IMGD 1001:
The Game Industry

Hit-Driven Entertainment

- Games are emotional, escapist, fantasy-fulfilling, stimulating entertainment
- Causes of success or failure are often intangible (but quality matters a lot)
  - Consumers are smart
- Hits come from individuals with skill, instinct, creativity, and experience (and some luck), not from marketing

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How the game industry works:

Costs

- Powers of 10
  - $50K - cell phone (Bejeweled knockoff)
  - $500K – indie (Bomberman Live), nice casual game (Peggles)
  - $5M - "A" (Titan Quest)
  - $50M - "AAA" title (WoW)
- WoW – costs and revenue
  - $50 Million to make
  - 6 Million players @ average of about $12 / month for 2-3 months = $200 million a year
  - (Less the cost of running those servers)

Roles

- Developer
- Publisher
- (Distributor)
- Retailer
- Service Provider
- Middleware

Development Studios?

Developers

- *Design and implement* games
- Responsible for the content
  - Including: programming, art, sound effects, and music
- Historically, small groups but now often larger
- Analogous to book authors
  - Sometimes first party (part of publisher)
  - Or third party (independent business)
- (More later -- most of this class!)

IMGD 1001   7

Publishers?

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Publishers

- "To find the publisher in any deal, look for the one who's got negative cash-flow during development"
  - Dan Scherlis (Turbine, EtherPlay, ...)
- Handle manufacturing, marketing, PR, distribution, support
- Typically specialized in certain markets
- Assume the risk, reap the profits
- Might also handle QA, licensing, project management

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Publishers relationship to developers

- Star developers can bully publishers, because publishers desperate for good content
- But most developers are bullied by publishers, because developers are desperate for money
- Publishing swings from big to small and back depending on the market
- Most publishers also have in-house developers

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Distributors

- Move software from publisher to retailer
- Modeled on book distribution
- Pubs like them because they manage relationship with many small stores
- Stores like them because they manage relationship with many pubs
- Compete on price, speed, availability
- Very low margins (3%) -- dying breed

IMGD 1001   11

Game Retailers?

IMGD 1001   12

Retailers

- Sell software to end users
  - But really sell shelf space to publishers
  - Compete on price, volume of product
- Shift in 80's to game specialty stores, especially chains (today ~25%)
  - *EB Games, GameStop*
- Shift in 90's to mass market retailers (today ~70%)
  - *Target, WalMart, Best Buy*
- Retailers earn 30% margin on a $50 game
- Electronic download of games via Internet still in infancy
  - Big but not huge (today ~5%)

Service Providers

- Sound, Music, Voiceover
- Artists (2D, 3D, concept)
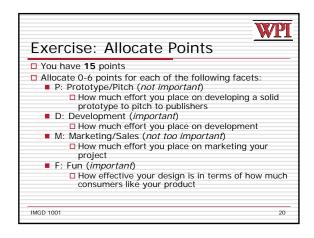- QA
- PR
- Advertising

Middleware

- Provide the tools used by developers
  - Small: Game Maker, Torque
  - Medium: Havok, Rad Game Tools
  - Large: Doom, Unreal Engine
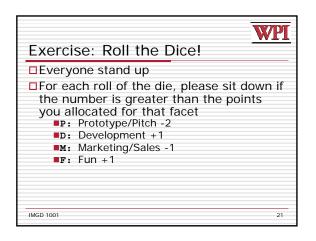- Few customers, large upfront cost, hard to break in…limited growth but profitable

Traditional Game Development

- Developer creates concept
- Developer builds demo
- Developer meets with publishers
- Publisher agrees to fund it (advance against royalty)
- Project gets developed
- Publisher boxes it, ships it, markets it
- Publisher collects money
- Developer MIGHT make more money…if advance is earned out

Traditional Model:
Cross Between Books and Hollywood

- Less than 10% of published titles break even
- Sequels very popular
- Development costs rising
- Self-publishing is nearly suicidal
- Retail and distribution control access to customers

Indie Game Development

- Developer creates concept
- Developer turns concept into a game
- Developer finds nontraditional publisher to sell game
  - Sometimes self-publishes
- Publisher responsible for Web storefront
- Developer gets 30-40% of each sale

3

Exercise: Getting to Market

- Form up into pairs or teams
  - based on yesterday's pairings
  - based on your new group
- 2 minutes to write a one-sentence game description of a game you want to make
- 2 minutes to decide on ONE of your ideas

Exercise: Allocate Points

- You have **15** points
- Allocate 0-6 points for each of the following facets:
  - P: Prototype/Pitch (*not important*)
    - How much effort you place on developing a solid prototype to pitch to publishers
  - D: Development (*important*)
    - How much effort you place on development
  - M: Marketing/Sales (*not too important*)
    - How much effort you place on marketing your project
  - F: Fun (*important*)
    - How effective your design is in terms of how much consumers like your product

Exercise: Roll the Dice!

- Everyone stand up
- For each roll of the die, please sit down if the number is greater than the points you allocated for that facet
  - **P:** Prototype/Pitch -2
  - **D:** Development +1
  - **M:** Marketing/Sales -1
  - **F:** Fun +1

Exercise: How Many are Left?

- Yes, luck is a factor (the roll)
- You can control it some
  - with skill (knowing which is most important)
  - and money (getting more points to allocate)
- But there's never enough of either to make it a sure thing