that game development studios are primarily dependent on publishers for resource purposes, its implications on the creative aspects seems to put game development studios in an unfavorable position (Corts & Lederman, 2009, Tschang, 2007, Johns, 2006, Teipen, 2008, Martin and Deuze, 2009).

Additionally, the traditional setup in which the producer significantly influences the development process on various aspects seems to hamper a studio’s degree of differentiation (Porter, 1985). That said, the extent to which contract conditions can be negotiated may hold a solution for the above mentioned issues. Still, as the theory holds out, these negotiations are often very tedious and take a substantial amount time and effort (Besanko et al. 2010). The before mentioned hold-up problem has been shown to have implications on trust and according to Besanko et al. (2010) can lead to underinvestment on the developer’s side. We wonder whether issues related to trust and its weak bargaining power have significant implications on the creative output potentially generated by independent game development studios.

From a microeconomics perspective, the theory suggests that for the downstream firm (=lower in the supply chain) it is often more efficient to perform all activities by yourself; thus referring to independent video game development (Besanko et al, 2010). Perhaps the bottom line comes down to the willingness of publishers to trust studios, often relating to the reputation of the studio; the more trust the studio has, the more freedom a studio would get.

In this regard, Martin and Deuze (2009) describe how the Internet and thus digital distribution platforms enable not only low-risk entry into game development but also have a significant influence on the structure and the identity of the independent game development. In this regard, we see how in the last decade many small and medium-sized studios have been established which are performing all the activities depicted in Figure 16 in-house thereby being independent.

As said before, in the traditional model, the publisher provided the funding for the development, with the exclusion of this, it is clear that the budget for development projects will shrink substantially. Opposed to console video game development, we’ve seen that the handheld, mobile, web-browser games require a lot less investment costs. Still, the underlying technology should still be developed or acquired. According to Martin and Deuze (2009), an increasing number of smaller developers with these smaller budgets favor the acquisition of middleware as a solution to get their idea to market. Despite having relatively higher development costs, some studios chose to create their own engine since for control and the opportunity to license it out to other studios (Martin & Deuze, 2009).

When addressing the service-oriented customer approach depicted in Value Proposition (paragraph 3.3) and Customer Relationships (paragraph 3.5), the studios activities change. We suspect that activities related to communicating and actively involving the customer should be institutionalized before the realization of any project, further practical investigation is required since literature remains indecisive. However, Stenros and Sotamaa (2009) mention that if the discussed long term focus is to be achieved, activities of a game development studio should be aligned with the service-oriented paradigm shift. Although limited research has been performed in this field, Stenros and Sotamaa (2009) provide an initial model depicting various categories of player-oriented services:
- **Maintenance of environment** – the actions related to making playing the game possible.
- **Support of initiation** – supporting the decision to start playing a game, providing aid choosing a game, aid in picking content, and helping find playmates.
- **Facilitation of playing** – overseeing game sessions, running a game, setting up tournaments.
- **Assistance of play** – modify the game to meet individual needs, personalization/localization, parental control, controlling player-mods/tweaks/hacks.
- **Socialization of play** – teaching how-to play / play better, introduces the player to the game-culture, manage player identities.

Many of these services require a reconfiguration of a studio’s processes and thus have implications for underlying resources and partnership requirements. The literature is somewhat indecisive whether independent studies actually need the publisher and/or retailers to be successful (Stenros & Sotamaa, 2009; Martin and Deuze, 2009; Tschang, 2007). Having said this, the discussion about what is perceived as a hit or success might be the key in managing the implications on small- and medium sized studios. In work of Tschang (2007) we found that studios usually only start seeing royalties if the game becomes a hit. Tschang (2007) measures hit when a title sells over one million units, where after he states that few games become a hit. Furthermore, he argues that innovative games originating from these independent studios are usually not polished enough to succeed as a commercially sale-able product. He argues that there is a general lack of resources to convince a publisher of the game’s prospects (Tschang, 2007). Martin and Deuze (2009) regard this aspect differently since the investment is smaller. They argue that since the investment is smaller, there is a lower expected rate of return. In this respect, the level of success is measured differently. When looking at the value chain, there are less parties involved since our conception of independent excludes the publisher and retailer. Consequently, where these roles are not present in the supply chain the profit margins are not split either.

We see significance in Martin and Deuze’s (2009) argument in stating that the independent video games industry may provide a flexible enough structure such that they are able to re-define their own terms of success. We believe that by investigating this aspect via our data gathering will give us a better understanding in the conditions and related characteristics.

The realization of a video game title is an embodiment of creative input and supporting business activities (Teipen, 2008). Since with this shift the activities of publisher and retailers are fulfilled by the respective studio, the implications on the acquisition of required resources/knowledge is a point of concern and will be discussed in Key Resources (paragraph 3.8). In similar regard, independent does not imply that the studio is isolated, the implications on partners is situated in Key Partnerships (paragraph 3.9).
3.8 Key Resources

This aspect of Osterwalder et al. (2010) business model canvas embodies the most important assets required to make a business model work. In the video game industry, resources relate to everything required to ultimately shape the value proposition (paragraph 3.3) offered by the developer.

Osterwalder et al. (2010) mention that key resources can be owned or leased by the company or acquired from key partnerships. The video game industry is similar in this regard where throughout the production cycle, companies either set up for closed or open development. Before we can elaborating further a more thorough interpretation of the word ‘content’ is required. Although Johns (2006) depicts content as a separate entity in the production network (see figure 15), he does not provide an explicit definition of the word. By looking at various definitions, the closest we could find was related to media content where the definition is very broad embodying information and experiences: “Content is information and experiences that may provide value for an end-user/audience in specific contexts.” (Fine, 2011). To make it applicable and more specific to the video game industry, our interpretation of content is mostly derived via Johns (2006) production network (figure 15): Design, Programming, Sound, Music, Graphics (3d), Artwork (2d) as well as feedback and ideas.

Additionally, the definition of Osterwalder et al. (2010) ‘resource’ can have multiple interpretations. For the video game industry, even though applicable, we found physical assets to be of lesser interest to describe. The financials or funding for video game titles, are as depicted in figure 15, directly tied with the separate key activities. As discussed in Key Activities (paragraph 3.7), the shift in the value chain has excluded the role of retailer and publisher in small- and medium sized studio’s pursuit for independence. In the traditional supply chain model (see figure 16) by Johns (2006) both the retailer and publisher have had their distinctive function which are now fulfilled by the independent studio. As such, this paragraph is described from the perspective of the independent game development. The realization of a video game title is an embodiment of creative input and supporting business activities (Teipen, 2008). As a result we found competence, intellectual property and content delivery to be the most prominent resources for a studio. This section investigates what these key resources entail, what the implications are when acquiring these internally and/or externally.
3.8.1 Competencies

With the discussed shift to independent game development in Key Activities (paragraph 3.7), the activities of a publisher and retailer are fulfilled by the respective studio. The implications on the acquisition of required competencies / knowledge to fill this gap are something that needs to be addressed.

The before mentioned knowledge gap is to be addressed either internally or externally. Although the external acquisition of resources is discussed in the Key Partnerships paragraph (3.9), the theory depicts various considerations. Duysters and de Man (2003) mention that a firm’s ability to capture externally generated knowledge is (to a larger degree) dependent on the firm’s knowledge in that field. It is thus apparent that when it comes to technology, studios should have the adequate senior-level expertise in video game development.

Zackariasson, Styhre and Wilson (2006) state that video game development is usually performed in four distinct teams (roles): programming, art, audio and design. The image below illustrates the different actors and flow of work during the production of a video game. Each actor has a distinct skillset, covering one of the four distinct roles. Note that the image below is depicting the traditional contract based setup of video game development (thereby including the external producer). Zackariasson et al. (2006) mention how the output of each functional team should be aligned with other teams, but how the knowledge should conceived autonomously.

Aside from the independent actor’s competencies, Zackariasson et al. (2006) also highlight that almost all employees who work in the industry, independent of their role, are gamers themselves and is more or less becoming a criteria. It seems that on a technical level, game development requires extensive specialized knowledge that evolves during projects. In pursuing Duysters and De Man (2003), knowledge management practices should be implemented to capture all internally generated- or externally acquired knowledge.

Teipen’s (2008) research on European studios stipulates concerns with managerial practices. Her findings state how most studios are founded and managed by people with no formal educational degrees, who have little management knowledge, no consistent business strategy and proceed according to the pattern ‘rather five new programmers than one manager’. As also seen in Zackariasson et al. (2006), aside from their skillset, competences which studios foster most is creativity. Teipen (2008) highlights that the lack of professional qualifications has negative effect for managerial functions, she found that it is unimportant for other functions. The findings of Teipen (2008) are mostly based on findings in large companies, we suspect these to be applicable for small- and medium sized studios as well.

Readman and Grantham (2006) illustrate an alternative to acquiring know-how and expertise in order to progress the technological competence in the firm. In his research, he highlights how acquiring the technology directly could potentially aid the development process, via middleware engine. The main driver for acquiring middleware is the reduction of development costs, where developers have a head start instead of having to start from scratch. Readman and Grantham (2006) research is based on investigating bigger organizations, where projects are externally funded. In this respect, he found that utilizing middleware hinders innovation aspect in the projected title. Moreover, his findings show that middleware tends to shift complexity to the later stages of development. Readman and Grantham (2006) conclude that the approaches to middleware procurement and utilization act as a
proxy for strategy informed by resource exploitation where pure market-based strategies would give short-term advantage only.

### 3.8.2 Content delivery

Martin and Deuze (2009) illustrate the shift in the industry that has occurred in the last couple of decades. They mention how digital distribution greatly reduced the distance between producers, content, and consumers. Consequently, developers and their audience are brought into a common space, hereafter making the distinctions between creator and gamer less relevant, if not nonexistent (Martin & Deuze, 2009). The evolution of the industry has led to an overall increase in the sophistication of a video game. The more committed gamer, as depicted in Customer Segments (paragraph 3.2), more and more expect and/or demand an innovative game play experience. Generating ideas which allow for hyper-differentiated products is becoming more and more difficult. Arakji and Lang (2007) stress the importance of understanding these demands, but emphasize that firms are finding it difficult and costly to understand their customers. Moreover, in today’s interconnected world various opportunities have emerged in the way we communicate and collaborate over distance. Humphreys (2009) supplements this vision by stating that when this type of collaboration emerges, the consumer no longer occupies the position at the end of the linear value chain as audiences do in other media models. Applications range from providing ideas, feedback, actual game content such as artwork and designs. They are not the end-users, they are co-creators. Yet they are most often characterized as consumers rather than producers. The Key Partnerships paragraph 3.9 illustrates the matter in which we further discuss the implications of the user as a co-creator.

### 3.9 Key Partnerships

Osterwalder et al. (2010) describe the key partnerships aspects as the collective network of suppliers and partners which make a business model work. The role of partners can be put in four types:

1. Strategic alliances between non-competitors
2. Co-opetition: strategic partnerships between competitors
3. Joint ventures to develop new businesses
4. Buyer-supplier relationships to assure reliable supplies

For our purpose, we investigate the first two types of partnership relationships. Following Osterwalder et al. (2010), the partnership should be relevant in supplementing the key activities (paragraph 3.7) that a firm performs. Partnerships should be aligned according to previously discussed shift to more independent video game development. We have seen that due to the dawn of the digital distribution, the independent video game industry may thrive and (re)define their own terms of success (Martin & Deuze, 2009). Thus by excluding the retailer and the publisher partnership relation, a blank in knowledge and expertise is

![Figure 18: Key Partnerships](image-url)
bound to occur. Additionally, according to Coviello and Munro (1997) in citing Hara and Kanai (1994), firms that have sophisticated customers, are in a volatile competitive market, as well as a product that is strategically important or unable to be standardized may require the firm to leverage the skills and resources of other organizations. In this chapter, we firstly investigate the theoretical significance of partnerships in general in order to deduct possible motives and forms in which this can transcend for small- and medium sized studios.

3.9.1 Partnerships and Alliances

Traditionally, when looking into a firms competitive advantage, Porter’s five forces (also seen in Porter (1985) framework tends to regard all others firms, whether it is suppliers or buyers, as threats to profitability (Besanko et al., 2010). As a supplementary argument to Porter’s viewpoint, Nalebuff and Brandenburger (1996) identify a more profound concept known as the Value Net. This Value Net, consisting of suppliers, customers, competitors, and complementors, is essentially focusing on assessing opportunities rather than threats (Besanko et al., 2010). Complementarity is defined as: “A player is your complementor if customers value your product more when they have the other player’s product than when they have your product alone” (Nalebuff & Brandenburger, 1996). Thus stating that a bundle of goods together provides more value than the total value of having the individual goods separately.

Realizing that topics within micro-economics are vast and often interconnected, we primarily focus on specific and isolated concepts within these fields. Perhaps it could be implied that this Value Net can be of strategic significance to the overall generated value that embodies the development of a video game. Bovel and Martha’s (2000) perception on the Value Net distinguishes five characteristics in their research:

1. Customer alignment – the customer triggers the network’s sourcing, building and delivery activities;
2. Collaborative – value creating is central in the network, based on the demand the best partner was selected;
3. Agile and scalable – responsiveness is central with flexible production, distribution and information flows;
4. Fast Flow – order-to-delivery is fast and inventory minimized;
5. Digital – e-commerce is the enabler in information flow.

Amit and Zott (2001) go deeper into the complementarity aspect on a technological level. They exemplify by combining imaging technology (like photo scanning/copying) of one participant with the Internet communication technology of another hereafter creating new value. On a further e-commerce note, they distinguish how valuable complementarities can exist both horizontally, i.e. one-stop shop and vertically, such as after-sale.

In discussing the Value Net from a business model perspective, Shi and Manning (2009) highlight what they refer to as the exchange model. The exchange model describes a web of values originating from a firm’s core offerings, and to all other economic actors. In their work, they mention that the value created in this Value Net is not shared equally among all partners. Moreover, they stress that competitors are hardly competitive once their strategies are based on similar intentions. Similar to Bovel and Martha’s (2000) characteristic of customer alignment, Shi and Manning (2009) mention that customer value propositions need to be addressed in relation to the value proposition for all other actors in the Value Net.
Despite there being an overall significance in the overall benefits of the Value Net approach, Amit and Zott (2001) mention some conditions that need to be considered. They highlight that by integrating transaction components (such as game content, knowledge, information, product components) delivered by distinct firms in a business model is economically compelling when transaction costs, and hence the threat of opportunism, are low (Amit & Zott, 2001). In response to this, we feel that a more stable and structured relationship would be required due to the competitive nature of the industry.

The transitory alliance

The structure of the firm is of significant interest. It is more evident that, in the video game industry the overall technological standards are increasing and changing more rapidly than before. Since we have seen that when pursuing a Value Net approach the consumer triggers the necessity for partnership initiatives a more flexible structure would be more adequate for the relationships. Hagedoorn (1993) mentions how shortened product-lifecycles in turbulent industries (such as the video game industry) make it increasingly important for firms to reduce the period from invention to market introduction. He illustrates that collaboration could help in the reduction of innovation process time-span, for instance by acquiring technology or gaining access to competencies from partners (Hagedoorn, 1993).

We found a particular type of partnership to be more compatible with the characteristics which we’ve seen within the industry: transitory alliances. Originally defined by Duysters and de Man (2003), “transitory alliances are short-lived non-equity alliances that focus on completing narrowly defined tasks in a very short timeframe”. Seeing as for independent small- and medium sized companies, the development projects are usually technology-related to what is popular at that point in time, this type of alliance would be applicable. The characteristics are depicted in table 8 below:

Table 8: Traditional Alliances vs. Transitory Alliances (Duysters & de Man, 2003)

<table>
<thead>
<tr>
<th>Traditional alliances</th>
<th>Transitory alliances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market access, efficiency</td>
<td>Motives</td>
</tr>
<tr>
<td>Slow, long</td>
<td>Speed and planning horizon</td>
</tr>
<tr>
<td>Individual fit</td>
<td>Partner fit</td>
</tr>
<tr>
<td>Familiar sectors</td>
<td>Partner type I</td>
</tr>
<tr>
<td>Established</td>
<td>Partner type II</td>
</tr>
<tr>
<td>Trust</td>
<td>Commitment</td>
</tr>
<tr>
<td>Many tasks</td>
<td>Focus</td>
</tr>
<tr>
<td>Learning</td>
<td>e-Speed, short</td>
</tr>
<tr>
<td>Network fit</td>
<td>Unfamiliar quarters</td>
</tr>
<tr>
<td>Entrepreneurial</td>
<td>Aligned objectives</td>
</tr>
<tr>
<td>Few, specific tasks</td>
<td></td>
</tr>
</tbody>
</table>

The central theme in a transitory alliance is knowledge acquiring, objective-oriented and designed to promote innovation by looking into complementarities of prospected partners. We have seen in Key Resources (paragraph 3.8) that for more service oriented game development, a diverse competency set is required. Depending on the firm’s strategy and already acquired competencies, we suspect the transitory alliance builds upon this in an effective way.

The in the Key Activities (paragraph 3.7) mentioned player-oriented activities could be either facilitated by the studio themselves or by third parties. Stenros and Sotamaa (2009) mention how these services can provide a basis for complementary business of their own. Moreover, they highlight how some of these services, like assistance-of-play do not seem fit to be facilitated by publishers or studios. Additionally, they are provided by the player-community themself whether they are required or not. Stenros and Sotamaa (2009) mention that providing the tools for these activities is something that needs to be addressed.
3.9.2 The consumer as co-creator

Customers typically buy a video game, play and forget them. Tapscott and Williams (2008) call this passive consuming which is not in contrast to the current generation’s needs and values. Prosuming, as mentioned by the same authors means that consumers are also producing the content they consume. Implications for the video game industry are that the player is involved in the creation of content as a resource. We found similar relevance in other publications. Martin and Deuze (2009) for example highlight that there are more variables that need to be considered when defining independent game developers. They speak of the formation of an interactive relationship between developers, the greater games industry, and their audience. The latter, exemplified as modders, level editors, critics and user-forum participants should also be perceived as developers (Martin & Deuze, 2009). This implies that relationships have to be thick, where the consumer can be perceived as a partner (Tapscott & Williams, 2008).

Furthermore, in consulting research of Martin and Deuze (2009) as well as Sotamaa and Karppi (2010), we are under the impression that the tools that need to be in order for it to be effectively transferred and adopted when considering the consumer as a partner. In coming to this, we also suspect that the medium by which the resources are presented and ‘digested’ play a key role.

Pre-release initiatives

Swaying off from the traditional closed model, pioneering studios are reassigning the design aspect of product development to external sources of ideas, including their own customers (Arakji & Lang, 2007). By involving customers in various steps of the design process, a multitude in content providing can be seen. Consumer feedback on perceived value by consumers is one of the most valuable assets to a developer (Arakji & Lang, 2007). Davis, Steury and Pagulayan (2005) investigate techniques and methods acquiring adequate information from consumers about how they perceive a particular game, specific, actionable feedback that game designers can use to make their games better. In their views, a game is better when it is more fun. Involving the customer in the design process is an important step in reaching synergy between created value and captured value. In more recent publications, Greer and Lei (2011) mention trends in how designers look to their customers as potential co-developers of new gaming ideas and encourage high customer interaction during the development and testing process.

Various methods and techniques exist which support the desired outcomes. In the last decade companies already perform various types of techniques to support their design process. A popular method used in a large variety of industries is beta testing, where a company has potential users to try out the product and report their experience (Dolan & Matthew, 1993). In other regard, Davis et al. (2005) highlight that results from beta tests are crucial for identifying important bugs in games but are not very useful in helping to identify and fix game play issues or issues relating to, how we define better games; fun. Extending their arguments, we see promise in their beliefs that the PlayTest method is more suitable for managing customer’s perceptions about a video game. The PlayTest method is conducted in a closed and controlled environment either focused on a released or unreleased game title. The main focus point is the first hour of play, which according to Davis et al. (2005) is critical. Since every participant is going through the same scenario, their behavior and experience is monitored for the entire process, focusing on a multitude of aspects. Ultimately it seems that user involvement in any development stage is crucial for actual game improvement. The PlayTest is one example which is perhaps leading towards a more open direction in video game development.
Post-release initiatives
As part of post-release, several types of co-creation can exist. The digital distribution platform Steam maximizes the development potential of fan-programmers. One of the 'payoffs' in the information/access exchange for the user with Steam is the degree to which Valve's End-User License Agreement (EULA) permits individuals and communities of 'modders' to appropriate its proprietary game content for use in the creation of new games and games materials for redistribution via Steam. These mods extend the play of the older games, by requiring their purchase via Steam in order for the individual user to participate in the modded experience. If Steam is able to encourage this kind of appropriation and community support for older content, then the potential exists for it to support cultures of consumption and practice of use that collaboratively maintain, extend, and prolong the life and use of games (Moore, 2009).

Although it is evident that it can be very favorable that studios would want their customers to be this involved with their game, Herman, Coombe and Kaye (2006) highlight an important consideration. They emphasize a phenomenon they refer to as goodwill, which is intertwined with the continual consumption of a company’s goods. They continue stating that the legal friction allows these companies to claim rights concerning the extent at which commoditization takes place. Quoting Herman et al. (2006): “In digital games, relations of goodwill usually revolve around the copyright status of materials created in the virtual spaces of game play”. So despite the intention of a studios, (legal) friction may occur to the extent at which the user is involved with the ‘openness’ that is presented by the firm.

In regard to the different forms of previously mentioned prosuming Herman et al. (2006) mention that there are multiple types to be distinguished. Every type is encapsulating a level of prosuming which relates to the extend at which content is generated. They highlight that all these practices pose issues of authorship and ownership, but that modification and what they describe as ‘meta gaming’ activities are particularly vulnerable to the intellectual property debate. Without going too much in detail, the implications on a studio’s practices should be taken into consideration when prospecting for incorporating the user as co-creator (Herman et al. 2006). In similar respect, Arakji and Lang (2007) highlight how copyright owners of a game typically include cease-and-desist clauses in their end-user license agreements (EULAs) in order to reduce this form of risk. Moreover, their findings concerning the profit maximizing strategy of game modifications reveal that a mod should always require the original title to run (Arakji & Lang, 2007).
3.10 Cost Structure

Osterwalder et al. (2010) state that the cost structure describes all costs incurred to operate a business model. This implicates that previous choices made within other aspects of the business model structure the cost of business operation. Naturally enough, costs should be minimized in every business model. But low cost structures are more important to some business models than to others. Therefore it can be useful to distinguish between two broad classes of business model cost structures: cost-driven and value-driven. In terms of the video game industry we can perhaps stereotype the cost-driven model more towards the small and medium-sized video game development studio, while the value-driven model is more reflected within larger studios developing triple-A titles. Our discussion will be more towards the first mentioned cost-driven structure.

3.10.1 Production costs: contractual and independent

As discussed in Key Activities (paragraph 3.7) when discussing the production process of a video game title we perceive a difference in contractual and independent development. This implies that the cost structure will differ accordingly. For example, when opting for more control and creativity over the total production process one would consider independent development over contractual development (Tschang, 2007). This would imply higher costs as most small medium-sized development studios do not have the resources or know-how (paragraph 3.8) available to consider activities outside normal development activities. As such a logical step is to establish partnerships with those that specialize in other activities of the production process (paragraph 3.9). We believe this was the rule of thumb before digital distribution (paragraph 3.4), which presented more opportunity for the independent developer to actually adopt additional activities within the production process. Whilst remaining cost-driven, the independent development studio will look to adopt activities previously performed by other parties such as financing, manufacturing, distribution, and promotion at low cost. As Osterwalder et al. (2010) state that the cost structure implies the cost of business operation, in accordance to Nair (2007); Williams (2002); IGDA (2008), we realize that the outline of the cost structure is more or less reflected within the Key Activities paragraph (3.7).

Considering that there can be lot of variables within key activities (e.g. choosing which marketing activities to adopt or which distribution channels to utilize) we estimate that development studios will maintain a cost-driven approach. The International Game Developers Association (IGDA, 2008) addresses an interesting developing within the casual market. The IGDA states that the casual gamer is more appreciative towards game with good game play as opposed to needing high-end aesthetics. This is a good development for the independent developer as a big, art heavy game, like a hidden-object or click-adventure will require a larger investment in art production than a game that relies more on game play. On average, you should expect to see at least a quarter of your game budget go towards art.
3.10.2 Service costs
With different value propositions (paragraph 3.3) come different cost structures. A recurring topic to discuss here is the cost structure implications when moving from a product to a service orientation. In doing so we can more or less structure the previously mentioned costs for production, while the costs of maintaining a service can be a bit more blurry. But if we should view video game titles as a continual service more than a one-time product as discussed in paragraph 3.3 we can state that developing studios have to become more customer orientated – which ultimately overhauls the traditional one-time development “projects”. Sotamaa and Karppi (2010) state that when aiming for thicker customer relationships, there is a long list of continuous tasks that game development companies need to manage, e.g. moderation, security fixes, new content creation, extensions, user help, forum maintenance, viral marketing campaigns, and user-generated content support and revision.

Overall, the total effort and costs required to maintain these tasks might exceed efforts required to perform one-time “project” development. Sotamaa and Karppi (2010) conclude that the dynamics of the service orientated studio are cyclic, iterative, process-orientated and customer-centric and therefore require a completely different mindset from the traditional project-based thinking.
4 Interpretation

4.1 Introduction
This chapter follows our empirical results and interpretation. In order to answer our research questions we aim to make an interpretation following a narrative approach (see paragraph 2.4.3). As such the following structure forms a ‘red line’ throughout the stories of four different cases.

Business model development
The first part gives a concise overview of the studio’s background explaining how the studio has developed and/or innovated their business model addressing strategy, differentiation and success.

Market perception
The second part addresses how the studio perceives the video game industry and which opportunities and trends they see and what they have or have not capitalized on themselves.

4.2 Easy Studios
Founded in 2008 in Sweden, Easy Studios [Easy] originates from a subsidiary from EA DICE and should today be seen as a daughter company of EA Games (EA). Although originally developed by EA DICE, Easy Studios took over the development of ‘Battlefield Heroes’. Easy Studios’ objective is to experiment with alternative business models / revenue streams. Inspired by the free-to-play concept from the Korean video game industry, Easy Studios continued management and development of ‘Battlefield Heroes’. Today, Easy Studios’ major titles include ‘Battleforge’, ‘Battlefield Free-to-Play’ and ‘Lord of Ultima’, all of which are free-to-play and continuously updated. The biggest success is still ‘Battlefield Heroes’ with an accumulated user base exceeding 10 million players.

Easy Studios deviates on multiple levels of the traditional value chain when looking at characteristics described by Johns (2006). Although EA Games is considered to be a publisher, the function in their relationship to Easy is only financing as described by Oskar Burman, General Manager of Easy Studios [hereafter: Oskar].

“We tell EA what the best solution is for this product. Where previous they were thinking of how the consumer can have the most fun. But now they have to think about how is this game fun for free players and players that want to spend money. And they need to get that together, it’s very elaborate”.

Easy Studio’s perspective on working with publishers is different from what Tschang (2007) mentions about how big publishers tend to create their own studios in order to exert more control.

“In the last 5 years, not only EA but most publishers let studios become more independent because they have seen that that works best. By letting studios do what they want is the best way to get money out of them”.

Thus studios have to prove themselves first to these publishers, therefore prior reputation is required. In this case, Easy is an EA Games founded studio, but should not be classified as having a traditional contractual agreement as seen with others. According to Oskar, EA’s in-
ention with Easy studios was to experiment and explore the free-to-play segment. In that sense, Easy was given a lot of freedom since EA had never pursued this segment before. Still, Oskar stresses that the free-to-play market segment is very distinct and that games need to be unique in terms of monetizing the users. Along with the free-to-play business model, Easy Studios is more independent. We feel these characteristics are in line with Martin and Deuze’s (2009) view on the conditions required to be independent. As they state that the independent video game industry may thrive and studios (re)define their own terms of success – which Easy is seemingly doing.

With the launch of ‘Battlefield Heroes’, Easy focused on a different customer segment opposed to the ‘Battlefield 2’, which inspired ‘Battlefield Heroes’. Following Kallio et al. (2011), the mentality of the consumer is central in classifying the gamer type. When looking at characteristics of the predecessor ‘Battlefield 2’, the game offers complex controls, individual player progression, ranking, and competitive team-based game play which all relate back to the skill of the player. In quoting Kallio et al. (2011): “Games played with the immersive mentality are mostly complex and extensive games where it is possible to put one’s soul into it”. We feel that the accessibility of ‘Battlefield 2’, its complex control scheme, and highly competitive nature falls into this complex category making the game more for the committed gamer. Easy Studios had actually intended ‘Battlefield Heroes’ to be more casual than it turned out to be. Easy made the game more simplistic and accessible which allowed for addressing a broader audience. Despite their intention, Oskar highlights that they found out that the committed gamer played their game the most and that this segment was better for them. The latter is also described by Hamari and Lehdonvirta (2010), who mention that it is the limited hardcore (read: committed) user-group that is more willing to pay.

‘Battlefield Heroes’ features competitive play with options for customizability. In concurrence to Yee (2006), we see that ‘Battlefield Heroes’ distinguishes itself by how it targets customers who care for customization and social interaction. Oskar describes this as playing with paper dolls for guys where next to the game mechanics it is about showing off your virtual avatar. The way Easy Studios has implemented this is very much in line with what Lehdonvirta (2009) classifies as hedonic attributes. This “showing-off” aspect had already previously been utilized in ‘Battlefield 2’ in the form of rankings and extensive player-statistics, categorized as “achievements” by Yee (2006). In this regard, we feel that ‘Battlefield Heroes’ has strategically chosen to focus more on the immersive aspects highlighted by Yee (2006) opposed to its predecessor.

Easy Studios can be considered one of the most successful studios in attracting and retaining a large user base, especially with their free-to-play ‘Battlefield Heroes’ title. Oskar acknowledges that Easy’s titles do not appear much in the traditional media, but it is more built around promotional tools such as Google AdWords and social media like Facebook. In this regard, looking at promotion types described by Sotamaa and Karppi (2010), Easy has utilized almost every free marketing tool. Moreover, it is interesting to see how Oskar perceives “Metacritic” as a part of their promotion:

“The Metascore is there to tell you if you’re going to buy a game or not. As someone tests the product and writes a review in a magazine and you make a decision to buy it based on that. But if you have a free product you can just try it. So for us Metacritic has no value, even though it is still nice to get a nice figure there, but people can still try our game.”

With their on-site “play now” functionality (Battlefield Heroes, 2012a), ‘Battlefield Heroes’ seems to fall in the category of games-on-demand as highlighted by Ojala and Tyrväinen (2011) despite not traditionally being cloud based (Bhanoo, 2009). The amount of friction...
for actual game play is brought to a minimum. Moreover, a major part of the games’ popularity originates from the gamers themselves. Oskar suspects that building and maintaining a good customer relationship is perhaps one of the most important ways of promoting titles which are solely available via a digital distribution platform. Easy’s customer involved promotion campaign is set on keeping their players engaged with the game, keeping them enthusiastic, and involving them in the continuous development of the game. Easy believes that involving the customer as soon as possible is also vital in their strategic approach. Postigo (2007) argues that a possible mean to thicker long term relationships can be accommodated by involving gamers through development tools, server space, and level editors. Easy organizes ‘Battlefield Heroes’ main website with community generated content: e.g. “video of the week” or “tip of the week” (Battlefield Heroes, 2012a). We see similarities with how Rifkin (2005), cited by Stenros and Sotamaa (2009), describes this phenomenon as products that are embodied with information- and interactive intensive characteristics. In citing Rifkin (2005), Stenros and Sotamaa (2009) state that the daily monitored digital forum enriches the experience around the game. According to Ang et al. (2010) this form of extrinsic play adds to the intrinsic play in the sense that social interaction is facilitated both inside and outside of the game.

Oskar mentions how their service-orientation has had its implications on how they operationalize ‘Battlefield Heroes’. Oskar stipulates how traditionally with triple A titles like ‘Battlefield 2’ they would be working three to five years on the project, but now Easy releases content updates every week so it’s a lot easier to measure progress. Moreover, as a side-effect, Easy has witnessed a major increase in employee satisfaction as developers are so close to the consumer.

“It is a challenge but it is also more interesting for the employee because they are more visible to the actual audience. It’s much more encouraging for something that’s working here because you actually see the response from the feature you did.”

Before, when working on titles like ‘Battlefield 2’, the only response/feedback they would get might be a critic score or sale charts. With ‘Battlefield Heroes’, Easy has deliberately chosen to bring customer relationship close to the developers. Oskar explains how they believe this works in favor of their service-oriented strategy. Easy does not want to be a faceless organization, which was more or less the case with the release of ‘Battlefield 2’. One example of their service orientation is to periodically release video blogs such as “Cain’s Community Corner”, which answers numerous user questions and gives insight to the actual production of the game (Battlefield Heroes, 2012b). Easy believes that by getting the audience engaged with the developers will improve the acceptance of their game updates and in turn breed understanding towards their decisions. The latter phenomenon has not been discussed much by authors, but can perhaps be categorized by Yee’s (2006) theory on motivations to play a video game. In Easy’s video blogs, the studio introduces a very social side of the development team. In this sense, the focus on creating thick relationships is something that might keep players engaged. We believe that this transparency could be explained by Lehdonvirta’s (2009) notion of “functional abilities”. In this respect, Lehdonvirta (2009) stresses that virtual goods have often proven to be unfruitful to the longevity of the game as virtual goods can give gamers a competitive advantage in the game. Moreover, a particular amount of virtual items (weapons) can only be bought via real money (Battlefield Heroes, 2012a), which seems to favor the wealthier player.

‘Battlefield Heroes’ is intended to be played as a multiplayer (Choi and Kim, 2004). In this regard, Lehdonvirta et al. (2009) have mentioned how, self-expression and social motivation, implying social distinction, can argueable only be achieved when in the company of another (No-
jima, 2007). Moreover, since the game is released for free, the development costs are already sunk. ‘Battlefield Heroes’ strategic approach for multiplayer can be explained by Fiedler et al. (2002) who state that multiplayer favors the longevity of a video game. As shown in work from Ducheneaut et al. (2006), we view both titles to be of a collaborative nature in the in game activities. Ducheneaut et al. (2006) also mention the reward of being socialized into a community of gamers where ‘Battlefield Heroes’ enables reputation building by offering a ranking system, with which players can distinguish themselves from one another. The difference in rank between players is continuously presented in and out of the game environment.

In terms of video game development, Davis et al. (2005) highlight that results from beta tests are crucial for identifying important bugs in games, but are not very useful in helping to identify and fix game play issues or issues relating to making games more fun. Easy Studios acknowledges the difficulty in obtaining generalizable user feedback and Oskar has an alternative view on how the game benefits from beta-tests:

“We try to go closed beta as soon as possible. Super early in the game’s development trying to link the audience and slowly try to increase that over time. The input from those first players are super good. They are the players that really want to play your game. You should try to get them on board and get their opinion because they are maybe your biggest advocates later on”.

Community management is developed internally since Easy has absolute freedom in their strategic choices and operationalization. Oskar mentioned how new types of support roles were necessary be able to adequately respond to the customer-base and strengthen their customer relationships. Easy, for example, already has two full time monetization managers who handle everything related to virtual store management which is a newly developed competence following previous job requirements. E.g. requiring economic and managerial competency in additional to game design competency.

“The biggest challenge is to tie the monetization design together with the game design. It is tricky to get that right. It is hard to tell if you are leaning too much this way or when you are leaning too much that way – it is hard to tell the middle road.”

Teipen (2008) comments that when previous competencies and current requirements are overlapping, the lack of professional qualifications required might have a negative effect on managerial functions. She also mentions that that it is, however, unimportant for non-managerial functions.

When it comes to organizational innovation, Oskar states that their biggest innovation is how they tie the community together into a game that is free for everyone. In concurrence with Stenros and Sotamaa (2009), Oskar concludes that accessibility is key. The tools for co-creation can play a central part but can, however, be much simpler in its current state.

“...last year we let the community send in their concept art and then we had 2 costumes that were super cool and we made them and we sold them. Trying to let them be part of the game creation is a big piece as well and I would like us to be even more out there on that. To think about for example community build maps”.

The idea behind Easy Studios is based on taking the risk to innovate the Western video game industry. Therefore, the formation of Easy Studios is best described as radical innovation from EA Games’ perspective as they produced clear departures from existing practices by launching Easy Studios (Damanpour, 1991). Easy Studios in turn operate more or less forms of incremental innovation by gradually evolving customer related practices as seen with
“Cain's Community Corner”. This has put Easy’s employees closer to the community. Looking back, Oskar perceives Easy Studios to have been very successful throughout this journey:

“We’ve really proven that this business model works in the Western World. We’ve obviously been making money so it’s been very successful. It’s also very interesting not just for me, but also for the employees to be in this transition. And to actually see those learning’s first hand and then telling people inside and outside EA that this is what is happening”.

Due to the absence of financial data we were unable to measure the extent of their success in financial terms. Still Easy seems to be a value-driven organization, which according to Osterwalder et al. (2010), is more towards prioritizing the delivery of value over reducing costs. This is not that surprising considering the resources available from the third biggest publisher in the world, EA Games, and the intent of an experimental studio. But regardless of EA Games, Easy Studios does strike to be quite on top of things.

On a final note, Oskar believes that the industry as a whole is shifting towards digital distribution. He recognizes that some consumers might be hesitant in making this shift as they still hold value to boxed products which is in concurrence with Toivonen and Sotamaa (2010). However, in his view, the shift will come a lot sooner:

“They said that consumers are slow and they don’t adapt that fast, you need to take it slowly. But if you have a big enough carrot hanging in front of the consumer they will see the convenience and hopefully better price, they will make that shift very quickly”.
4.3 Fatshark AB

Founded in 2008, Swedish development studio Fatshark AB has been active with consultancy-based work for various companies. Fatshark’s biggest client has been game development studio GRIN, for which they performed a lot of development activities. However, in 2009 GRIN went bankrupt which according to Rikard Blomberg, technological and financial manager [hereafter: Rikard] was particularly due to the difficulty in obtaining new projects. From that point on Fatshark felt the need to change its direction and started developing their own titles. The relationship between GRIN and Fatshark can to some extent be regarded as a contractual relationship, where GRIN being the publisher as discussed by Johns (2006) and Williams (2002). During their transition, a number of developers from GRIN were recruited by Fatshark and publishing company Capcom asked them to finish ‘Bionic Commando: Re-armed 2’. Moreover, Fatshark’s initial project, ‘Lead & Gold’ was co-developed with Paradox studios and turned out to be their first step in their objective of becoming independent. The studio’s main objective is set on downloadable games for the PC platform, where they believe to have seen significant growth.

Although Fatshark has set out to become more independent, it went about it in a controlled manner. They still do work-for-hire since there is a need to balance it out. The most apparent reason behind it is the cash-flow; the need for a steady income which is another perspective on defining one’s own success as seen in Martin and Deuze (2009). Fatshark believes that in the long run it is very hard to have a stable studio that only does contractual work for publishers, because it is very hard to get margins that bridge the gap between projects and the risk associated with getting new projects. Therefore, performing their own projects simultaneously makes the financial risks more manageable. In general, Fatshark views the exclusion of publishers well manageable, which confirms Martin and Deuze’s (2009) view about how the Internet enables low-risk entry into independent game development:

“What happens then is that independent developers go towards self-publishing and they don’t really need the publishers because it is so easy to self-publish using portals for downloadable games. Especially in comparison to 10 years ago when it was almost impossible for developers to publish games by themselves.”

Concerning the choice of platform, Fatshark believes that customer preferences are quite distinct per platform which is a new perspective on Kallio et al.’s (2011) research area concerning game classification. Rikard explains that it is hard to get visibility in the console marketplace which is quite surprising since Toivonen and Sotamaa (2010) mention it should be easy to get hold on this data. We can only suspect that the console manufacturers are withholding this data deliberately since it would affect their competitive advantage as well. Moreover, he mentions that it costs quite a lot of effort and resources to put out a game on PSN or Xbox Live Arcade (XBLA) compared to making it for Steam. Rikard has negative experiences working with both Sony and Microsoft when wanting to release products on their channels. Console manufacturers have very distinct policies which tend to act as requirement barriers for games. Although we already knew these policies existed for the retail market (Figure 16 by Johns, 2006), it is surprising to see how these console manufacturing are influencing the creative aspects of the game. Rikard exemplifies how Sony’s influence on Fatshark’s puzzle game Hamilton made the game a lot more complex and costly than originally intended. Where in theory authors mention how it is the publisher who can exert substantial influence on the development process (Corts and Lederman, 2009; Tschang,
2007; Johns, 2006; Teipen, 2008; Martin and Deuze, 2009), apparently for digital distribution this has more shifted to the console manufacturers.

Despite platforms being unique on a technical/architectural level, Fatshark has invested in developing its own engine: the ‘BitSquid engine’. Reflecting Readman and Grantham (2006), we believe that Fatshark is aiming for a long term strategic advantage since they are deliberately not choosing a middleware solution. Furthermore, their BitSquid technology allows them to create games that are easily compatible with all intended platforms: PSN / XBLA / PC.

Rikard highlights various challenges and learning experiences accumulated in the last couple of years. One important aspect is the significance of an existing overall vision, addressing concerning scope as well as the necessity of deciding on a platform beforehand. As for Fatshark’s strategic approach, they believe that the essence of success lies in making a good, high quality game. Here, the Metacritic is believed to be one good measure of the overall quality of the game, although not for success. Still, Fatshark recognizes the difficulty of projecting where the industry is headed to as well as the confusion which many studios are dealing with. According to Rikard, another challenge lies in adequately dealing with customer feedback. He mentions how the most feedback they receive comes via their forums or e-mail, which is mainly feature oriented. These characteristics Rikard mentions are exactly how Arakji and Lang (2007) have mentioned them. Opposed to before, Fatshark experiments with involving their customers in a very early stage of development, via closed-beta events (Dolan and Matthew, 1993). Rikard feels he has yet to find a way to maximize their interaction with their customers. We feel Fatshark is also seeing the limitations of the beta-test, similar to Davis et al.’s (2005) argumentation.

“The most feedback we get is feature oriented feedback related to in-game content”.

Moreover, Rikard is somewhat skeptical about whether or not customers really know what they want which makes it hard to listen to them. He stresses that this is especially difficult when trying to involve them in the conceptualization phase of development which is a new perception on how Dolan and Matthew (1993) and Davis et al. (2005) have analyzed de beta-test method:

“But this is a small proportion of our customers, so we can’t put too much emphasis on it and they’re usually not very representative because they are the really engaged players. The problem is that the main audience won’t be at our forums or mail”.

To our perception, the engaged player here is similar to the committed gamer (Kallio et al. 2011). Despite this, it is somewhat surprising that Rikard makes this statement, since most of Fatshark’s titles are focused towards the committed gamer.

Fatsharks take on innovation is that they try to be consistent at what they do. He states that Fatshark is not a heavy risk taking company, which tries to adopt their business models at a steady pace. The latter can in part be explained since they have witnessed what happened to GRIN in the past. Although he recognizes the popularity of the social aspects of a video game. Rikard doesn’t believe this to be a field in which Fatshark would shine, due to their lack of experience and/or competence but does state that their games should include some sort of multiplayer component. Ultimately, Fatsharks believes its main strength lies in producing high quality games on a tight budget and in a short timeframe.
"We try to be innovative but at the same time we are a bit cautious, we're not heavy risk takers. We try to change our business model from time to time, but not too fast. There are a lot of companies which are currently putting everything they have into what is perceived to be the big thing at this particular moment, but that is not really our thing. We try to be a bit more consistent at what we do and follow our long term plan".

Fatshark describes a shift which occurred in the industry, where up until a few years ago a lot of projects were still done in what they call the ‘mid-segment’. Although we already presumed that it would be more beneficial for studios to be independent (Besanko et al. 2010; Martin and Deuze, 2009), the implications on value realization appears to be more severe for both parties. For the retail-console industry, we knew from Corts and Lederman (2008) that it tends to be funded by publishers. However, according to Rikard, the industry has changed in a particular way:

"Now there's a shift in focus towards the really big triple-A projects and smaller downloadable stuff. There is really nothing in between, atleast not publisher-financed projects".

He further mentions how publishers will enable/acquire their own studios to do their triple-A titles. This strategy has been discussed by Tschang (2007) where repetitive IP titles such as the Call of Duty franchise and that publishers don't really want to take the risk experimenting on new stuff. At the same time, from his own experience, independent developers go towards self-publishing and they don't really need the publishers because it is so easy to self-publish using portals for downloadable games.

"If you look at Steam, you will see a lot of independent developers doing really well just by releasing a good game. Most of these developers haven't done that much marketing, it's more that they just released a good game. What you'll be seeing next is an iterative process of developers getting a lot of money on these titles and in turn will be releasing sequels on those titles and continue to become more independent, developing and publishing themselves".

In Fatshark’s own views, Rikard mentions how tedious working with publishers can be due to the extensive amount of negotiations. He believes that being independent from publishers will benefit the creative aspects of the game, since they can make the game titles they really want. At the same time, he mentions that working with publishers limits them from extending a game’s life cycle because everything has a cost to it as new negotiations have to be made and that tends to take time. Fatshark typically wants to keep costs low where to admit to struggle prolonging the longevity of a their current titles as resources have to be allocated from old to new projects. Reviewing Rifkin (2005) a cited by Stenros and Sotamaa (2009) they argue that as goods become more information-intensive and interactive and are continually upgraded, they change character. In similar respect, Rikard envisions the future of video game development might be in a more service- rather than product oriented direction. He elaborates:

"We have the idea of extending a game once we see sale records. In the beginning we’d want to have a plan for post-release concerning DLC and supporting the title in different ways and in later stage add micro-transactions. Of course, it depends on the success of the title but if its successful you can build on the title for a very long time and treat it more like a service and less than a product. So as long as there is some kind of revenue from it, we could keep treating it like a service".
Even though Rikard sees this shift coming they are not quite adapting to this as of yet. The current organizational structure, where especially resources are limited, are somewhat hindering organizational adoption of a concrete service orientation. Sotamaa and Karppi (2010) relate that the total effort and costs required maintaining service tasks might exceed efforts required to perform one-time “project” development. The dynamics of the service orientated studio requires a completely different mindset from the traditional project-based thinking which seems to be Fatshark’s biggest challenge at this point.

### 4.4 Triangle Studios

Triangle Studios is a Dutch studio founded in 2006, at that time the Nintendo’s DS (NDS) was the absolute most popular gaming platform on the market. Triangle Studio’s value proposition is to develop video games for the casual gamer. Kallio et al.’s (2011) definition of casual entails players that either kill time, fill time gaps, or relax. Looking at Triangle’s portfolio, most of its titles do seem to match this definition as they do release classic and puzzle games that are easily learned and accessible on any computer and free of charge. Titles like ‘Muddy Monsters attack Ameland’ and ‘Heron Steam Machine’ are rather simple games, which are intended to reach a large audience.

Around 2008, the NDS market suffered from extensive piracy. Third-party hardware made it very easy for consumers to acquire and use pirated video games on their NDS systems. Since retail was the only possibility to release NDS games, Remco de Rooij, CEO and founder, [hereafter: Remco] explains how a steep price tag and low developer profit margins made the NDS market even less attractive to further develop on. Martin and Deuze (2009) mention that handheld games all provide new opportunities for low-risk entry into game development. Although Remco confirms that the development costs are considerably lower, it is evident that, opposed to Martin and Deuze’s (2009) findings, the risks are still applicable. Moreover, Toivonen and Sotamaa’s (2010) statement concerning the preference of gamers to have a physical copy does not generally apply, especially when prices are too steep and the alternative (piracy) is accessible. Triangle Studio’s secondary development platform, the Nintendo Wii had 40 Million units sold and the console had Wii-Ware, which enabled digital distribution. Utilizing this opportunity, Triangle experimented with the development of Wii-ware games. However, due to the inaccessibility and inconvenience of the Wii-ware platform studios were unable to directly communicate with the intended audience. This ultimately hindered Triangle Studios to capitalize on their title which lead to also suspend all activities on this platform.

In 2009, Triangle Studios made its shift towards developing video games for the iPhone: the iPod touch. Remco explains how the switch was very attractive and natural due to similarities with the NDS and seeing as Apple was starting to take over the mobile gaming segment. Seeing how Triangle has been through several changes in their platform development initiates, the choice for mobile can be explained by looking at Martin and Deuze (2009). They stipulate that similar to the handheld gaming, platforms such as mobile phones also present low (re)entry barriers.

Triangle Studios simultaneously pursued game development for the PC by aiming to release games via the digital distribution platform Steam. Today projects are mainly supported by Dutch investors and clients, where the latter often determine the target audience for the video game. Additionally, Triangle recently started to develop their own IP with ‘Cross of the Dutchman’ (CotD) for the PC utilizing a third party engine called Unity. Since Unity is considered middleware, the implications concerning the negative effect on
CotD’s innovativeness and long term advantage might apply here (Readman and Grantham, 2006).

Remco describes how clients and investors are usually initiating their projects by providing a conceptualized idea and genre, which is how Tschang (2007) described it. With their publisher-independence, it is interesting to see how Triangle Studio’s deviates from the traditional video game industry interconnection model as depicted by Johns (2006). Unlike stated by Teipen (2008), Tschang (2008) and others, the influence by the financial parties is perceived differently by Triangle Studios. It is up to Triangle Studios to consult their clients in how to further proceed with developing the game. In most cases clients are bigger firms and often have already performed some preliminary research on the type of game they want. Remco explains how this affects some core elements of the game, like genre, and that it is often hard to work around this since firms have usually communicated and motivated their employees based on these ideas. The in Key Activities (paragraph 3.7) discussed hold-up problem (Besanko et al. 2010) is to some extend applicable to Triangle Studios situation. Remco mentions that it is often the case that, although they don’t work with publishers, their clients/investors retain the intellectual property rights. We have seen that in these cases, the theory suggests that it is more efficient for studios to be independent in this case, seeing that without IP control a studio loses value in capitalizing on future franchising initiatives (Besanko et al. 2010; Martin and Deuze, 2009). When prompting for Remco’s preference concerning independent versus contractual based development, he explains that their company size is limiting him. Remco elaborates:

“We always like to do our own stuff, but with our current size I believe we’d be easily shutting ourselves out from technological developments. Since at the time of development, you’re actually working with outdated techniques, you’ll have to catch up after one or two years”.

Moreover, he mentions how the learning experience in working with new techniques is indirectly aiding to lower costs as well. Triangle Studios is deliberately mixing both contractual and independent projects. In this sense, we could see similarities in Triangle’s approach with their clients with how Duysters and de Man (2003) describe the Transitory Alliance. The characteristics in table 8 (paragraph 3.9.1) depict motives such as learning, short planning horizon since they work from project to project and the focus is on a few tasks, where the partner acts as the technology/knowledge input and financier.

The ‘Cross of the Dutchman’ (CotD) is based on a historical Dutch hero figure, which Remco explains to not only work perfectly within a limited budget, but the hero concept in itself has an international appeal. Remco realizes that the acceptation and realization among the international audience is likely to start off when the game is released. He further elaborates that at this stage they have to continue to address their small core and continue to expand it. He stresses that this is the strength of digital distribution, since with retail the game has to sell within e.g. three weeks due to promotional costs. The latter is another example of how Martin and Deuze (2009) stated how independent studios can define their own terms of success.

Today, Triangle Studios has completely forfeited the retail industry and focuses on digital distributed channels. Since no publisher is involved in the production process anymore, Triangle performs all related tasks by themselves. In relation to Damanpour’s (1991)’s definition of innovation, this shift should be perceived as a radical innovation. The ramifications on their business as a whole is substantial since their activities change. Remco states that doing all tasks from development to marketing is preferred in order to be able to react
quickly enough to changing market conditions. Triangle’s approach in promoting a game like ‘Cross of the Dutchman’ goes further than simply releasing it on Steam. Remco believes in a concept he describes as a making people ‘ambassadors’. He illustrates the scenario of the power of word-of-mouth, like seen in Sotamaa and Karppi’s (2010) lists on consumer buying behavior.

“Imagine a Friday night with friends and one of your friends starts talking about a game that he played. The probability that you will try that game is a lot higher than when you have to read reviews or search the web about the game”.

Unlike the traditional word-of-mouth effect, Triangle pursues a unique approach in this. Remco believes that by actively finding trustworthy and influential people, he will be able to create a domino effect where more and more people get engaged with the game. Remco’s ultimate intention is to reuse the acquired fan-base for other titles, thereby focusing on a long term customer relationship. Still, Triangle’s choice to make CotD primarily a single player title is questionable when reflecting on Humphreys (2009). According to Humphreys (2009) single player games, don’t need to retain players over long periods for further economic gain. Triangle has setup a supportive platform from which they allow people to get a glimpse and even influence the development of the game. He believes openly providing information to this small core is the way to go. Remco describes how this platform has different membership levels related to the amount of participation/involvement of the user.

“The highest level a user can obtain within Triangle-Connect is the ambassador status. We wants users to have a certain level of involvement and that they are allowed to gain exclusive access to a remote section of the community showing exclusives such as the first screenshots, music, sketches, etc.”.

Overall, Remco would say that Triangle Studios is successful. He stresses that there are different levels of success, as they are yet to deliver a product which has sold tens of millions of units. He believes that, despite the economic recession of 2008/2009 that they still managed to be flexible enough to move to a different market segment without external investments. Moreover, looking at how Remco perceives the level of innovativeness, he stipulates:

“I believe we are quite innovative, our current title, ‘Cross of the Dutchman’, contains a lot of elements which you have not seen before. The way we as a small sized development studio relate to our customers plus the speed at which we communicate to our community is something that you rarely see in The Netherlands or even in Europe”.

Looking at perceptions on the market, Remco states how the days of pitching an idea to a publisher have almost completely disappeared since 2004/2005, although still mentioned by Readman and Grantham (2006). He exemplifies how publishers used to give out funding upfront, whereas today publishers expect the studio to almost have fully developed the game before they are willing to provide funding.

“So the question is: what is a publisher? Maybe this is something that would disappear within 10 years or so”.

Remco is convinced that a lot of potential is limited by the traditional retailer. The margins that the retailer claims are hindering opportunities for smaller studios like Triangle Studios. He exemplifies how in the time that they developed NDS games, the 30 euro price tag only left 4 euros per unit sold for the developer. Moreover, Remco is skeptical about the added
value of retailers as a whole, since he expects them to take the role of promoting the game but this is not the case.

“Well, the retailer does not promote itself, but that is something they should actually be doing”. They don’t actually take the risk of promoting the product. In fact, most retailers in The Netherlands would ask for 10 000 copies of the game and we would deliver them, complete with cases. The retailer then sells them for three months, but everything that is not sold be returns. In fact, a random retailer would say: “I can take 10 000 copies, but only if I sell them can you charge them”. The retailer does not want to take any risk on your account. For you ten others is usually the attitude”.

Even though Triangle has set up an open and transparent attitude towards the outside world, Remco does not believe that cooperation on a development level between studios is realistic. He elaborates:

“This market is meant to be competitive, it’s all about who has the best racing game or best shooter despite the many sub-genres that may exist. If our CotD title becomes popular, I don’t see studios calling us asking if they can contribute to our game, they also want that pie. In short, this makes cooperation between studios very hard”.

Still, we have seen that Remco does pursue external partners for technological advancement and knowledge (Duysters and de Man, 2003). Perhaps the video game industry structure is not adequately attuned to the conceptualization of Duysters and de Man’s (2003) transitory alliance.

Remco further stipulates how small companies like Triangle Studios can exist due to the uprising of digital platforms. He believes that the dominance of big publishers such as EA Games and Ubisoft are not necessarily limiting him from pursuing his vision since they are in a different customer segment. He further elaborates his vision on digital distribution:

“In my view, the market is slowly becoming a consumption-community. Where before the consumer maybe bought two games for 70 euros each quarter, now the same consumer might buy an appstore-game each week for one euro and ‘throws’ it away after. But it will take quite a lot of time to really diffuse and get it accepted with the people. For a large number of entertainment types people find it natural to spend money, but at the dawn of digital distribution people are suddenly questioning their expenses”.

In general, Remco believes the video game industry will follow similarities following the music industry, where the moment that a customer buys an album from a certain artist he is more likely to buy the next album as well. In similar respect, Triangle aims to reuse the built up CotD community for future projects as to establish a more long term customer relationship. In similar respect, this relationship can be perceived as how Nalebuff and Brandenburger (1996) have described the complementarity in their Value Net. Here the customers themselves actively exchange various forms of value with the studio as to benefit both parties by realizing a better video game.

“I believe the customer will look at the success and experience of previous products and will decide whether the buy the next product based on that”.

It seems that Triangle has been exposed to constant radical innovation (Damanpour, 1991). Following turmoil of the industry such as piracy on the NDS and the introduced possibilities of Steam and mobile platforms we believe that Triangle has often times shifted its organizational efforts to be adjusted according to the market. It this case it seems that organi-
zational innovation was truly a necessity as drivers for change were often of the external nature. This justifies reasoning behind Remco’s belief that a strategic mix of contractual and in-house development is needed just to keep up rapid industry developments while simultaneously maintaining own independency.

4.5 Legendo Entertainment AB

In 1998 Swedish studio Legendo started out as a small publisher called Iridon Interactive. At that time Legendo was licensing video games for other developers for about six years. Afterwards Legendo decided to develop their own games, due to the complexity in finding and managing good development studios. In 2004 the company became known as Legendo Entertainment which refers to an arcade / retro style that would become the main theme of their video game titles. Legendo’s core team consist of ten full-time employees and a dozen on contract-basis, working on developing Legendo games from different parts of the world, each having different skillsets. Today Legendo is developing a multitude of games simultaneously; each with different business models and strategies to support them.

Despite currently doing three projects simultaneously, Björn Larsson, General Manager, [hereafter: Björn], explains how erratic game development is. He elaborates by saying that although they plan out each project, Legendo almost always divert from the plan. Legendo is experimenting with different sub-genres, like their upcoming racing game. He mentions how it is especially hard to manage and develop games for these new genres, despite having knowledgeable employees. This is in accordance to Sotamaa and Karppi (2010) who have described the industry as an ultra-competitive environment, characterized by spiraling production times and development costs. Legendo can be described to focus on the committed gamer (Kallio et al. 2011) whilst focusing on a large variety of value propositions (Osterwalder and Pigneur, 2010). Each title has a public familiarity rather than a unique element at its core. Legendo is hopeful that they will find success by continuing to release titles that have this wide appeal. This strategy seems similar to Martin and Deuze’s (2009) interpretation of the Long Tail theory, where they state: “a small number of big hits with mass appeal will make the same amount of money as an almost infinite number of amount of small successes if the costs for distribution and access are minimal to zero”. The only exception here is that Legendo’s focus appears not to be that well aligned with the mass audience: the casual gamer (Kallio et al., 2011). Motivations for the development of a new Legendo title is often driven from the impression of the market and by looking at key resources (Osterwalder and Pigneur, 2010) available such as competences and skill-sets.

“Connecting the dots like how Steve Jobs would have said it. There is no data supporting the decisions. It is entertainment, you make the game, because the game market is huge”.

Legendo currently has ten employees on paper and utilizes a lot of external people whom are contracted for a shorter period. The studio manages a “world-wide” resource structure as employees are scattered all over the world. Björn realizes some inefficiencies with this structure and would actually prefer their employees to be situated in one location as the workload can be quite unstructured.

“A typical Legendo game has maybe 3-4 people in its core and then maybe expands to 10 people, but 6 of those guys are there for 1 month – each maybe just working on a specific part – kind of like a movie production”.

The main reason to maintain the current structure is to reduce cost, which Osterwalder and Pigneur (2010) would define as a cost-driven cost structure. As projects come and go in an unstructured manner it is quite imaginable that is it more favorable to not have employees
on a constant payroll. This is, according to Björn the only way for a Swedish small company to remain financially independent from investors.

“I would actually prefer to have people living in Gothenburg if the games would provide enough funding back into the company to pay them normal salaries. That would be preferred, and that was probably the original intention, but you tend to be forced to change your strategy according to your income sort to speak”.

Apart from wanting to be financially independent, Björn also stipulates his views on working with publishers. Björn believes that the biggest challenge for Legendo is to find capital to finance new video game development. In the past, Legendo did some publishing work but Björn believes it is not worth pursuing anymore. Investors are looking for things that will scale and they want to hear how a project will scale to 100 million users. You have to spend a lot of time explaining and communicating to your investors. When it comes to the role of external parties we’ve seen in Johns (2006) how it is the publisher who usually takes up the role of funding. Practice shows how, with that excluded, studios find alternative ways to define/shape their own terms of success (Martin and Deuze, 2009). In this regard, Björn more favors ‘Business Angels’, where third parties invest and share revenue equal to their capital share.

“They are just providers of capital, they want nothing to do with game development”.
Many of the investors end up being the project drivers instead because they are the guys with the money, so they make the calls”.

By developing a new title, ‘Fortune Winds: Ancient Trader’, Björn attempts his first strategy game and realizes how complex and time consuming it is. He is not sure he would do it again. This again stipulates the notion of flexibility. In this sense Legendo seems to be in constant flux of radical innovation (Damanpour, 1991). To the point that radical can perhaps be considered incremental as the organization is getting accustomed to departing from existing practices in such a frequent manner that it becomes familiarized to deal with most radical changes such as changing the market orientation from iPhone to Android. Legendo’s diverse history has made them quite flexible, which is a necessity according to Björn.

“Yeah you have to be, I think everyone has to be. You just need to jump on things. Now it’s IOS, I don’t know, maybe IOS and iPhone will be dead in 1 year, then we’ll have to do Android. And I don’t think we have the luxury to have a focus or strategy that fits the company. Much rather the strategy needs to fit the customers”.

Additionally, being a small-sized company forces Legendo to explore different approaches for marketing and promotion. He believes the key to success lies in getting the press to write a good review about the game as he does not believe in traditional banners or website ads. His perception of traditional banners or website ads is understandable when reflecting theoretical publications. Sotamaa and Karppi (2010) mention that a lot of these ‘free marketing techniques’ require significant amount of time and might not be favorable. Björn supplements:

“They’re good as reminders if you have something big, what you need to do to be successful, when you can’t afford television or YouTube ads, is that you need to get the press with you. We need to make a good game and make sure sites review them. They need to give it 4 out of 5 stars. That’s an absolute necessity and that needs to happen on 20 sites in the same month. That’s how it takes off”.

67
Even though it depends on the game, Björn believes that journalists are more important for their games now.

“There is no other way to make people discover new games then through those channels. Even if only a small percentage of the potential buyers actually read those hardcore gaming sites, the guys interested and writing about it and saying it’s good, kind of set the tone for it and that kind of spreads out. So you need to start that little group of people that are kind of dedicated and know what they are doing. If they say you’re good then it kind of spreads”.

Björn would say that Legendo is successful seeing as they managed to stay alive in the last 14 years despite the turbulent nature of the industry. However, he would note that he is not satisfied with the current level of success, which has mainly to do with the difficulty of making good decisions.

“The market changes every half year or so, there are new factors. It’s hard to plan – who knows what is going to be popular in a year. “Okay the Wi is super hot, let’s make a game”. Then when you make the decision, it’s usually 1 year until you get to the market and then stuff happens in that time”.

The success debate depicted by Björn could be put in different perspective when looking towards Martin and Deuze (2009). They that state since the investment is smaller, there is a lower expected rate of return (Martin and Deuze, 2009). Björn believes success comes from having a hit title where the definition of a hit is measured from its income in combination with a high Meta-critic score. Björn is of the conception that everyone is looking for that hit. Success lies in a combination of factors: talent, innovation and luck. He mentions how luck is probably 50% of the equation. Björn is convinced that every company will franchise a title once it becomes a hit by making sequels even across genres. In this regard, one of potential hits for Legendo has been their ‘Pearl Harbor’ game. Björn stipulates how this title became very popular in a short timeframe, but was unable to capitalize on it due to Nintendo Wii’s ending lifecycle. In hindsight Legendo should have developed Pearl Harbor for the Xbox, but the financial requirements were too high.

When discussing trends and opportunities which are currently unaddressed by Legendo, Björn explains that the industry is shifting from a product orientation to a service orientation.

“No games are more like a service. You can’t just release a game and forget about it. You have to update it, you have to support the community or market with PR and updates, and bug fixes”.

Björn believes that approaching games as a service is different per genre, where for example the development of a strategy game is different from a racing game due to the user experience. In order for a service to work you will need to have a steady income to be able to afford service. Björn exemplifies that you would not only have to change the technical side, but you would also have to inform people, provide screenshots or trailers etc. In reflecting Stenros and Sotamaa (2009), the service aspects are much more expensive than one might anticipate. Björn perceives added services like new trucks in the ‘Monster Truck’ racing game would not be so complex.

In a service orientation the dialogue needs to keep going and a studio needs someone that does that fulltime. In this sense, despite being open to feedback, Legendo does not incor-
porate a specific approach in managing consumer input. Björn also stipulates the difficulty of interpreting the feedback they get for generalization purposes since it does not originate from the mass audience. The theory concerning service-oriented development is not decisive on when to start customer-involvement (Humphreys, 2009; Stenros and Sotamaa, 2009). In reflecting Legendo’s current state, Björn believes there is really no need to involve the customer:

“Because we [Legendo] are not centralized and there is really no need for it right now to develop with the customers. Because the projects we are working on are so far ahead so I don’t see what anyone can actually provide at this stage without actually being able to sample the game”.

If ‘Monster Truck’ and ‘Dracula Twins’ were to come out tomorrow he would offer them as downloadable only as Björn believes that everything is digital nowadays, which is in accordance with Newzoo (2011). It is interesting to see how small studios have completely forfeited the retail market. Still, Björn feels the market is still turbulent as distribution and development is more or less mixed today. Björn believes that you can’t just be a developer or publisher nowadays. His views on this are deviating from the model depicted by Johns (2006) in the Key Activities paragraph. He mentions how a studio needs to have both business and development sides integrated since games and games marketing is so interconnected these days you can’t have a traditional marketing approach like guys buying ads and guys sitting there making a game with no connection.

Björn believes Legendo’s strength lies in distribution where he perceives the market to develop more towards decreasing the ‘friction’ to play a video game. He believes this friction is removed in iPhone and cloud-based gaming as they make it easier for customers to get involved with gaming. Especially the latter, cloud-based gaming, is something he is keeping taps on. Continuing on this he perceives the current market to have a lot of friction within games many years. The friction he mentions is also highlighted by Ojala and Tyrväinen (2011), who envision how games on demand effectively eliminate any restrictions user might experience in requirements of processor power, graphics cards, and other technical issues. Björn exemplifies that there is a lot of friction when wanting to play a PlayStation 3 game.

“It is complicated to play a PlayStation 3 game for example, buy the game, go home, occupy the living room, install it for 15min. that’s friction. “I was playing Mass Effect 3’s demo in my browser, on my MAC in full screen with no lag via GaiKai. Of course, the video quality is a bit jaggy, but if you imagine how this will be in a few years, probably that’s how all games will be distributed. Just click-and-play, no friction. Even if a game is complex, getting into a game shouldn’t be”.

Additionally while discussing the development of cloud-based gaming Björn addresses the topic of free-to-play and Microtransactions (Nojima, 2007) where he realizes that he probably will not put a game out for free as he would rather filter out negative users. This is somewhat contrasting to Easy Studios’s take on free-to-play.

“[Björn] When you put a game out for free you probably get like a million downloads immediately, but it may be the people that only played Angry Birds, but they could never play Arcade games, which are too complicated. Whereas the most interested guys that play that type of games they’re hopefully happy to spend a dollar on it”.

69
Regardless, Björn still recognizes the potential of an Angry Birds free-to-play type of game. A free-to-play version of a Legendo game would be supported by the traditional approach and include in-app purchases, but he believes that Legendo would first have to evolve. In terms of a game like ‘Dracula Twins’, Björn sees the potential, if it becomes popular, to allow for in-game purchases and to offer something beyond the initial purchase.

“A new costume for a character and you kind of dress this up as a support your developer kind of thing. You can then let people chose the price and you not let it affect the gameplay. It’s just a feel good kind of thing for the consumer”.

Björn stipulates that anything that can be bought in-game should not be perceived as unfair which is actually depicted by Lehdonvirta (2009). Also in order for it to work, Björn realizes that you need a kind of mass. He states how in this revenue model it is about volume; low margin, high volume. Looking back on his 14 year experience, he sees that it used to be high margin, low volume with boxed games selling for 50 bucks. Björn is convinced that when the customer likes your game they would like to buy stuff in your game. According to performed research, a single-player game would be less of an effective choice to implement hedonic (e.g. visual appearance) and socially (rare distinguishable items) categorized items (Lehdonvirta, 2009; Oh and Ryu, 2007). Björn does not favor this business model however. For example, releasing their projected Monster Truck as free-to-play would be considered a last resort.

“If the market says that that is how we should do it then we have to follow it. The market is the boss, the customer is the real boss”.

Hamari and Lehdonvirta (2010) state that there is more to successfully implementing microtransactions as a revenue stream. In their views, a perfect balance between game design and monetization design must be realized. Considering theory and implications from Easy Studios it seems that Björn’s understanding of microtransactions is perhaps limited as the adoption of microtransactions is not as simple as Björn might believe.
5 Conclusion

How have small and medium-sized video game development studios developed their business models?

a) What was/is needed to be a competitive video game developer in the past, present, and in the future?

b) Is there a need for business model innovation?

c) Can the business model be considered innovative?

In the past small and medium-sized video game development studios were very much technology driven. In order to be competitive, a studio had to specialize into developing games for a specific platform. Development studios would approach or be approached by publishers to develop a video game based on a publisher’s budget and deadlines. The publisher would be responsible for the finance, distribution, and possibly also the promotion of the video game, whereas the latter is more often handled by the retailer.

Today however, we experience the era of ‘digitalization’, which has shifted the role and function of key partners within the value chain. The shift has presented various opportunities and given rise to the independent developer. Considering that all aspects of the business model are intertwined, studios have to re-evaluate their partnerships, resources, and activities. The current market can be segmented in a multitude of differentiations as customer preferences have become more casual and evolved, where for example more people are considered to be a gamer. Moreover, the small and medium-sized development studio is not affected by big triple A studios and feel that there is now plenty enough room to be and stay independent. Consequently, we see cost-driven studios developing own in-house titles. Studios are more inclined to find their own way and this comes with ups and downs.

Studios suspect that the future will continue to present more technological innovations. As technology advances we will see more ways of improving existing products and services. Some studios perceive that, when the customer is ready, they will adopt cloud-based and on-demand distribution as to forsake the need for boxed products and thus exclude the role of retailers. Furthermore, studios expect to have more data on their customer’s buying and playing behavior which in turn enables them to create thicker relationships and tailor their products. Additionally, studios will be looking for ways to improve external relationships as to obtain long-term customer exploitation.

Our findings suggest that there is and always has been a need for business model innovation. External factors more emphatically give rise to organizational innovation (e.g. new technology, low barrier to entry, perceived power shift). Studios are finding it difficult to keep up with these changes, which signal a necessity for studios to be flexible. In this case we would state that flexibility is synonym to incremental innovation. Radical innovation is found when a studio decides to completely overhaul its key activities and intending to head into a different direction. We see that in the past it has not been uncommon for small and medium-sized studios to follow market trends and swap operations to a (seemingly) more prospective platform. In the last few years for example, a significant number of studios have ventured into the mobile games sector.
What business strategy do small and medium-sized video game development studios deploy when prospecting for a successful gaming title?

a) How do studios develop their business strategy?

b) How do studios differentiate themselves from competitors?

c) How do studios measure success?

Following our interpretation we can only conclude that studios often perceive the future to be turbulent and full of uncertainty. The overall lack of industry insight is reflected in studio’s strategy and correlated approach. Often strategic directions and related choices are based on instinct and ungrounded market data. Studios have and are still concerned with making big “hit” fire-and-forget titles and have a tendency to produce games that have similarities to proven successes. Studios are well aware that the industry prescribes turmoil and thus realize a strict need for steady cash-flow. This is usually maintained by mixing contractual work whilst trying to make own fortune with in-house development. The general strategy is thus to relatively play it safe and let the bigger studios innovate the industry. This seems to be a valid strategy as smaller studios have legitimacy when focusing on developing titles that are manageable by own capacity.

Furthermore, we conclude that studios still adopt a project-based approach which we interpret to work following this “safe” strategy. They do, however, recognize that there is a need and opportunity to become more engaged with the customer and thereby looking to create thicker relationships. However, they find it increasingly difficult to understand their customers, yet they realize that this is the key to long-term sustainability. Related to customer relationship management, studios realize that in the future their business operation needs to adopt service orientation. The reason for this is mostly related to the idea of community building, which is directly connected to marketing as product promotion has become a key challenge. However we found that the definition of service to still be vague to most studios. Contrary to popular belief, we conclude that a service orientation is much more than only having dialogue with customers. Based on our research, we suggest that it depicts involving the customer in the creative process, utilizing the customer as a resource/partner as having them to voluntarily promote a video game. While current products still have little notion of the above service elements we found that’s studios are, however, becoming more aware of the potential of this service orientation and are attempting to put this into practice. We can only conclude that service-oriented development is still a very immature business activity which, especially since they are independent, studios are struggling with.

We witness how small and medium-sized development studios measure success by amount of downloads and sales. This is sometimes coupled by “Metacritic” scores where the consumer and/or journalist write a review regarding the video game. In most cases however, success is solely measured by income.
6 Discussion

Exploring and evaluation the video game industry we managed to get a thorough understanding of how small and medium-sized studios operate, however some speculations require future research. As a final chapter we would like to address implications for future studies and practitioners whilst scrutinizing the strengths and weaknesses of our study.

6.1 Implications for future research

In the last decade the industry has seen many technological and environmental changes. We have seen that with each environmental change, the independent small and medium-sized studios respond and adapt differently. In investigating the development production network as suggested by Johns (2006), we originally had a good understanding of the traditional development and production process. However, the theory hinted at a change in the production network whereas our practical investigation can be interpreted to confirm this. As sources depict a clear paradigm shift we believe that independent game development has become an unexplored phenomenon. As such the traditional production model needs to be revised. To better visualize what the implications for the overall production network (Johns, 2006) is, we have made an attempt to schematically visualize this ‘paradigm shift’. The result, depicted in figure 20 (appendix 1) is based on an accumulated interpretation from existing theory and insight derived from the performed interviews. The differences depicted in figure 16 (paragraph 3.7) are very apparent and have seemingly simplified the network as a whole. Yet implications for the entire industry are still hard to quantify and would require more investigation. It is however clear that, in accordance with Martin and Deuze (2009), regarding the digitalization, studios are redefining their own terms of success which has different implications for every investigated studio. We would hypothesize that this paradigm shift has been for the best. However, it is unclear whether the exclusion of the publisher and/or retailer has truly given studios more control over the development process. At this time, we would also say that there is a fundamental gap when adopting publisher and retailer activities which would require a development studio to attain additional internal or external resources in order to fill this knowledge gap as suggested by Teipen (2008). Again, this would imply future research.

Additionally, existing theory highlight how it is has been the publisher exerting substantial influence on the development process (Corts & Lederman, 2009; Tschang, 2007; Johns, 2006; Teipen, 2008; Martin & Deuze, 2009). We suspect that in this ‘digitalization’ era the same influence has shifted to the distributor. As first suggested by Rikard Blomberg from Fatshark; digital distribution platforms are becoming more critical about what they allow to be published on their network. He witnessed that his game development costs went up as Sony PSN wanted additional game features in order to publish the game on their network. To our perception, when the distributor demands that development studios work according to a certain quality standard, we would perceive that power, in terms of influencing the development process has shifted from the publisher to the distributor. We could only hypothesize that this has to do with the fact that the industry has a low barrier to entry and that it would otherwise be easy to flood the digital distribution channels. The distributor has gained the luxury of choosing which developer to partner with, a phenomenon previously exclusive only to the publisher and retailer. As this is an interesting development, we would suggest further research confirming or rejecting our hypothesis.

6.2 Implications for practitioners

Following our work, we have discussed the most trending topics a development studio should consider when developing the business model. In this sense, our theoretical frame-
work can be used as a tool for developing a business model in a structured manner. Furthermore, we believe that small and medium-sized development studios should keep releasing small games, and similar to the music industry, aim to build a rich relationship with customers as to build a community (Lehdonvirta, 2009; Stenros and Sotamaa, 2009; Sotamaa and Karppi, 2010). This hints that the studio should attain differentiation by means of creating a brand, as opposed to simply creating a multitude of products. ‘Snowballing’ on small hits is a valid strategy to eventually reach the bigger audience. There is little need for the small and medium-sized developer to take big risks as in attempting to radically innovate organizational operations. Rather, a studio should focus on community building and creating mutual beneficial value (Nalebuff and Brandenburger, 1996) whilst developing titles. Community building should be done on a serious level as the high influx of new entrants to market is vast enough to get lost in the promotional end of the digital distribution network. Albeit in theory, we hypothesize a valid strategy to be to produce a multitude of low budget games, building reputation, and more importantly - building thick relations with the customers as to establish a fan base wanting more from the development studio. This "snowball" strategy does not require high risks or high budgets and is fairly safe, but has to be adjusted according to customer involvement and customer engagement. When the studio is confident a community can be further monetized they can consider additional revenue streams as this would depict radical organizational innovation. It would not be worth considering before establishing a community. This is also according to Andersson (2006) cited by Martin and Deuze (2009) who states that a small number of big hits with mass appeal will make the same amount of money as an almost infinite number of amount of small successes if the cost for distribution and access are minimal to zero. The latter now strongly enabled by the digitalization, we would hypothesize that this is a valid strategy as revenue streams such as the subscription model and microtransactions model requires mass and have social and multiplayer implications (Lehdonvirta, 2009). For this to work, the logical step is to build a community that allows for monetization. Only a good game and a substantial user base can be monetized properly, any efforts doing so without these elements would arguably be in vain. When the community is likely to play the next title a studio has a higher chance to warrant monetization efforts. We urge practicing studios to reflect current business operations according the above mentioned suggestions.

6.3 Contribution and limitations of study

We believe to have succeeded in exploring new phenomenon within game studies. When conducting our study, we realized that most, if not all, applicable research is mainly directed towards bigger video game companies. Our findings are limited to interviews concerning four different studios of small and medium size in the year 2012. We should note that the development studios interviewed are currently developing most of the discussed titles. As such we cannot give definite implications on our perceived interpretation. For example, innovative business operation described by Triangle Studios is still very much an ongoing process. Nothing is set in stone yet as the studio itself is more or less experimenting and learning from new experiences. However, we do believe that our study gave us very relevant and thorough insight in what drives these studios and what strategic approach they go by. We must therefore remain cautious when attempting to make generalizations regarding the entire industry. In retrospect, there are still areas which we would have wanted to address in more detail. We consider follow-up interviews or other means of both quantitative and qualitative data collection. A studio’s business model is very broad to begin with; each of the nine aspects covers a very rich topic out of which we, even with our narrowed scope, could only partially cover. Therefore, we hope our study is perceived to contribute towards future research and practitioners.
List of references


Knutsson, B., Lu, H., Xu, W., & Hopkins, B. (2004). *Over the last years multiplayer support in games of almost all genres has developed from an option to a feature essential for the success and the longevity of a product.* Department of Computer and Information Science: University of Pennsylvania.


List of references


Appendix 1: Conceptualization for revised VG value chain model

Figure 20: conceptualization of the independent VG production network (adopted from Johns, 2006)
Appendix 2: Easy Studios

Company: EA Easy Studios
Interview location: Stockholm, Västgötagatan 2 9tr
Interview form: Face-to-Face
Date /Time: 2012-04-04 / 10:00
Interviewee: Oskar Burman (General Manager)
Interviewers: Christiaan Visser & Peter Zijlstra
Length (Recorded): 01h, 02m, 01s

[R$, VP] Is Battlefield Heroes basically a free version of Battlefield 2?
Parts of it; it is quite different in one way, quite similar in another way. Most of the levels are from Battlefield 2, so you recognize those. We have updated visuals and continue to update it with new features. But yeah, if you’ve played a lot of Battlefield 2 you will recognize some things. The real innovation here is that it is Free to Play.

[CR, VP, CA] Can you tell us a little bit about you as the GM? Who are you and what is your role within Easy Studios?
Responsible for Easy Studios and the games we do; making sure we stay competitive. Easy has been sort of an ice breaker for EA. We looked a lot at what happened in Korea when we started Battlefield Heroes. This was almost 5 years ago. This is going to come to Europe and US eventually and we’d better start testing the ground within EA. Nobody within or outside EA was even trying back then. Battlefield Heroes was released 2 or 3 years ago and has been growing ever since. Battlefield Heroes is still our best success case and it’s still growing and this has surprised even us. It has been live for 3 years and normally a game has a shelf life of 2 months and then it’s dead. It is so apparent that when you have a live business that when you continue to work on your game people continue to come in and play it. This concept has been proven by other games such as World of Warcraft, but to us this has been a really nice surprise that you can keep a title that alive. We are much stronger today than we were 3 months ago, so we haven’t even peaked yet. We are still getting more and more players and we are still getting more money every month – so it’s still in growth mode. You don’t see that much in media about it, but apparently the players think otherwise.

[R$ , KR] Would you really say that EA developed Easy Studios to test the grounds on Free to Play?
Yes, to a big degree because now we’ve taken our knowledge and have spread it to EA and other studios so now there’s actually four studios working with these kind of games within EA. We took the first step, tested the grounds and now we are leading and spreading the knowledge within EA. Now we are actually building a play for free publishing function here in Stockholm that’s publishing all of those games from different studios within EA so we are still in the fore front in that sense as well, we are taking the charge in how we operate these titles going forward.

[R$] What would you consider video game success? What is the first aspect that comes to mind?
If you have the players playing it and telling you that they like it. It is funny that you bring that up because in the past it has been so tide with Metacritic’s scores. Even companies like EA have measured Metacritic’s as their success factor. That’s how they count, maybe even to the same degree as sales. Whereas if you have a free game the metascore doesn’t matter. The Metascore is there to tell you if you’re going to buy a game or not. As someone tests the product and writes a review in a magazine and you make a decision to buy it based on that. But if you have a free product you can just try it. So for us Metacritic has no value, even though it is still nice to get a nice figure there, but people can still try our game. And it has been obvious to us that people will still come regardless of what people write about you and will try your game. So it has really changed in that sense.
[CA] Would you say that you are also changing your budget to less promoting as it comes more from the player? There’s other ways to promote the game. Instead of flying 100 journalists to Egypt in a luxurious plane to get them revved up about your title, you need to spend that money on Google Ad words to get your game visible in other ways. You still need to be visible to your players or make your players talk about your game. Like “I tried this game and you should try it too”.

[CA, VP, CR] How would you approach the players then? You can buy traffic from Google and Facebook. A big difference for us is that we are working so close to the player. Before with packaged goods, you build the game and then you hand it over to a publishing team that is somewhere remotely and they take care of all B2C, and they are not really handling B2C as that is actually the retailer clerk at the store. But now we are this direct communication with our community every day. So it’s much more about talking to the community; what do they want to see – its more dialogue then us producing something and you play it.

[VP, R§] You would then rather see it as a service than a product? It definitely is; I would say that the key pieces within this transition that we are going through right now is, firstly, digital distribution. Because that changes the way we deliver the game to the consumer. Then its games a service, because that’s how we operate the game – it’s not the “fire and forget” model anymore. It’s the continuous development of the game. And then it’s the flexible pricing model, that coming more and more changing the business from inside out. This doesn’t have to be Free to Play, but it’s more flexible than the 60 dollar price tag that we’ve seen in the past and then there’s nothing after that. I’m talking about Microtransactions, or a constant stream of DLC’s and episodic content. There’s all sort of ways of sorting that out.

[VP, KA] These choices, do you make them yourself or does EA structure you? No we tell EA what the best solution is for this product. The monetization design is so tied together with the game design. And this is a new way of thinking and a new challenge. Where previous they were thinking of how the consumer can have the most fun. But now they have to think about how is this game fun for free players and players that want to spend money. And they need to get that together, it’s very elaborate.

[KA] Does EA itself not give you guys a plan of approach? Do you still need to find new ways? We still need to find new ways – it’s not like we have a formula that will work for every game. Every game needs to be unique in how you monetize your users. How you get users to have the best fun with your product. You can’t just take the design of Bioshock and apply it to Mindcraft, you know, it’s a different game. And it’s the same with the pricing; it needs to be different pricing. Whereas before you just had a product and you just put it in the store. So yeah, it needs to come from the studios that are building the game, they have to decide how to monetize within their game.

[KA] Academics would argue that the publisher has too much influence on the creative process, because of revenue targets. What is your view on this? Of course we have ambitious revenue targets. But I think you are referring to the old way of publishing, where you have a very centralized organization telling the studios what you should be doing. Whereas in the last 5 years, not only EA but most publishers let studios become more independent because they have seen that that works best. They have seen that, for example with DICE, the best games have been made when they let them be – be free, you know, do what you want. The same is true for Bioware. They do good stuff on their own. That is the best way of getting money out of them; it’s just to let them do what they want. At least with EA, they are not really centralized anymore.

[R§] Do you also think about revenue streams? Is this also integrated in game development nowadays?
In Easy we have 2 persons just responsible for monetization design and store management. All they are thinking about is “where do I put this product, to the front of the store? How do we expose the user to it? How do we promote this? – It’s a lot like the store clerk, only in a digital way. And they work close to the game designers to answer questions like “How does this work when you are a free player and how does this work when you want to spend money?” – It’s tricky.

[CA] Do you still use boxed products to reach your users?
Not really, it has really moved to a future where everything is digitally distributed. That shift will happen much faster than people think. They said that consumers are slow and they don’t adapt that fast, you need to take it slowly. But if you have a big enough carrot hanging in front of the consumer they will see the convenience and hopefully better price, they will make that shift very quickly. And we are seeing this with Apple’s Appstore that you can take huge steps very quickly and you can get people on board. It’s not like Apple loses tons of money by not having their games in stores. People just get used to how it works and they just buy it. This will happen sooner than later.

[CA] Have you considered the use of Steam aside from using your website to digitally distribute your game?
Yes we have looked at Steam, we looked at Origin from EA. We are looking at all kinds of ways to get into the eye of the user. But also we need to address technical challenges with everything and we need to find the best “bang for the buck”. But also, another good thing with digital distribution is that we are reaching an audience that has never seen games before maybe. We are growing so fast in South East Asia, Arabic speaking countries, Latin America. It’s like a big boom there and they haven’t even played a Battlefield before there. We are seeing that most people that are playing BF3 came in through Battlefield Heroes and Battlefield Play for Free. There first experience with Battlefield was actually through these two games. They played those for a while and then they played BF3: it’s like a ladder some people go through.

Have you seen this shift coming?
We talked about it but didn’t think it would go this fast. If you think about the market aesthetic you’d think that most players have played Battlefield when they play Battlefield Heroes. But no, there are actually a lot of players because the market is growing as there’s a youth growing up that haven’t seen Battlefield before. The market is growing in two ways. For a lot of players this is actually the first time playing a Battlefield game.

And you did not project for this? You did not expect it?
We could see that it could happen, but it was not a factor we counted in for success. Like this has to happen for it to be a success.

[CS, RS] What was the customer segment for Battlefield Heroes?
When we initially started we thought it was more mainstream, because it is cartoony, it is friendly, but in the end it is still a pretty hardcore game. You still need to have the hand-mouse-keyboard-eye coordination. It is not like Farmville where you click click click as it is very easy and intuitive. Battlefield Heroes is not the game your mom would play. We thought the market would be even broader than it was, it was more hardcore, but in stead we found a user base that is more willing to monetize. The Facebook audience has a very low conversion rate in terms of monetization, whereas in this market, it is higher. Users pay because they are more into your game basically.

[CR, CA?] Do you think that the social aspect is livelier with this? Is peer interactivity a central role in your video game?
Absolutely. It plays a central role for people just to show off basically. It’s almost like playing with paper dolls for guys. You see it in the forums all the time where people expose stuff and they want fame basically from the community. And of course we try to encourage that. Once a month we pick together the coolest things people made and bundle it and try to sell it. We try to expose this hero to say “hey look at this hero, he did this cool costume and now we are selling it”. So he’s like: “Whoa this is super cool!” And it is really good for us as well. We are rewarding the players. So it’s
all about building your community and making them advocates for your game. They are going to go to their friends and tell them how much they love your game. It’s like how Apple does it. Word of mouth is growing so strong. It is so important for us to have community managers, because they are making the forums work, making contests with free stuff. It’s all about driving the users and making them talk about your game. This is equally important as your monetization design.

[CR, KR] Are you asking the player to generate ideas as well? For example, the costumes within Battlefield Heroes.
Yes we do polls on that. Also, last year we let the community send in their concept art and then we had 2 costumes that were super cool and we made them and we sold them. And he got, of course, tons of free stuff. Trying to let them be part of the game creation is a big piece as well and I would like us to be even more out there on that. To think about for example community build maps.

[CR, KR] What is required to get the player more engaged?
You need the tools so it is easy to be engaged within your games as the accessibility barrier needs to be low to play your game but also to contribute to your game.

[CR, KR] The skill requirement for this is a bit too high right now?
It still is, it can be much simpler. But I think we are moving there as an industry in terms of making the barriers lower. Look at Mindcraft. As an industry we are moving into the right direction, but the tools need to be developed more for both creation and sharing.

[CR, KR] Do you also try involve the customer pre-launch as opposed to post-launch?
We try to go closed beta as soon as possible. Super early in the game’s development trying to link the audience and slowly try to increase that over time. The input from those first players are super good. They are the players that really want to play your game. You should try to get them on board and get their opinion because they are maybe your biggest advocates later on. It’s about building heroes within your community.

[CR, KR, CS?] Aren’t the users in closed beta different from the masses? Wouldn’t they give you different feedback?
You can’t do everything your community says. It is a double edged sword as you will make decisions your community will not like. You have to listen to them, but you can’t do everything they say. Because then you would end up with a game that maybe will not work for the mass audience. It’s only 5% of our market that is very vocal in the forums. Sometimes you need to keep this in mind as people might rage about a change, but it is only 5% of the audience that is raging about this. You have to look at your data. The data can tell you that it was a good change because the players are still in there. And that is also a big difference from where we are today from 5 years ago from the packaged goods. Now you will have real-time data that will tell you a lot of stuff about your game. Whereas on a console game 5 years ago you had no idea how much players are playing your game. Everyone is now tracking their users to see where people stop to play and how can we get people to spend more time on your video game. Data will tell you so much that you did not know or expect. There’s the challenge to analyze the data correctly. A lot of said can be said so you have to be very careful about analyzing data. And this is another category of people that weren’t very frequently used before but are now like analysts. They know how to look at the data and can come with suggestions. They can tell you trends.

[KR, VP] Are your developers still enthusiastic to work on the same title?
It is a challenge, in one way it’s easier to see your progress in a studio like this, because we do a release every week. So whatever it is you’re working on you know it’s not more than 2 months away, you’re going to see that stuff you’ve worked on being released. Whereas on a classical triple A you could be working 3-5 years on a title before it is released. Some people work 3-5 years and it gets canceled, and then they work another 3-5 years and it gets canceled again. So you never get to see the stuff you’ve been working on. That said, of course there are challenges with people that have been on the project for 3-5 years, keeping them enthusiastic, but then we try to rotate in the studio
so the people that have been on the game get to be on another game and we can have new people coming in on this game.

[VP] Titles like these would have a never ending life-cycle. Is it correct then that you could view one studio as having multiple companies then to support their ongoing titles? Doesn't that change cost structure completely from what it used to be?
Yes, and also from a mental point of view, like; what are we building? I try to speak to my employees about that you can’t really look at it as a game in the way we thought it was a game, it’s more like a service, its more Amazon or Spotify. It’s a site that lives and changes and we continue to build this site and we continue to entertain people on this site and that’s our mission. I think you need to rotate people around to make them feel more enthusiastic and more engaged.

[VP] When addressing the community and creating faces to represent the company, how to you handle this when you rotate your employees?
It is a challenge because you are kind off creating heroes within your development team and you need to be careful when you move them out – that people will understand why. It is a challenge but it is also more interesting for the employee because they are more visible to the actual audience. It’s much more encouraging for something that’s working here because you actually see the response from the feature you did. It is such a direct thing. “I worked on this last week and now I can see the users shouting “I LOVE THIS, THIS IS FUCKING AWESOME!” There’s such a high reward, especially for people that have been in the industry for 15 years and they have never been that close to the user. The only critic they got was from Metacritic or from the producer saying that it is selling or not. You did not get the same feedback from the user. But yeah, you could upset the community if you remove a famous face that could happen. We have some fairly famous faces that became famous by being vocal and showing off in the community.

[VP] You have a MD or lead designer for these roles, was this a strategic choice?
It makes it more credible if you have a lead designer that loves your product. The community can see this. We did a test to see the response from the community and getting more transparency. It’s no longer a faceless cooperation. Turning that around and actually showing the people that are in here makes the users accept that we are doing errors easier. They can see that there are actually humans in here.

If you could give one reason, what would be to number one reason which makes a successful development studio?
That’s really hard. You need to have passion; you need to have passionate employees. I think that is one of the key things. People that belief that they can make a change that they can make something that people can go bananas over. A product that people will love. That is the core drive for most people here. We want to do something that a lot of people can experience and enjoy. But then there’s a lot of factors to that like the execution, the business model, the support, the service, everything is tied together. But around that you need to have the passion.

[KA, CR] There is a higher reward system for the people involved?
The day we release we can see the data on what people buy. We can see in the forum what they write about. We can put it all together in a report so that all the people can read about it.

[CR] How would you define customer relationship within Easy?
We try to be transparent and open about what we do. When it comes to Battlefield Heroes we try to have humor, because Heroes is a humorous game; we have fireproof underpants! We need to be funny about stuff and the audience really likes when we do that stuff. Then we have the challenge to be Easy Studios, but when it comes to customer support, this is handled by EA and a totally different department. From a players point of view this can get conflicting messages. Because we are open and transparent and EA customer support is kind of faceless. This might sometimes cause some friction.
[KR] Do you think that programmers require a different skill set? You need to be a little bit broader. Before you could specialize on for example making the perfect eyes. This type of specializing is reaching its end point. We will still have an eye specialist, but we are pulling back and getting people that are a little bit more generalists.

[VP] Is it more important to have nice eyes and esthetically pleasing elements or would you say that gameplay and social factors are more important? There are other things that are more important to the player then to have the perfect eyes. Of course the visual standards are rising anyway so the eyes are getting better. But there are other things that consumers, maybe consciousness or unconsciousness choose to go for. Like social pieces in game or things to show off. There are other things that people care about, maybe just customization features in game. So there’s definitely a trend in that direction.

[CA] Does EA now look different towards marketing their products? Or revenue streams? Are they still going with boxed products? EA is very much born into the idea that we are moving into a digital space and that the digital revenues are going to make up for a big chunk of our business. I think they see the change happening and they need to act. They are going to lose a lot of money if they don’t act quickly.

[KA] Does EA try to influence you guys when you try to develop a new title? No it’s always a dialogue, but in the end, if you have done a successful game they are going to listen to you because you obviously know what you’re doing – keep on doing it.

[VP] Would you go a totally different direction from the Battlefield series? Yeah we could definitely do that, but I think a lot of our experience sits in the action shooter space so I would not want to move too far away from that because they are experts in that and they want to focus on that. I am not saying we will only be doing Battlefield games because there are a lot of other shooters or action games, but I don’t think we would suddenly draw something for iPhone. That is too far away from where our heart lies.

[CR, CS] Would you head into a new direction based on competence or more towards what the community wants? Yes you’re right, but let’s say if we could do Farmville, we would not do a good Farmville. There would not be a point for us to do that.

[VP] Would your community accept it? To be successful we need to roughly be in the same space.

[RS] And today would you call yourself successful as a studio? Yeah I would. We’ve really proven that this business model works in the Western World. We’ve obviously been making money so it’s been very successful. It’s also very interesting not just for me, but also for the employees to be in this transition. And to actually see those learning’s first hand and then telling people inside and outside EA that this is what is happening. And also just having created those fantastic games that people seem to love.

[CR] Would you call Easy Studios innovative? Yeah it depends on how you define innovative. We’ve definitely been innovative in the business model. In the way that we have carved out a niche for shooters in the Western world, free to play space. But then of course we take a lot of stuff that we have learned before when we worked at DICE and other developers – so the actually shooting mechanics is actually quite similar to the other games. And the driving mechanic is also similar to other games. So this is not the big innovation. The innovation is how we tie it together to a community, into a game that is free for everybody to join.
[VP] As opposed to gameplay innovation, how do you review service innovation?
A lot of us know how it works so we don’t want to strafe too far away from it. But we have to innovate to survive. It’s interesting to see how many people have complained about piracy, but I could not care less about piracy. We love piracy, go play our games! If they want to spend money then they will, they can’t bypass our service in that way. That’s like break and entrée into a bank, that’s how secure our systems are. And we put out a new release every week so if you want to play a pirate copy you need to crack it every week so I think that’s also a way of dodging that bullet. The piracy bullet that the music industry has been hit so hard by. In the game space we’re actually in a much better position to make money from the people that are going to play your game anyway. We need to innovate the business model first.

[RS] If you take away the free to play model, and the shooter concept. Are there other opportunities within the market?
Subscription is interesting. It’s going to be tougher to run them, and they will still have their space within the industry – even 10 years from now – as they fit certain genres, but it will shrink. It will probably be tightly connected with other ways like paying for extra content.

[RS, CR] Do you see boxed products disappear over time with the coming of digital distribution?
Personally I love to play Skyrim. I would love to invest more to get more stuff out of that experience. I sat there with my money and I want to pay more, but I can’t because I paid a fixed price. I’m this super hardcore user that does not have a lot of time, but wants to get most out of it.

[RS] Those companies are not really familiar with the “suggestion box” though.
No that’s the thing, but in the upcoming years we will see companies move into this space. Some companies will do it right, some will do it wrong. Some will make a lot more money than they made with the fixed pricing, because they will reach a much bigger audience.

[CS, VP, RS] What is the biggest challenge when developing a new title?
The biggest challenge is to tie the monetization design together with the game design. It is tricky to get that right. It is hard to tell if you are leaning too much this way or when you are leaning too much that way – it is hard to tell the middle road. That is always a challenge, because quality is rising very fast in the free to play space. There are games now that are equally as good as what you see in the packed good space. They will soon surpass them. As the quality is rising the cost of producing them is also rising. Heroes was fairly cheap to produce as we reused a lot of assets, but as we move forward there will be a lot of costs in building new games. It’s going to be more equal to triple A games. And you can see that already with League of Legends costing a lot of money to produce. So quality is moving up. I would say these are 2 challenges.

[CA] And promotion channels?
Promotion channels, but I think that’s a more solved problem then the other two.

[RS] So which problems would you focus on first?
Monetization and gaming design need to go hand in hand. So yeah, you need to do them both basically.

Maybe a bold question, but we’re talking about success and if you would be able to measure it, where could we find the figures?
I would love to share them, but it’s within EA and that’s on the NASDAQ so we can’t really go out with any figures. But we have done press releases stating that we have over 11 million registered users. Also some things over Twitter and other marketing channels, but it’s limited to that. We are kind of bulked together with DICE and they are with EA, so yeah. It all goes through EA. Our payment methods are sitting in Switzerland, so it’s all internally.
Appendix

[KR] Would you ever co-develop with competitors?
We do a lot of stuff with DICE since we come from them.

[KR, KP] But that’s kind of internal?
Yeah, but we have worked pretty close with other EA studios and studios but also with studios outside of EA. I think the industry is opening up; there is less secrecy now. It still exists. I just happened that the industry got so secret, especially when games have to be a big bang. But it is more in your interest to be out there, to be talked about, then being this super secretive thing. And you want to bring in people that can really excel in what they do. Like Phenomic if we want to have some strategy in our games.
Appendix 3: Fatshark AB

Studio: Fatshark AB  
Interview location: Stockholm, Arenavägen 47 8tr  
Interview form: Face-to-Face  
Date /Time: 2012-04-04 / 13:30  
Interviewee: Rikard Blomberg (Technological & Financial Manager)  
Interviewers: Christiaan Visser & Peter Zijlstra  
Length (Recorded): 01h, 01m, 26s

[KR] Can you tell us a little bit about Fatshark?  
During 1.5 year we worked as a sub-contractor for Grin, but then they went bankrupt but we managed to keep ourselves afloat and we hired some of the people from Grin that we've been working with.

[KR] So that explains why you did Bionic Commando rearm ed 2 right?  
Yes, because we had a lot of people that worked on the first game. And we also had know-how about the technology.

[KR, KP] Is that how you approached Capcom, or did Capcom approach you?  
I think we mutually approached each other, we saw that there was a fit and also the Grin owners they recommended Capcom to use for doing that. Because Grin had already started doing the game and they needed someone to finish it.

[KA] Would you describe your company strictly as a 'subcontract-based' company?  
Not anymore, because when Grin went bankrupt, we already had a plan to (in the future) do our own stuff. They were our absolute biggest customer, we needed to do something drastically. We lost a lot of money in that bankruptcy. So we brought in new capital into the company and started to doing our own stuff and this is when we started doing Lead and Gold and started to doing Capcom's Bionic Commando rearm ed 2. And from that point on our strategy has been to go for self-publishing. Still, we went about it in a controlled manner, we still do work-for-hire but we need to balance it out.

So you need a bit more steady income?  
Yes

[KA, KP] What would be, for you personally, the main reasons to go for more own-ip development?  
There are a number of reasons, one is the freedom that we can do games that we believe in and like. And it is also easy when there are less parties involved. It can be a tedious process working with a publisher and that there are so many parties that have their say. So it can be heavy turn-round to decide on things.

[KA, R$, KP] So these parties influence the creative process? Yes, And also there is a financial side to it. In the long run its very hard to have a stable company that does only work-for-hire for publisher, because its very hard to get margins that bridge the gap between projects and the risk associated with getting new projects. As soon as the project is finished you need to find new projects and there's a very big risk and that is what happened to Grin as well as Starbreeze, they dont have any new publisher projects.
Appendix

[KA] So you’d rather make your own fortune? Yes, well. It’s also easier to balance things out. If in some point in time don’t have so much work for hire (contract-based), you can put more effort into your own IP and the other way around.

[KA, RS] So you’re saying that Fatshark specifically chooses to have both types at the same time? Yes, and it makes the financial risks more manageable. Looking at the state of the industry, I believe that it will be harder and harder to get those kinds of publisher-based contracts, because publishers use companies like Fatshark less frequently. We have this segmentation of projects that have been done, a couple of years ago there actually were a lot of projects done in this ‘mid-segment’ but now there’s a shift in focus towards the really big triple A projects and smaller downloadable stuff. There is really nothing in between, at least not publisher-financed projects.

[KA, CA, KR] Would you say, in the current state, that the publisher has too much power and the developer has to follow? Yes, not really. I believe that the independent developers will interact less with the publishers. This is because instead of hiring developers, the publishers will establish their own studios to do their triple A titles or often repetitive IP titles like Call of Duty or other franchises. Publishers don’t really want to take the risk experimenting on new stuff. What happens then is that independent developers go towards self-publishing and they don’t really need the publishers because it’s so easy to self-publish using portals for downloadable games. Especially in comparison to 10 years ago when it was almost impossible for developers to publish games by themselves.

[CA] So would you say that you would use the publishers because of their channels and their resources and now you have different channels like Steam? Yes, we use Steam and PSN.

[CA] You mean because the user-base is already there? Yes, and we’ve seen a growth in PC gaming there in the last couple of years, at least the growth for downloadable games (the smaller games) has not been as big as at consoles compared to PC. We feel that the consoles have not really succeeded in their downloadable services. It’s hard to get visibility in the console marketplace and it costs quite a lot to put out a game on PSN or Xbox compared to making it for Steam. This is because the turnaround for getting through for the platforms is much heavier for the consoles since you have to put effort into localization and Q&A etc.

[CA] If you look at Lead and Gold, did you actually specifically think about: we want it on Steam? The original plan was to release it on XBLA and PSN, but it’s very hard to get games on XBLA because Microsoft has very distinct policies for what gets on XBLA.

[CA, RS] Does Microsoft want some sort of quality stamp on it or? Yeah, well, it’s not really transparent so you don’t really know if you can get your game on there. So even large publishers sometimes have problems getting their games on XBLA. So we talked a lot to Microsoft, so maybe we could get on XBLA, but we didn’t know when... so from a cashflow perspective, we need to get the game out. So instead we targeted PSN and Steam.

[VP, CS, CA] So from a development point of view, the platform choice something you have to decide from the beginning or can you decide it when it’s almost finished? No, we have to decide upon this from the beginning. In the process of conceptualizing what kind of game to make, we need to think what do the customers on these kind of portals want. These customer preferences are quite distinct per platform, some things tend to sell better on steam and others better on PSN etc.

[KR, KP, C$, KA, CA] Are there any transaction costs going from PSN to XBLA? Is it easier to develop something for a current platform?
Not really, I'd say they are evenly tedious in terms of policies or regulations, one just has different regulations than the other. They have the different systems with precise requirements that you just have to implement. There's a cost associated with it. For now we use an engine called Bitsquid which we can utilize for any platform, but still you need to make adaptations, the last line of quality assurance on each platform. But Microsoft is definitely the most tedious to work with, since its very hard to release games on XBLA. So right now, we've stopped working with Microsoft and there are a lot of other developers who are doing the same.

How would you describe a successful gaming title?
There are many measures, but the most obvious one for us would be the meta-critic and number of units sold or maybe the total revenue of the game. But for an independent game developer, looking at meta critic, I'd say if you score above 75 its a good game for any independent game developer. In terms of sales, you need to look into what kind of game it is and maybe what was the production cost of the game. But yes, I believe meta-critic to be one good measure of the overall quality of the game, not the success.

[CA, CR, KR] If you're looking at how you promote your titles, using the Steam network, what is the approach to actually get to your customer?
We do quite a lot of PR before launch and then we do some post-launch as well but there's a lot of work going into getting players aware of the game quite some time before release. We usually go on PR tours, meeting with journalists etc. We send review codes to the journalist in the hope they write about the game, mostly on the web apposed to magazines. For example with Krater, when it was pre-alpha, where we didn't even have all the features in, but we let people play the game and give feedback and we could act on the feedback. So we got the chance to tweak the product live and we do updates every week.

[KR, CA, CR] Did you select the customers yourself who participated?
We started out advertising on Twitter and Facebook, then we got a few thousand. Then we went to other companies which could let their premium members participate in the game (e.g. IGN). And we still give out keys, so we can test things every week. But at this point we've stopped giving away keys. So now we're more into promoting the game via select forums. The typical triple A titles of publishers need to sell around 1 to 2 million units to break even, from our experience they tend to do the mass market titles. But for us, if we sell 100K we're fine. So we're in a spot where big players can't go in, because it simply cost too much for them since they do so much PR etc.

For us, the main PR would be the steam frontpage for example. Then of course we try to be on all the forums, press releases, newspapers etc. (25:01)

If you look at Steam, you will see a lot of independent developers doing really well just by releasing a good game. Most of these developers haven done that much marketing, its more that they just released a good game. What you'll be seeing next is an iterative process of developers getting a lot of money on these titles and in turn will be releasing sequels on those titles and continue to become more independent, developing and publishing themselves.

[VP, CS, KA, CA] So would you expect the publishers to disappear completely?
Yes, but the publishers in a sense are becoming more developers and vice versa where you might have companies that control the whole product chain, from idea to making the product and publishing it.

[Martin] I believe the market is niche in terms of budget as well, because the publishers have so much overhead so they need to have such a large profit margin. I mean, nobody know where the game industry is headed right now.. its more like our best guess I'd say. When talking to various game publishers we hear that some are focusing only on Facebook whereas others only on triple A titles. I think there's a lot of confusion out there right now.

[Rikard] I'm pretty sure that some publishers are betting on the wrong stuff and go bankrupt, but some will come out on top as well.

[Martin] In the end, I believe it comes down to making a good game, because if you do a good game it will sell well.. in most cases, as long as you select a platform which is suitable for your
Appendix

product. For example, we know we’re one of the 6 companies on Steam that deliver a front-end game so our chances of people trying the game are quite high.

[CA] When you mention ‘front-end’ game, do you measure that by how the game looks or? No, he means that if you release a game on Steam you will be guaranteed that your game is displayed on the front-end ‘splash’ screen, which is the first page players see when opening Steam. But even Steam is getting a bit picky on what they take, as it is now, it is not so easy for a new independent developer to get a game out on Steam. Steam in that sense is a rather small organization, so they might not be able to handle that many new game launches.

[VP] What, to your conception, should be included in a game for it to be successful? Would you say you need very good game play or more social aspects and such?

You need some kind of Niche, but since you mentioned Social, I believe some sort of multiplayer component is more and more necessary. But there is still room for successful single-player games since there will always be people that want to play single-player games. But for us, a strict single-player game would not be preferable except when you do some sort of license or movie-based games with a specific unique story or such.

[KA, CA, KR, KP] When you look at how you started Hamilton and the thought process behind it, how did you cope with this in terms of how to make it into a success?

When we started out with a Hamilton, we started out with a very simple game, but when we started to approach Sony (PSN) about it they came to us with a lot of feedback and wanted a lot more features and then it started to grow. It turned out to be a lot bigger game than we originally intended. And because of this, there was no red line in Hamilton. But we’re using Hamilton also as a showcase for the technology, since for Hamilton we switched to our own engine: the Bitsquid engine. Originally we’ve only released it on PSN and Steam, but now we’re releasing it on Android and Mac as well! So we use that game to test on different platforms since we believe it is a game which is suited for all platforms.

[R$, C$, VP, CS, CA] With the experience you have now, what are the main things you’ve done differently since Hamilton? Would you for example consider episodic content? e.g. bringing Hamilton out for 2 euros with 10 levels and players can buy more levels as the development progresses?

I think we should’ve had a clearer vision from the beginning and maybe have listened less to Sony and have kept the game simpler. Because I think it has grown too big and complicated, and also a bit too costly.

And also we’ve approached the retailers too late, because even though we’re targeting downloadable games, there is still a retail market out there. Hamilton is released in retail form in Germany and other markets as well. But these retailers are quite reluctant to take it, since its already out on Steam since they already have sale figures by that time. We believe that for the Puzzle-game the retail market is still quite strong. In case of a puzzle game like Hamilton, it’s probably best to take it out on the retail market first and then on Steam etc. Opposed to more hardcore games, you’d go for downloadable games first and then if there’s any interest to do retailing, do that after.

[KR, RS] For such projects, would you clearly define an end-point for the development, so when you release the title do you think its finished would you create more content?

Yes, we have the idea of extending a game once we see sale records. But in case of Hamilton, we released one DLC and probably release one more, but at the moment we cant put in any more resources.

[KP, C$, KA] What would be the major cost-point for making new content? Would it be e.g. the artwork?

Generally speaking for DLC and extending the game, it’s mostly art and design. And for the upcoming games, we put a lot more focus on downloadable content.
And also, its much easier if we own the IP, because then you dont need to get into contractual discussion every time you release new content etc. That could also be a downside of working with publishers, because if you do something that has a cost to it (e.g. marketing) you need to go into new negotiations and that tends to take time.

[CR] How do you manage feedback from customers? Do you get any of this when addressing new DLC? I wouldn't say we get that much feedback, it is more that the most we get feature oriented feedback related to in-game content. But this is a small proportion of our customers, so we can't put too much emphasis on it and they're usually not very representative because they are the really engaged players.

[CR] So what would be the main limitation for getting feedback from the mass audience (e.g. family oriented video games)? The problem is that the main audience won't be at our forums or mail. In case of Hamilton, we got most feedback from our hardcore players that have been playing Lead & Gold. Perhaps if we could target a random selection of our customers and get them to answers a poll, we would be able to get representable feedback.

[CR] Would you actually see that there is any added value in doing that? Mostly, the customers don't know what they want, its really hard. We usually get customers engaged in the end of our development and see, if they play our game, if they understand the game etc. But when it comes to the conceptualization of the game, its quite hard to listen to the customers because they usually don't know what they really want. On top of that, we've been thinking about most of what they're saying, so its hard to make the 'right' decisions.

[CR, R]$ For example Lead & Gold, you have a community behind it, do you maintain contact with them? Yes, we mostly make use of the forums, and that is a game with which we can actually use the customers to evolve the game since its a competitive game. Feedback we get about Issues like game-balance or features are addressing most of the audience. In case of Lead & Gold, we need to decrease the amount of resources for our support because we needed to move on to other games.

[CS, RS, KP] Would you say that this is a challenge to actually maintain the support? Yes. For Lead & Gold we didn't own the game solely by ourselves. We had a co-publishing deal with Paradox, so that sort of complicates things, like I mentioned with the negotiations concerning cost-coverage, revenue distributions etc.

[KA, KP] So in the future, would you rather have everything in-house, so you can make all the decisions on your own? yeah, either that, or have the publisher control the whole cycle and let them say what they want. But this shared responsibility is not really working. It could work until release, but post-release things get complicated.

[CR, RS] For the future, what opportunities do you see, looking at the challenges and the past learning experiences? I guess in the beginning we'd want to have a plan for post-release concerning DLC and supporting the title in different ways and in later stage add micro-transactions. Of course, it depends on the success of the title but if its successful you can build on the title for a very long time and treat it more like a service and less than a product. So as long as there is some kind of revenue from it, we could keep treating it like a service.

[KR, KA] Are there current aspects in your company that you currently lack?
Yes, we need to expand our competencies on the publisher related areas due to the before mentioned shift: Marketing, customer acquisition and maybe community management / support function etc. I think a lot of independent developers are doing that. At the moment we're quite production oriented, most people are working in production and not support or marketing etc. and we need to draw in those areas.

[KR] Are you trying to attract those competencies from outside or are you trying to develop them from inside?
I'd say both.

[VP, KR] Is that the way you see Fatshark going, of going more into that service oriented mode?
Yeah, I'd say that. But at the same time, we'd continue what we're doing; making games. Like right now we're making two games in parallel. And the production times are one- to one and a half year. I think that will be the space we'd be and we'll get some resources to handle the classical publishing part. With every release we try to increase the quality of the games, make better games.

[C$, KA] In a nutshell, what is really the strength of Fatshark? What do you believe is your 'competitive edge'?
I'd say we can produce high quality games on a short time frame, with a tight budget. We're quite efficient when it comes to producing while still keeping quality. But that said, we're good at production, but need to focus more on the publishing side.

So related to this, how would you rate yourself in being innovative?
th. We try to be innovative but at the same time we are a bit cautious, we're not heavy risk takers. We try to change our business model from time to time, but not too fast. There are a lot of companies which are currently putting everything they have into what is perceived to be the big thing at this particular moment, but that is not really our thing. We try to be a bit more consistent at what we do and follow our long term plan. So we haven't really moved more into social space that a lot of companies are doing, and the same goes for the mobile industry. We are porting games like Hamilton to android and iOS, but we're not throwing ourselves there simply because we don't know much about it.

Would you call yourself successful?
yes, I would say yes.

[VP] For a game like Krator, where does the idea originate from?
In case of Krator, it was one of our employees (Martin). But usually it originates from someone within the company and then we build on to that. In case of Krator, we looked at what sells well on Steam and we went ahead with a co-operative game with RPG and Action elements. Plus we incorporate many ideas from previous projects as well.

[KR, KP] How do you view yourself in relation to your competitors?
We collaborate a lot with other developers, especially here in the Stockholm area. Since we have a background as consultants, we hire or rent resources from/to other developers. We talk quite a lot with other companies about collaborations, or sharing ideas and technologies, like licensing the BitSquid engine. Moreover, we spend time on forums where other companies discuss their technologies and ideas. We believe the only thing we can compete over is the personnel, and there will always be people leaving and some coming. I think it's natural to have some sort of flow of employees, this is also how we get a lot of ideas from other companies.

[CR, KR] You mentioned going from product- to service oriented. Would you say that keeping personal is more important? Seeing as the life-cycle of the product might expand.
I'm not sure, at the time of starting new product you'd probably need senior personnel most. Its usually more easier to do the support activities for an already released product. Maybe keeping key
personnel is more important when it comes to marketing and publishing. Perhaps losing marketing/publishing people is a bigger threat than actual developers.

Most employees we have are fulltime and been with Fatshark for quite some time, we like to have some kind of continuity.
Appendix 4: Triangle Studios

Studio: Triangle Studios
Interview location: Leeuwarden, The Netherlands
Interview form: Face-to-Face
Date / Time: 2012-04-18 / 08:30
Interviewee: Remco de Rooij (CEO, Founder)
Interviewers: Christiaan Visser & Peter Zijlstra
Length (Recorded): 01h, 12m, 59s

Wie is Triangle Studios en wat doen jullie?
Triangle Studios is een bedrijf actief in de entertainment sector, waar we actief zijn in de ontwikkeling processen omkring de ontwikkeling van video games binnen deze sector.

[CS, KA, KR, CA] We hebben gehoord dat jullie eerst actief waren in de ontwikkeling van Nintendo DS (NDS) games, maar bevinden jullie nu in de mobiele industrie. Kun je hier meer over vertellen?
Triangle Studios is opgericht in 2006, op dat moment was de NDS absoluut de meest populaire gaming platform op de markt. Voor ons als een ontwikkelaar leek dit de beste mogelijkheid om projecten te krijgen en games te ontwikkelen op een platform met de meeste gebruikers. In 2009 zag de industrie een gigantische verschuiving met de komst van piracy, zeker voor de NDS. Zelfs bij de lokale retailer kon je de benodigde hardware kopen om je NDS op gehackte games te laten werken. Op een gegeven moment zagen investeerders en uitgevers ook de impact hiervan. Door de toegankelijkheid van gehackte games ging de ‘willingness to pay’ ook drastisch omlaag. Dus op dit moment werd het ontwikkelen op deze platform zeer moeilijk en zeer onwinstgevend. Het alternatief, de Iphone en de Iphone touch werd voor ons zeer attractief en bleek de natuurlijke overlap vanaf de NDS. Zeker gezien dat Apple de mobile gamer segment aan het overnemen was. Maar toch, de complimenterende technieken tussen de twee platformen stelde ons in staat om hier mee te werken. Het hangt hoofdzakelijk af van welke projecten ons gereikt worden of wat wij denken de beste platform van keuze is.

[CS] Wat is je primaire doelgroep?
Doordat we ook met opdrachtgever werken, hebben we voor elk project een andere doelgroep. Voor de in-house projecten hebben we een doelgroep die met name man + jong volwassene bevat, die bijv. interesse heeft in Geschiedenis en/of middeleeuwse settings.

[CS] Iemand zonder spelervaring kan jullie spellen spelen?
Ja, dat is met name voor onze opdrachtgevers het geval.

[KA] Jullie maken de suggesties voor de opdrachtgevers?
De opdrachtgevers weet wel wat voor doelgroep ze willen (mannen, duitsers...), maar wat voor impact dat heeft op de video game is helemaal aan ons.

[KA, VP] De creativiteit en aanverwante keuzes liggen helemaal bij jullie?
Vaak is een genre al bepaald, als de opdrachtgever bijv. een Shooter bijvoorbeeld. Vaal gaat het bij niet gespecificeerde genres vaak om de mechanics die ze willen. Vaak hebben opdrachtgevers al over iets nagedacht en willen dat er wel graag in terug zien, gezien het feit dat er een groter concern achter zit. Ze hebben dan vaak ook menen intern geenthousiasmeerd op basis van bepaalde ideeën, en als wij bijv. een vooraf gesteld genre veranderen moeten ze intern het proces weer opnieuw doen. Dus soms kun je om bepaalde dingen niet heen.
Appendix

[KA, CS] Wat zou je voorkeur meer naar uit gaan? In-house of meer vanuit de opdrachtgever?
Als ontwikkelaar zou je graag je eigen ding willen doen, indien dat mogelijk is. Maar als je dat doet met een team zoals wij dat hebben, 12-15 man, ga je je denken dat je iets uitbrengt dat bijv. twee jaar oud is, heb je daarna een achterstand in te halen op de techniek. Wij hebben een wisselwerking tussen verschillende soorten projecten: eigen, opdrachtgevers en uitgevers. De voldoening van creativiteit kan je uit al deze projecten halen maar tegelijkertijd wordt je constant gedwongen door, met de meest recente platformen, software en technieken te werken en dat helpt met het ontwikkelen van je eigen producten. Je kunt dus sneller die technieken toepassen, dus kun je uiteindelijk goedkoper je producten ontwikkelen. En dat is natuurlijk met name belangrijk als je zelf vanantwoordelijk bent voor de investering.

[KA, KP, KR, VP] Werk je met name voor opdrachtgevers of uitgevers, bijvoorbeeld als een EA games?
Naar mijn inzicht vervaagde de grens van een uitgever, kijk bijvoorbeeld naar een Mojang (Minecraft) die zelf een spel online zet maar die geen uitgever is. Wel zien we dat bepaalde rollen, zoals marketing of uitgeverij, soms heel slecht wordt gedaan. Je kan immers slechts een beperkt aantal dingen goed en je moet niet alles tegelijkertijd willen doen. Ik zie ze daarom meer als opdrachtgevers dan uitgevers, want het model waarin een ontwikkelaar met een pitch naar een uitgever gaat, dat daag zijn gewoon geweest. Dat was eigenlijk toen wij begonnen in 2006 al niet meer het geval, dat was echter 1998 tot en met 2004-2005, toen werden er nog budgetten gegeven. EA was eerder een bedrijf dat niks gaf om kwaliteit, en het totpunt bereikte EA rondom Fifa 2000 waarbij de klant het verschil niet meer zag tussen Fifa 1999 en Fifa 2000. Ze hadden niet meer nagedacht over interfaces tot aan de keuze van soundtrack etc., zolang het maar verkocht was alles prima. Toen hebben ze dus een switch gemaakt, zijn ze de beste studies gaan opkopen, en alleen het beste was vanaf dat moment goed genoeg. Voor EA was dit een hele goede move, je zag ook dat Ubisoft hetzelfde ging doen, maar er zijn maar zoveel ‘EAs’ en ‘Ubisofts’ in de wereld. In begin jaren 2000 had EA controle over wat de markt leuk ging vinden, zij kwamen uit met een game en mensen vonden dat leuk en werk zeer goed verkocht. Nu is het mogelijk voor een kleine ontwikkelaar om met een spel te komen wat een hele hoop mensen kunnen waarderen, en dat was gewoon een paar jaar geleden niet het geval. Je had gewoon geen platform om je game op te demonstreren. En nu heb je legio platforms.

[CA, CR, KP, KA] Wat maakt dat mogelijk tegenwoordig?
Neem nu bijvoorbeeld Minderraft, dat is een goed voorbeeld waarbij een platform helemaal niet nodig was. Mensen verkopen het via hun eigen website. Wij kijken met name naar platformen als de appstore, als kans om jezelf te expozen naar de markt. steam is precies zo iets. En ja, retail, een hele hoop mensen gaan nog steeds naar de winkel. Als je een DVD koopt, zit daar meteen een digital copy bij. Mensen beginnen te begrijpen dat er een equivalent is van een product. Dat heeft een tijdje geduurd en dat is ook nog niet klaar, maar mensen kopen voor een Euro een app op hun telefoon en snappen dat ze een product hebben aangeschaft. Ze krijgen niet iets in hun handen, maar je hebt wel wat gekocht. In plaats van dat je per kwartaal twee spellen koopt voor 70 euro, koop je de hele week lang een spelletje van een euro en als je er na een kwartier klaar mee bent, dan zou je het weer weg. Het is naar mijn inzicht een consumptiemaatshappij aan het worden, maar dat heeft veel tijd nodig om echt bij de mensen op begrip te komen. Maar er blijft zoveel kleven bij de retail. In de tijd dat wij NDS games ontwikkelden, zouden die 45 euro kosten in de winkel voor high-end games. De low-end games moesten 29 euro kosten. De helft blijft steken bij de winkelier. De marges voor mij als investeerder zouden per 30 euro niet meer dan 4 euro per verkochte unit opleveren. Dat is ontzettend laag. Die retailer vraagt een hele hoop geld voor shelf-space, shelf-positie (ooghoogte), hun reclame boekjes. Het punt is nu dat mensen iedere dag op Steam inloggen en vrijwillig bloot worden gesteld aan de nieuwe games die er uit gaan komen. En als daar staat: deze game is niet voor 30 euro maar voor 15 euro dan wordt het ineens een stuk aantrekkelijker. Die games worden een stuk goedkoper, maar de ontwikkelaar houdt er netto een stuk meer aan over.
En de kunst is dus om van het ‘normale’ publiek te onderwijzen dat digitaal een equivalent is voor je fysieke product.

[CA, CR] Dus jullie zijn volledig gestopt met de DS-games, en echt gaan focussen op de digitale markt: via Steam, iPhone.
Ja, en ik denk dat het het ook niet waard is om je producten meer fysiek aan te bieden. Maar mensen hechten daar steeds minder waarde aan. Maar wat je wel hebt zijn de impulsaankopen, waar iemand naar de winkel toeloopt en pakt een game uit het rek, wat anders is dan diegene digitaal een product koopt. Er is daarnaast ook een drempel, waarbij mensen veel langer nadenken over een digitale aankoop dan een fysieke aankoop. Ik denk niet dat mensen met hetzelfde gemak bijv. 20 euro digitaal uitgeven. Voorbeeld: je zet ‘s avonds je auto in de parkeergarage en kost je 10 Euro, daar ga je ook niet bij stil staan en rechtvaardigen. Voor een hele hoop vormen van entertainment is het vanzelfsprekend dat je geld uitgeeft, maar nu met het digitale download-tijdperk gaan mensen heel erg nadenken over het geld wat ze uitgeven. Ik denk dat dit nog zo’n 2 jaar duurt. Maar ik denk dat dit nog komt omdat er geen fysiek product tegenover staat, je kan het niet vasthouden of in je kastje zetten. De wijde beschikbaarheid draagt daar zeker aan bij. Maar ik denk ook dat, wanneer hardwarefabrikanten het makkelijker maken om games digitaal te downloaden. Bijv op Xbox live kan je ook Mass Effect 3 kopen, maar was hij net zo duur als in de winkel. Dat doen ze omdat het een aanbevolen prijs is. Maar als ze het voor 40 euro aanbieden, dan hebben ze de retailers kwaad. Ik denk dat Retailers zich op dit moment moeten her-uitvinden, want ze hebben weinig meer toe te voegen. De waarde zit hem straks niet meer in het binnen halen van je game, maar de sfeer die je toegang geeft tot je content. Uitgevers zitten steeds nieuwe manieren te vinden om piracy te tegen. Ik denk dat de oplossing in accounts zit, dat jezelf moet registreren voor een account anders kan je het niet spelen. Dat zie je ook met mmo World of Warcraft, waarbij je allerlei gehackte servers hebt, maar de experience is niet hetzelfde. Wil je echt op een leuke manier World of Warcraft spelen dan moet je gewoon een account kopen. Als de digitale overdracht van de game een probleem is kan hij inderdaad in de winkel liggen, maar laat het dan bijv. 5 euro kosten.

[CA, KP] De toegevoegde waarde van een Retailer is dan de promotie?
Wel, de retailer zelf promoot niet, maar dat zal het eigenlijk wel moeten zijn. Maar ze nemen zelf niet het risico van het promoten van een product. Sterker nog, de meeste retailers in Nederland zeggen van: geef mij 10000 units van jou game. De developer levert ze aan, compleet met hoesjes. Hij verkoopt ze dan 3 maanden, maar alles wat niet verkocht is dat verloert hij terug. Sterker nog, een willekeurige retailer zegt van: ik neem bijv 10000 van je af, maar pas als ik ze verkoop mag jij ze in rekening brengen. De retailer wil geen risico lopen en “voor jou 10 anderen” is de houding.

[CA, VP, CR, C$] Hoe promoot je nu een game met de komst van digitalisering?
We hebben nu een game in ontwikkeling: Cross of the Dutchman, which is an adventure game based on a Dutch historical figure. Wij denken zelf dat dit zit in een fenomeen dat heet een ‘ambassadeur’. Wij denken dat wij ambassadeurs voor onze games moeten vinden. Wij spelen in op het herkenbare scenario waarbij je met een groepje vrienden op een vrijdag avond bij elkaar zit en iemand zegt: “ik heb deze game gespeeld, en hij is fantastisch”. De kans dat jij dan het spel gaat kopen is velen malen groter dan als jij reviews gaat lezen, forum topics gaat openen. Dit laatste kost je allemaal een hoop tijd, het meest overtuigende is als iemand die jij vertrouwd tegen jou zegt: je zou dit product moeten kopen. Daar geloof ik heilig in. Die persoon die dat aan anderen verteld is op dat moment een ambassadeur voor ons product. Wij focussen ons op een niche, dus een bepaald groepje mensen gaat ons product leuk vinden: mensen die geïnteresseerd zijn in geschiedenis, adventure games of games met authentieke elementen. Dat is onze target, die mensen proberen we te voorzien van informatie en we zien dat dit een aanzuigende werking heeft. We werden binnen no-time benaderd door mensen die blogs hadden over piraterij in de gouden eeuw. Ze zeiden: er is al zo veel over piraterij in de Caribian Sea, maar nog niet zoveel over piraterij in Europa en wouden informatie uitwisselen. En zo rolt dat door binnen verschillende communities e.d. en die mensen zitten in de kern van onze doelgroep. Als reactie op onze actie zien wij de volgende dag dat mensen zich gaan registreren op onze website/forum, dat ze van hun vrienden hebben gehoord van: daar
moet je zijn. Dat domio-effect kun je als kleine ontwikkelaar beïnvloeden, waarbij je die kleine kern blijft bespelen. Wij kunnen geen marketing campagnes doen, zoals TV reclames wat een hele hoop geld kost en de effectiviteit hiervan is heel moeilijk te meten.

[VP, CA, CR] Die mensen komen naar jou toe, hoe vind je die kern?
Ja, met name zoeken, blogs van mensen identificeren, zoeken naar journalisten die in die kern zouden kunnen vallen. En zo komen er steeds meer mensen bij, die via-via van ons product hebben gehoord en die misschien nog wel veel enthousiaster dan de mensen die je in eerste instantie aansprak.

[VP, KR, CA, CR] Hoe bespeel je die Kern?
Die geven we informatie, openheid, betrekken we bij de development. Dat zijn allemaal eigenschappen, waarvan wij denken dat de kern dat interessant vindt.

[CA, CS, VP, RS] Het is wel een internationale doelgroep, of alleen in Nederland (Cross of the Dutchman)?
Nee, internationaal, het spel is in zowel het Nederlands als het Fries. We hebben daarbij ook die authenticiteit, waarbij we de dorpen precies nabouwen etc, er zijn mensen die waarderen dit en daar spelen we ook op in. Om een game te slagen, moeten we ook op internationaal vlak actief zijn. Als we alleen ons op de lokale bevolking richten verkopen we 2000 exemplaren, waarbij we misschien 100 of 200 euro per exemplaar moeten vragen om er iets aan te verdienen. Het ‘held’ principe is door de jaren heen gestandaardiseerd en geaccepteerd door mensen en dat maakt onze game ook toegankelijk voor het internationale publiek. Deze realisatie e.g. acceptatie process bij de internationale doelgroep gebeurt pas wanneer men het spel speelt. Dus we moeten totdat het spel klaar is onze kleine kern aanspelen en dan kan het pas gaan uitdijen. Dat is iets wat bij de traditionele retail-publishers niet kan, want op het moment dat het spel er is moet iedereen het ook kopen. Want als het binnen 3 weken niet verkoopt is er weer een nieuw spel wat op ooghoogte in de schappen ligt.

[VP, KR, CR, CA] Hoe gaat het verder, na de lancering van het spel?
We moeten op dezelfde manier blijven promoten. We hebben een community aangemaakt, een soort website waarbij ieder dag wordt geblogt over de game. Op dat blog vertellen we heel open over de voors- en tegens van de development, technische zaken. Hierbij kunnen we direct feedback meenemen van onze gebruikers, bijv. Iets wat historisch niet zou kloppen. Het zorgt er voor dat mensen het gevoel hebben dat ze betrokken zijn en een impact hebben op wat wij doen met het spel. Dat laatste krijg je niet bij Electronic Arts. En dat hebben we ook zo voor ogen gesteld, en dat is iets wat je vast moet houden, ook voor latere games.

[VP, CR, CA] Wat is precies dat Triangle-connect?
Met Triangle-connect koppelen we blog- en forumaccounts aan elkaar. Hierbij kunnen we een echte community vormen en gemakkelijk over alle platformen communiceren, ook over andere onderwerpen die er bij horen. Er onstaat een enigszins groep om je product heen waarvan je om te beginnen niet weet wat je van deze groep verwacht. We hebben ook een verhoogde status binnen Triangle-connect: de ambassadeur status. Wij willen dat onze gebruikers een bepaalde mate van betrokkenheid hebben, en als ze dat hebben krijgen ze toegang tot een afgeschermd gedeelte van de community. En daar laten we dingen aan een en ander zien; de eerste screenshots, muziek, schetsen etc.

[CR] Op welk stadium zijn jullie met customer-involvement bezig gegaan met CotD?
Niet helemaal in het begin, we hebben eerst research gedaan over de game. Er was in het begin nog te weinig duidelijkheid. We hebben vanaf het moment dat we wisten hoe het spel ging lopen, wat we kunnen maken, toen zijn we er over gaan vertellen. We laten zowel de voors als tegens zien van de development. Mensen zijn niet alleen geïnteresseerd in: “bij ons gaat alles alleen maar goed”, dan is er geen drama. We willen geen onzin verkopen, daar komen we als kleine ontwikkelaar niet mee weg, dus daar moeten we voorzichtig mee om gaan.
Appendix
Wat gebeurd er met de CotD community wanneer de game af is?
We blijven natuurlijk over de game doorpraten. Wij blijven de community voeden met informatie over zowel het spel als de omgevingen, bijvoorbeeld een museum wat gerelateerd is aan het spel.

Je stopt een hoop geld in je community, denk je dat dit een industrie-verschuiving is geweest in de afgelopen periode met de komst van het digitaal platform?
Wel, we hebben ook een game ontwikkeld voor Wii ware: Heron Steam Machine. Destijds waren er 40 Milioen Wii’s verkocht, iedereen krijgt Wii ware, dus we hebben ook 40 Milioen klanten. Maar wat daar miste was een manier om met je klanten te communiceren. Wii ware is een soort lijst op alfabetische volgorde en daar sta je dan in. Een week lang sta je nog met een plaatje in een soort shop, maar daarna ben je niet meer in beeld. Niemand kon bij onze game, we konden het ook niet vertellen aan mensen, want we konden niet via het platform communiceren. Dat doen en kunnen we met de CotD wel, iedere keer moeten we ze enthousiastmeren. Het is ook een process wat misschien wel meer dan 3 maanden gaat duren, waarbij je op een blog verschijnt van iemand bijvoorbeeld. Dat kan bij retail dus niet, dan moet je direct starten met promotie op het moment dat het klaar is en anders ben je gewoon weg (momentum). Dat kan je als kleine ontwikkelaar niet beïnvloeden, nog aan meedoen. Maar dat zeggende, misschien voor CotD een reclame op Discovery Channel nog wel interessant zijn.

Als je het CotD spel zou lanceren, hoe verdienen je er geld aan?
In principe vanaf download #1, via een eenmalige aankoop. Wel hebben we alvast uitgestippeld voor wat we na de lancering kunnen toevoegen, als extra (gratis) content. Dat kan dus omdat onze game niet op een disc staat, kunnen we doen wat we willen. Puur doordat het ontwikkeld blijft worden, wordt het alleen maar interessanter voor mensen om het te kopen. Daardoor zullen we ook geen game uitbrengen die immens groot is, we ontwikkelen tot het punt dat de gemiddelde klant van ons het geld waar vindt voor investering.

Krijg je ook al data van de gebruiker over de game?
Ja, datamining doen we al, maar data over marketing wordt niet door Steam verschaf.

Heeft de verschuiving in het omgaan met klanten nog invloed op de bedrijfsvoering c.q. kostenstructuur?
Dat is het leuke van Triangle Studios, we zijn een bedrijf met een enorm brede competentie-set. En dat betekent dat we alles in-house kunnen doen. Je moet echter wel opletten dat je kosten niet verborgen raken, met name het risico voor opportuniteit loss/cost. Dus ja, we doen alles zelf, van opzetten van de community tot onderhouden. En ik denk ook dat je dat zelf moet willen doen, anders kan je niet flexibel genoeg reageren op veranderingen in de markt. En laatst hadden we bijv. een plugin voor de Unity engine released, en daar zetten we dan de ontwikkelaar bij, zodat er een geziect achter de taak zit. En op dat moment weten je gebruikers ook precies wat er aan werkt en dan wordt het een stuk persoonlijker. Ik denk dat dit fenomeen een nieuwe asset is voor de promotie van je product.

Zou je zeggen dat de game meer een dienst (service) gaan worden dan een product?
Ik denk het bij games dat het meer gaat worden zoals bij de muziek-industrie. Op het moment dat je een album hebt gekocht van een artiest, dan koop je zijn volgende album ook. Ik denk dat de gebruiker echt gaat kijken naar het succes of de ervaring die hij had bij de vorige game en om die reden veel eerder geneigd is om de nieuwe game te kopen. De gamers willen de iconen zien achter de game, niet een of andere bekende acteur.

Krijg je ook je collega’s (partners) die dezelfde trend volgen [cooperation]?
Nou, bij samenwerken gaat het vaak om ‘wie heeft de knikker’, waarbij men investeert en zelf de successen van wilt oogsten. Samenwerking zie je niet zo zeer bij developers, maar meer bij partijen die iets doen wat wij niet kunnen. Neem een animatiebureau of een muzikant, daar heb je een mak-

In welke richting zie je Triangle Studios nu opgaan in de komende 5 jaar.
Ik denk dat we meer van dit soort producten gaan ontwikkelen. Maar het hangt natuurlijk van het succes af van CotD, dit zal een indicatie geven of onze Niche interessant/groot genoeg was. De ambitie is om steeds meer en betere eigen ontwikkelingen te doen. Dat is onafhankelijk van genre, platform of doelgroep.

Vind je Triangle Studios innovatief?
Ja, ik denk dat we behoorlijk innovatief zijn. Met CotD zie je elementen die je eerder hebt gezien, maar voor een kleine ontwikkelaar een community van dit formaat en de snelheid waarmee wij richt geven over het spel zie je in Nederland dan wel Europa zelden voorbij komen.

Zou je jezelf succesvol noemen?
Ja, wij zijn een onafhankelijke ontwikkelaar, we hebben tot nu toe nog geen investering van buitenaf gehad. Ik denk dat veel nieuwe bedrijven op zoek gaan naar een investeerder.. En zelfs in crisis tijd 2008/2009 zijn wij wendbaar en flexibel genoeg om onszelf te verplaatsen naar een andere markt. Dus ik denk dat we onszelf als zeer succesvol kunnen beschouwen. Er zijn meerdere vormen van succesvol, we hebben bijv. nog geen product die tientallen miljoenen heeft opgeleverd.. misschien volgend jaar.

[KA, CA] Je zegt dat het hele idee van pitchen in 2004 afgelopen is.. hoe gaat dat nu dan te werk?
Ja, dat klopt. Er wordt nog steeds gepitched, er wordt alleen van ons developers verwacht dat wij veel meer leveren vooraf. Als ik kom met game-design en artwork dan vinden ze dat echt super vet en op dat moment zouden ze een prototype kunnen vragen aan ons. Waar publishers eerder ons een zak geld gaven met de boodschap: maak maar een eerste versie, dat doen ze niet meer. Van een ontwikkelaar wordt tegenwoordig verwacht dat ze het spel al bijna ontwikkelt hebben voordat ze daar bij willen aansluiten. Dat betekend dat je als ontwikkelaar zelf al het risico hebt genomen, dus waarom zou je de profits nog willen delen? Als je aan je eerste versie vraagt: wat ga je doen, doen ze geen TV reclames of iets dergelijke, dat doen ze alleen voor grote games als Fifa. Dus hun rol en/of toegevoegde waarde is moeilijk te kwantificeren. Ze gaan wel blogs voor je benaderen (Kotaku, IGN..), maar die hebben wij als developer vaak ook al benaderd. Die publisher zou echt een stap moeten nemen buiten zijn traditionele aanpak. Dus ja, de vraag is wat is een publisher, dat is misschien wel iets wat in de komende 10 jaar gaat verdwijnen.

[R$], [KR, CS] Wie financierde jou dan?
Wij financieren onszelf. Wij voeren opdrachten uit voor klanten en daar maken we winst mee en die winst investeren we in onze producten. Die grote projecten van een paar miljoen is een keuze, maar daar moet wel winst bij worden ingeleverd doordat je publishers betrekt.

[KR] En de Intellectual Property behoudt de publisher?
Nouja.. het is niet vanzelfsprekend dat de bedenker automatisch de rechten behoudt nee. Degene die het betaald heeft vaak de macht, heel vaak wordt dat veilig gesteld voor de investeerder.
Appendix 5: Legendo Entertainment AB

Studio: Legendo Entertainment AB
Interview location: Jönköping, Sweden
Interview form: Face-to-Face
Date /Time: 2012-04-21, 17:00
Interviewee: Björn Larsson (CEO, founder)
Interviewers: Christiaan Visser & Peter Zijlstra
Length (Recorded): 01h, 05m, 29s

[VP] You've been active since 1998, can you tell us a little bit about Legendo?

We started out as a small publisher, it was called Iridon Interactive at that time and we were licensing games for other developers for the first five six years. We came from a business background, not a game developer background, which is unusual for being a game developer. But that's how it all got started. In 2004 we decided to develop our own games instead, because it is just so complex to make good quality products, so outsourcing game development is not really a good idea unless you like have top dollar so you can work with the best studios. So that's why it became Legendo Entertainment in 2004. The reason it is called Legendo is because it is a reminder that a Legendo game is a bit like Arcade; retro.

[CS] There is a focus?

Yes there is a focus, kind of broad, but still. For example, there won't be a football game from Legendo.

[VP] So the authentcity is more in the game play and the graphical?

Yeah the graphical and the concepts. I mean, games are based on history – classic books. Historic events like Pearl Harbor. Could also be a pinball game.

[KR] How many people are there really on paper within Legendo?

10. And a lot of people around that whom are contracted for a shorter period.

[KR] That sounds like something from a publisher's point of view. Like attracting teams to work with you for a project?

Yeah, since the projects are kind of small the management is not that heavy as managing 100 people would obviously require much more management. A typical Legendo game has maybe 3-4 people in its core and then maybe expands to 10 people, but 6 of those guys are there for 1 month – each maybe just working on a specific part – kind of like a movie production.

[KR] So there's been a specific choice for having these 10 people?

They have unique skills sort a say. In engineering and art.

[KR] Are they more senior? Do they share your vision?
Appendix

They are senior, talented and reliable. When you work with them for a long time it removes a lot of friction. There’s 2 guys in Australia who’ve been with the company since 2003. They are kind of responsible for all the artistic direction.

[KR] So the 10 people you mention are not actually sitting in Gothenburg?
No.

[KR] How many are in Gothenburg then?
Just me and Mats and one other guy on shorter duration. The Unity lead engineer, he is in Spain. The lead artists are in Sydney, Australia. And the programmers in Växjö and there’s one artist in Malmö. Then there’s Dan, who is in England, he is a PR guy. He is the community guy and has a pulse on what is trending on Twitter.

[KR] So the structure has always been this way?
Yeah, more or less. At one point we were actually 7 guys in Gothenburg, but not anymore. Those guys were actually there for a specific project – a Gameboy game 7 years ago.

[C$] So this was really a strategic choice?
Yeah, you either do it this way or you get an investor with a lot of money because it is so expensive to keep people on a constant payroll – especially in Sweden.

[KR, C$, VP] So it because you are situated in Sweden that you would rather have people abroad then to have 10 people living in Gothenburg?
I would actually prefer to have people living in Gothenburg if the games would provide enough funding back into the company to pay them normal salaries. That would be preferred, and that was probably the original intention, but you tend to be forced to change your strategy according to your income sort to speak. But actually at the moment we’re talking about placing the studio in a city near Gothenburg where we intend to fly in everyone to have them there at least a couple months a year; to have a little bit more structure. Because now with this approach I’m mentioning now with making games with distributed development where people are everywhere, it used to work well; you made a game, and the game was finished, you sold it and that’s it. But now games are more like a service. You can’t just release a game and forget about it. You have to update it, you have to support the community or market with PR and updates, and bug fixes. There’s so much going with technology. There’s an iPhone 6 coming, where they will probably update the iOS – so you will probably have to make an update to your project. And when that happens – when everything becomes a service – it is kind of hard to treat everything as a product. And this model, it kind of works, but it is not as sufficient as it needs to be.

[KR] Your model has some similarities with outsourcing?
It is like outsourcing. Kind of highly specialized, talented outsourcing. So it is not like something that you could probably outsource to anyone else.

[KA, KR] I’ve [Peter] done project management in Holland and that sounds complicated?
Basically what you do is – you may not work super hard every day, but you are on constant availability. If there’s a critical e-mail coming in at 02:00 AM you need to fix it, because it cannot wait until the next day, because everything becomes clogged up and since there is no natural communication you just have to be the spider in the web, sort to speak. But it has actually become easier, because we use project management software, cloud based, to help track things. We use a German solution called Planio, which is connected with another system which is called Subversion. It is getting better, this stuff did not exist 10 years ago.

[C$, KA, KR, KP] So it works, but it’s not ideal?
It’s not ideal, but the costs associated with that kind of structure makes it possible to stay independent. Because obviously, if you go for investors, they are looking for things that will scale. They
want to hear how your project will scale to 100 million users. You have to spend a lot of time explaining and communicating to your investors.

[KA, KR, KP] Are you actually still doing that then?
Nah forget it. Can't be bothered. Not worth it. Many of the investors end up being the project drivers instead because they are the guys with the money, so they make the calls.

[KA, KR] Have you done that in the past though?
Yeah, some projects are financed by business angels where they have a cut in the project. If they put up 25% of the capital they have 25% stake in the revenue. That has been quite successful and that is something we need to try to scale up.

[KA, C$] When was the last time that you had an investor?
The Pearl Harbor trilogy for the Wii. That had 2 business angels.

[KA, C$] Do they just provide the funding or do they also take part of the decision processes?
They only provide the funding.

[KA, C$] You can do whatever you want?
Yes exactly, that's how it works. They are just providers of capital, they want nothing to do with game development.

[CS] What title are you are working on today?
A strategy game called Fortune Winds. Then there's Dracula Twins, which is coming soon hopefully for iPhone in the end of the summer. And a racing game using the Unity technology. So those are 3 projects I am working on.

[KR, KA] Is it actually required that you do 3 projects simultaneously?
Not at all, but the problem with game development is that it is so erratic – it is so hard to schedule it. It is not like another industry where the factors are known. With a game you really have no idea. You make a plan because you want to seem like a serious guy to the investor. But in reality, the plan always goes out the window, because the strangest things can happen. And especially when you are working on a new type of game, like the racing game. We have a really good engineer who can build racing games, but even he cannot be exact on how long it is going to take. We aim at 4 months, but it is probably going to be 6. We will know that then for the next racing game, but for the first one it is like finding a cure for cancer – really hard.

[CS] Who creates the demand for racing games?
No there is no data supporting the decisions. It is entertainment, you make the game, because the game market is huge.

[VP] So you just wake up one day and like..?
Kind of, it also a way of seeing: where is the scale and talent? So this talented racing engineer should make racing games. And the racing market is kind of big, and especially on the iPhone, there is, for some reason, a crazy hunger for racing games. A Finnish developer made 4 million on a racing game with touch controls! The reason you then make a racing game is because you think you can do it better.

So you put two and two together and..?
Connecting the dots like how Steve Jobs would have said it. Exactly.

[KP, KR] Who funds these kind of projects then?
These projects are funded by 2 investors; business angels. And by Legendo. The Fortune Winds project is actually 50% funded by the game’s original Slovakian developer. The Dracula Twins has one external investor and the rest is funded by Legendo. So that is the current state of things. And if you ask me the same question in one half a year it will be completely different!

[CS, VP, KA] You’ve mentioned games a service. Has this influenced the way you approach game development? For example in your new racing game or Fortune Winds?
Yeah, actually Fortune Winds is going to be one half because it takes forever to make that game. It is a strategy so it has a lot of rules. It is more difficult to make a strategy game, because they are not so concrete — you can’t just test it for 5 minutes and say whether it is good or bad. Which you can say about a racing game, because it is just so much feedback from an arcade game.

[CS, VP, KA] Do you choose to target a certain market, because it sounds as if you are targeting two completely different markets?
This strategy game is relative to another strategy game — so more of an arcade game. But this is actually my first strategy game and realize how complex it is now — so I am not sure whether I would do it again, but I think the game guys would regard it as an arcade strategy game. So it fits into the ethos of making accessible simple games — not necessarily casual but in an accessible way. It does not require too long to complete, you can play it with friends for maybe 30 minutes or 1 hour. It is the same with the racing game, people don’t wake up and play a racing game for 8 hours; they do it in small bursts.

[KR, KP, VP] Do you have different support for racing games? Like multiplayer and social aspects?
Yeah it will have multiplayer at some point. As said, we use Unity, which actually takes away a lot of the work. You don’t have to build the engine and the technology, you can just focus on the game. It is kind of an experiment to see if that is going to work. For that reason we can have multiplayer without hiring 7 new people. We will combine Unity with Ulink to incorporate multiplayer. You can regard Unity as your own technology team, because Unity releases an update every 2 months without you having to do a lot of work — at least nowhere near what you have to do for a strategy game.

[KR] It sounds as if you are working with a lot of companies?
Yes a lot.

[KP] Is there co-development?
Yeah there is. It is kind of like being a bit of information hungry and keeping a pulse on things that is the ecosystem of game development. If Unity is getting positive reviews then other companies will continue to build stuff that works on Unity. In that ecosystem you kind of know what is going on and that kind of feels good.

[KP] How would you describe the role of Legendo in all of that? Who gets the IP at the end of it?
Legendo has all.

[KP] You’re the producer?
Yeah, the producer owns the copyrights, the IP.

[KP] Even with the Fortune Winds title, which was 50% funded by another Slovakian studio?
Yeah, but that was kind of a strange deal. We own half the name. The game is called Fortune Winds: Ancient Trader. We own Fortune Winds, they own Ancient Trader. If they want to make another Ancient Trader; fine go ahead. If this works, my plan is to make Fortune Winds: Ancient Trader and then Fortune Winds: Treasure Island. Kind of like an overarching brand. So that one is a little bit particular – there is no one size fits all solution.
[VP, C$] Yes it sounds very complex! Especially when you want to turn a title into a service?
It is probably. Looking at things that are selling, I'm sorry to say that I think video games are not product based – they are franchise based. Why are they selling 20 million Call of Duty 2 and 30 million Call of Duty 3? Probably because games are complex to consume. You as a player invest, in a real game, not a casual game, you invest so much of your own time that you probably don't want another game. Because not only have you paid your money, you have invested half your life into the game. That's why it becomes a franchise business I think. So if we do find that Angry Birds hit our strategy would be to don't do anything else. Like 5 different games in 5 different genres: Angry Birds flying, Angry Birds racing. That seems to be how it works, no matter what anyone says. But of course there is room for innovation, look at Minecraft.

[CA, VP] So you would want to launch a game, hope it's a big hit and the capitalize on it?
Exactly. You need to go out there and launch your game and get feedback from your market. The Pearl Harbor game was very popular, we had like 5-6 thousand Facebook fans very quickly. But we were unable to capitalize on it because we had a Wii engine with a dead console. We should have made Pearl Harbor for Xbox instead, but that would require like 10 million dollars.

[CA, KA] You actually changed platforms over the years, that entire road, how did it come to that?
The market changes every half year or so, there are new factors. It's hard to plan – who knows what is going to be popular in a year. “Okay the Wii is super hot, let’s make a game”. Then when you make the decision, it’s usually 1 year until you get to the market and then stuff happens in that time. So it’s hard to make good decisions.

[CA] It seems that you are very flexible though?
Yeah you have to be, I think everyone has to be. You just need to jump on things. Now it’s IOS, I don’t know, maybe IOS and iPhone will be dead in 1 year, then we’ll have to do Android. And I don't think we have the luxury to have a focus or strategy that fits the company. Much rather the strategy needs to fit the customers. The customers are going to iPhone so you need to be there. And they were going to Wii before.

[CR] Are your customers loyal in that sense that they will follow you as they know that you make these retro games?
Yes, at least that is how I like to see it. I think so, and I think they follow the brand kind of.

[CS, CA] The Facebook people you mentioned earlier – are they something you then expected? Where did they come from?
No, actually, a lot of them are from the Middle East. A lot from the Philippines and Egypt – it's a bit crazy. Then there's also some Americans. We didn't know we had fans there, but they're there. Then if we would make a Pearl Harbor game for iPhone we would still have the fans on Facebook so we can communicate to them saying “hey this is coming for iPhone”. If they are interested in games there is a likelihood that they'll have an iPhone – perhaps not in Egypt, but the Americans might.

[CR] Would you then also try to involve them in developing a title for the mobile IOS?
Yeah a little bit, it's nice to have feedback. But I think if you want to involve them you kind of need a more structured organization because you will have to manage your community. Because you can't just throw out a question and have nobody respond to it. You need to keep the dialogue going and you will need someone that does that fulltime.

And right now that is very tough?
Yes it is.
[CR] And the main reason for that would be?  
Because we are not centralized and there is really no need for it right now to develop with the customers. Because the projects we are working on are so far ahead so I don’t see what anyone can actually provide at this stage without actually being able to sample the game.

[CR] Are you basically saying we are developing titles and waiting for that hit so we can branch it out and then we can actually continue to involve the community?  
Yes, exactly, that is probably where I am hinting at. Like everyone we’re looking for that hit. I think it’s the same in movies or music – everyone is looking for that hit.

[VP] Is that what makes a successful development studio nowadays?  
To look for a hit?  
Yes.  
Probably not. Probably it’s a combination of factors: talent, innovation and luck. I think luck is probably 50% of the equation. But I think for where we are, with the arcade games, there are certain expectations for what an arcade game is. People don’t expect Mindcraft from Legendo for example.  
You might never know! <smile>  
I surely wouldn’t say no! <laughs>

[CR, CS] But what can people expect, how well do you know your customer in that sense? Do you get feedback from them, are they involved in any sense?  
Yeah we get quite a few emails from some of them. Some are actually very dedicated by writing several pages on how we could improve a game like Pearl Harbor. For example one guy had a whole list of options for his plane so he could tweak his plane. But on the other hand that that’s a customer, that’s a simulator kind of guy and there are so many products for those guys. We don’t want that customer, we want the Angry Birds customer! <laughs>.  
The mass audience?  
Kind of.

[CS, VP] Do you know what elements your game should have to attract that mass?  
I think they just need to be fun. I think you need of course a compelling concept. That’s how you make Pearl Harbor, because that’s a famous brand and borrowed. Take the same game and remove Pearl Harbor and you’ll probably have half the sales. And it’s the same with this racing game, we’re making it with radio controlled monster trucks. Monster trucks are insanely popular everywhere for some reason. If you check monster trucks on Google trends you can see that everywhere in the world people are building monster trucks. So we’re kind of taking something that is rooted and known. Something that is known, something that is not unique.

[CA, KP] How do you market the game?  
What you need to do to be successful, when you can’t afford television or YouTube ads, is that you need to get the press with you. For iPhone gaming there is a big community of sites that just love iPhone gaming and they write about all the new games. Where people will have to discover Monster Truck racing will be on those sites. So basically we need to make a good game and make sure those sites review them. They need to give it 4 out of 5 stars. That’s an absolute necessity and that needs to happen on 20 sites in the same month. That’s how it takes off. That probably needs to be done when you make this kind of arcade core games and you don’t have a large marketing budget – the press is probably more effective. If you would market it traditionally: “I don’t believe in banners or ads. They’re good as reminders if you have something big.”

[CA] Is that how you would measure a hit? With the critics from the journalists?  
No I would actually measure it from the income. But of course if you can combine a high Metascore with sales then that’s how I would define a hit.
[CA, KP] Do you think the normal journalism based critics are more important now or less important?

Depends on the game, but I would say that they are probably more important for our games now, because there is no other way to make people discover new games then through those channels. Even if only a small percentage of the potential buyers actually read those hardcore gaming sites, the guys interested and writing about it and saying it’s good, kind of set the tone for it and that kind of spreads out. So you need to start that little group of people that are kind of dedicated and know what they are doing. If they say you’re good then it kind of spreads.

[CA, KA, KP] So launching your new racing game, how would you approach it?

We will of course do trailers – amazing trailers – maybe 3 of them and send them out every 2 weeks up until release. Once the game has been released we would call all the important top sites. If you can get it reviewed quickly on the top 10 sites in America and you know the journalists you can call them and say “hey here’s the game, here’s the promotional code so you don’t have to pay for it, review it”. Then you have 10 types of reviews – it’s not more difficult than that for those types of games. I think that gets you very far. What will happen is that the sites in UK or Europe will read those sites as well and they kind of follow. If this is trending and hot it kind of creates a snowball effect.

What will you do with a user score?

You mean the user score from the app store?

[VP, CS, RS] Yeah I think that’s common.

I don’t think you can do much about that. I think it’s important; if you only have a 1 star rating then that’s a problem. You kind of have to go with your gut feeling and make a good game and hope that people get it. And that’s also why I probably would not put a game out for free. Because when you put a game out for free you probably get like a million downloads immediately, but it may be the people that only played Angry Birds, but they could never play Arcade games, which are too complicated. And they would probably give Dracula Twins 1 star because they think the controls suck. Whereas the most interested guys that play that type of games they’re hopefully happy to spend a dollar on it. I think this filters out some negativity that is unavoidable.

[CA, CS, CS] Do you also offer a boxed version or is it just digital distribution?

It’s just downloadable, everything is just digital nowadays. This changes all the time, but this is how I would do it for Monster Truck and Dracula Twins if they were coming out tomorrow. That works now, but who knows what happens in half a year. It depends on the game – if you make something like Farmville, that type of gamer would probably not go to gaming websites and read reviews, but somehow you need to market them via Facebook or something. When Zynga started out they spend 2 million dollars a day on Facebook ads – so that’s the money you need to acquire new users and make them aware of your game. And that’s probably a good thing to make arcade games which are not too casual for the simple reason that there are people interested in that and can write about it. I think it’s harder to sell to a broader casual game audience; it’s not harder it’s more expensive.

[CS, VP] Is it because you don’t target that casual market that you don’t want anyone to download and play your games for free?

Yeah I would say so. I think it depends on the game. A game like Dracula Twins is not for the casual; you need to have played that type of game to appreciate it. But if I would make another type of game, maybe a one thumb adventure game, that would be a good game to play for free. You give it away for free and you can buy the chapters one after another, something like that.

[VP, KA, RS, CA] And revenue streams, is it the traditional one you deploy? Like release and consume?

Yeah exactly that is very traditional, but I think that will have to evolve. What is popular on the iPhone are the in-app purchases where you can consume virtual items. I think that kind of suits Farmville games better than arcade games. What you can do with a game as Dracula Twins, if it be-
comes popular, you can probably make an in-game purchase where you let people buy a hat or something. A new costume for a character and you kind of dress this up as a support your developer kind of thing. You can then let people chose the price and you not let it affect the gameplay. It’s just a feel good kind of thing for the consumer. Maybe a lot of people would actually do that seeing as how successful developers have been on Kickstarter recently.

[R$] Would you actually consider that now as a strategy?
Yeah we’re definitely looking into that now, for Dracula Twins, to offer something beyond the initial purchase. You need to allow people to consume. If you just set a price for 1 dollar there’s no way they can pay you more.

[R$] What is going to be the price for Dracula Twins?
1 or 2 dollars. That’s suddenly a volume business. Low margin, high volume. That’s not how it used to be. It used to be high margin, low volume with the boxed games for 50 bucks. You kind of need a mass. And inside that mass you need to wait for them to pay you more money if they want to. I’m not sure how we are going to do that with Dracula Twins, but somehow you are going to be able to buy something in there. If they like your game they would like to buy stuff in your game. But I don’t think that you should allow items to be bought that are perceived as unfair. Like unlimited lives, that kind of gives an unfair advantage and destroys the game design. People should understand that when they buy a Legendo game we can buy stuff, but we don’t have to.

For our perception, in what stage is the Monster Truck in?
Its kinda half way done. The only thing which remains are the tracks.

[KR] If you wanted to, would you be able to release the game for free?
Yeah, although we licensed a game engine (unity), but that is only 1000 euros. So yeah.. perhaps we have to release it for free to get the critical mass, because they didn’t like it for example. But that is kind of like a last resort for us, we don’t really want it but if the market says that is how we should do it then we have to follow it. The market is the boss, the customer is the real boss.

[KA, C$] If you look at the cost-structure, since you’re saying its turning more into a service. Does it also mean it would also change the cost-structure result?
First off, the product needs to have a steady income to be able to afford these updates. Not only do we have to change the technical side, but you have to inform people, provide screenshots or trailers etc. But once you found your hit game, that is how it will lead to.. kind of like a one-product company.

[KR, KP] How does this affect your hiring procedure, how is it now?
What we do, we outsource the actual monster-truck model creation to Malaysia, based on specifications provided by us. For them, building that is very quick and cheap. But after that we spend time on polishing the models, since we have to prepare them for in-game use. But we save several months of work to build the actual trucks. But that’s what we need to do when we outsource.

[KA, KP, CR] When you launch this new title, what would be the next step if you see it to be successful?
I think we’d try to make more content, provide a relevant update, within the same game. A good way to do that would be to add more trucks in the game. And if the game is hot, try to keep in touch with the community. Keep the top-sites informed so the customers keep involved with our game. I think we will do that until there is no interest anymore.

[KA, CR, C$] If a journalist is really interested in how you’re going to add new content, how would you approach that? Don’t you have to put that into the game design as well?
I think it depends on the type of game, but for a racing game.. adding new trucks is not so complex, so I don’t think our customers would expect anything else. But again, you want to make your customers happy, but only if you can afford to.
What is the biggest challenge when developing a new title?
I’d say the biggest challenge is to find the capital for it, the financing. On a technical side it’s making sure the game is fun, that the combined talent of everyone involved is actually resulting in a meaningful, excellent great looking game with a lot of potential. That is kind of hard to communicate, since everyone is good at what they do. And technology is not that much of a challenge anymore, with all these engines coming out. Which is nice, otherwise I’d have said the technology is a challenge, but for those kind of games we make its not that much of a problem anymore. It comes down to money, game design and game execution. Also because we cancel a lot of game, of course.

Would you call yourself innovative?
Yeah, I think so... especially when it comes to the business models. Aside from what people can get in the game, we try the place the brands.. the merchandise. If our Monster Truck game becomes successful, we can expect to find toy manufacturers who make our trucks etc.

What part of the business model do you think you excel at?
We do really well in executing the games that DO come out and putting them up for digital distribution. Yes, you could call it the distribution, and keeping taps on how do we get this to consumers with as little friction as possible. There is a lot of friction within games for many years. It is complicated to play a Playstation 3 game for example, buy the game, go home, occupy the living room, install it for 15min... that’s friction. And its removed in iPhone, cloud-based gaming, ways to make it easier for customers to get involved with gaming.

What opportunities do you see?
Especially cloud based gaming is something to keep taps on. I was playing Mass Effect 3’s demo in my browser, on my MAC in full screen with no lag via Gai Kai. Of course, the video quality is a bit jaggy, but if you imagine how this will be in a few years.. probably that’s how all games will be distributed. Just click-and-play, no friction. Even if a game is complex, getting into a game shouldn’t be.

Would you call yourself successful?
Yeah, I’d say so... we’ve managed to stay alive for the last 14 years without venture capital. I’d not say that I am satisfied with our level of success. It would feel great if we could not only get one hit, but three in a row. What we need is a very good game that people enjoy and the feedback loop with the customer and the game and the eco system that grows out of that. We see it to be likely with another pearl harbor game, where there is already an audience. And if that works, Legendo would perhaps only make aircraft games.
Appendix 6: About the authors

Christiaan Visser
chvisser@gmail.com

Christiaan Visser (right side of figure 21) is from the Netherlands and has studied a bachelor in Business Information Sciences and is currently studying a master’s degree in IT & Management at Jönköping University in Sweden. He has work experience in the field of (IT) consultancy and is an innovation and business model enthusiast. He wanted to research this thesis topic as he believes that the video game industry depicts a stable and prosperous industry which allows for various entrepreneurial activities.

Peter Zijlstra
pmw.zijlstra@gmail.com

Peter Zijlstra (left side of figure 21) has a vast educational background in Business Informatics. He has done his bachelor Business Information Sciences in The Netherlands hereafter extending his studies in Sweden with a master in IT Management. Despite being a student, Peter has more relevant work experience, giving him a unique practical insight. His work experience embodied Business Analysis consultancy at various organizations as well as Project Management for (web) software development studios. In this sense, his practical hands-on experience benefited the contextual (sense-making) part of the data gathering and interpretation. Finally, Peter has a seventeen year accumulated experience with video games, providing him with an extensive preliminary insight in the industry.