

Chapter 24

New Business Models for the Computer Gaming Industry: Selling an Adventure

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ABSTRACT

Nowadays, managers in the computer and video gaming industry are forced to reevaluate their companies' strategic position within the value-added chain, as traditional business models show a tendency to erode. While there are some striking parallels to the music industry, like facing the threat of acts of piracy, indicating what future developments might be expected, there are also best practice examples from the computer and video gaming industry to learn from. Thus, it is imperative to have a look at the changes in competitive settings within this industry and analyze adequate examples regarding how to setup new profitable business models. In order to evaluate the changed business models in a meaningful way a systematic approach is advisable. Therefore, a short ontology of business models is given first, supporting the illustration of recent developments in the industry and which will guide the presentation of selective cases. Three major implications for managers in the computer and video gaming industry will be identified. These include a need to centralize the game experience, a stronger shift towards on-line distribution channels and the development of a collective sense of identity by target communities.

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INTRODUCTION

Looking at US media industries it seems obvious that every one of them has been changed dramatically during recent years. However, the changes – and more importantly the outcomes – differ on a wide range, as recent data from Datamonitor (2009b) suggest. In a time frame from 2003 to 2007 the average number of movie tickets bought per person declined 6%. Likewise, from 2004 to 2007 the hours of network television consumption per person dropped by 6% and the sales of recorded music on a physical medium even decreased by 12%. But contrary to these developments the overall consumption of digital media during the same period increased by 107% and video games alone grew by 46%. The question remains how the computer and video gaming industry could develop in such a diametrically opposed direction compared to other media industries.

One of the presumed reasons lies within the computer and video gaming industry's internal alteration. A range of software manufacturers like Blizzard Entertainment® and Valve® have changed their business models significantly and are now offering new kinds of value propositions in an unprecedented way. Their strategic rearrangement is justified by their success and thus it is not surprising that they are seen today as two of the most important players within their branch. Thus, as they exemplify two successful alterations of their respective business models in line with the general theme of this chapter, both companies will be the unit of analysis for a brief scrutiny.

The remainder of this chapter is structured as follows. First we give a short overview of the current state of the computer and video games industry. In doing this, different business model ontologies will be presented, including an introduction to the e-business model ontology by Osterwalder and Pigneur (2004). Furthermore, in an attempt to learn from the struggling of another similar industry, the developments within the music record industry will be used as an example

and as a point of reference from which sources of future opportunities and risks might arise. Finally, the chapter will illuminate the broader changes in the computer and video gaming industry related to business model setups and in particular the cases of Blizzard Entertainment® and Valve®.

COMPUTER AND VIDEO GAMES INDUSTRY OVERVIEW

The computer and video games industry produces entertainment software and hardware for both personal computers and video consoles (e.g. Microsoft® Xbox or Nintendo® Wii™). With the ongoing technological progress in computer hardware and telecommunication, the computer and video games industry evolved to a diverse and lucrative industry: In 2009, U.S. customers spent \$ 10.5 billion on retail purchases for computer and video games, compared to \$ 5.6 billion in 2000; a growth of 187% in only eight years (Entertainment Software Association, 2009) (see Figure 1).

Among the leading companies in the computer and video games industry are Activision Blizzard Inc., Electronic Arts, Take-Two Interactive Software Inc., and Konami Corporation (Datamonitor, 2009a). In 2008, former game developers and publishers Vivendi Games and Activision® merged to Activision Blizzard™ and, as of 2009, surpassed Electronic Arts® as the largest video game company in the world by net revenue (Activision Blizzard, 2007, 2008, 2009; Electronic Arts Inc., 2007, 2008, 2009) (see Figure 2).

BUSINESS MODEL ONTOLOGY

Several different conceptualizations and definitions of the term business model exist, which emphasize particular generalized elements of a business model (Shafer, Smith, & Linder, 2005). Amit and Zott (2001) define a business model as

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