DIGITAL GAMES
Looking for Business Models

Malte Behrmann, EGDF
EGDF IS A TRADE-ASSOCIATION (SME) THAT FOCUSES ON:

**Policy development**
- participates processes developing policy recommendations that support game developers

**Dissemination**
- disseminates the best practices, new standards, R&D, new tools etc.

**Elaboration**
- elaborates game developers’ mutual positions (technology, content)

THROUGH EGDF YOU CAN REACH more than 600 game studios in 12 European countries that employ over 17000 game industry professionals.

UK, AT, DE, FR, DK, FI, NO, BE, NL, LU, ES, IT

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European Games Developer Federation
Games are the lead-medium now

- What stays is the fact that fix costs are high and reproduction costs are low: Support for games as for film as production supports are more important than ever (Creative Europe, H2020)
- Cultural acceptance allows better support
- The game industry is not one big rich black box – look at the value chain
- No detours: Don’t overestimate serious games/ applied games
Digital games are the key for Internet of the future

- Game industry recently experienced **digital shift** => media distribution went online
- New **Opportunity for Europe** => game markets are not any more controlled by non-European players
- Paradigms of digital growth are significantly different than in the market space of non-virtual goods => **Games link networks and users**
- **concept of leverage is a myth** => Small, content driven tech companies can provide relevant solutions and can grow very quickly
- But still **game development is risky**, only 5% of the games are profitable and highly supported in other world regions

Source: © IHS Screen Digest, 2011
## Its possible: Size of leading online games studios in Europe

<table>
<thead>
<tr>
<th></th>
<th>Bigpoint (DE)</th>
<th>Gameforge (DE)</th>
<th>Ankama (FR)</th>
<th>Jagex (GB)</th>
<th>Sulake (FI)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Founded</strong></td>
<td>2001</td>
<td>2003</td>
<td>2001</td>
<td>2001</td>
<td>2000</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>about 700</td>
<td>about 450</td>
<td>about 460</td>
<td>about 375</td>
<td>about 270</td>
</tr>
<tr>
<td><strong>Registered users</strong></td>
<td>194 million</td>
<td>200 million</td>
<td>30 million</td>
<td>170 million</td>
<td>210 million</td>
</tr>
</tbody>
</table>

Source: ICO Partners 2011
Business Models

• Online:
  – F2P
  – Subscription
  – Box & subscription
  – Advertisement

• Mobile
  – Paid App
  – F2P
  – Advertisement

New trend:
Clear integration of game design and business models:
Make the fan to play and pay
Poor Developers... Before I Phone

- **North America**
- **Europe**
- **Japan**

DIAGRAM: The chart compares the percentage distribution of Operator, Publisher, and Developer in North America, Europe, and Japan.
Fair Deals now

- RIM
  - Operator: 30%
  - App Store: 30%
  - Developers: 70%

- Nokia (credit card)
  - Operator: 30%
  - App Store: 30%
  - Developers: 70%

- Nokia (Operator Billing)
  - Operator: 35%
  - App Store: 5%
  - Developers: 60%

- Google
  - Operator: 30%
  - App Store: 30%
  - Developers: 70%

- BREW*
  - Operator: 30%
  - App Store: 30%
  - Developers: 70%

  * BREW revenue sharing after operator has taken retail markup

Source: Strategy Analytics
A business model is

A way to create content
Content has to support the business model
=> E.g. in a free-to-play model you have to have content to buy by microtransactions

A roadmap for technology development
Technology has to enable the business model
=> E.g. in advert based business model you need to support a large number of Android handsets

A guide to reach consumers
You have to know how to reach your users
=> E.g. in MMORPG’s you have to support all the payment solutions people want to use

=> Games are build around a business model
Digital games are

- **an economic driver**
  The video games market is the most dynamic entertainment market with a huge growth potential and a natural ability to overcome cultural and linguistic barriers

- **a cultural driver**
  Video games are played by young and old, male and female alike, and are now recognized as cultural

- **an innovation driver**
  Video games engender new business models, create innovative content and germinate unique services that are driving groundbreaking technological discoveries leading the way for many other sectors
Digital games are drivers of

- **technological innovation**
  Computer hardware (e.g. microchips), network technology, artificial intelligence, augmented reality etc.

- **content and service innovation**
  New story telling methods, new co-creation methods, machine translation, etc.

- **business innovation**
  Virtual currencies, micro-transactions, digital payment methods, crowd funding and crowd investment.

=> Games have a strong spill-over effect on hardware, networks, the business-models and interface of digital services (gamification)
viral
innovation
model

- constant development based on the feedback from a community around the application
- prototype development
- pilot application
- testing
- market launch and penetration
- requirement analysis
- idea generation
- idea evaluation
- project planning
Consumer spending on entertainment media (€m)

- **So we need to support**
  - **Content creation / viral innovation by**
    - tools for user and/or procedural created content as well as for user-developer communication (e.g. CNG project)
    - Middleware standards
    - Automated tools for creating content (**Procedural content creation**)
  - **Access to digital markets by**
    - Internet technologies for game promotion like data mining, reference and web publicity technologies
    - Content driven approaches to network technology
    - Compilers for making multiplatform games
    - Multiplatform delivery

Source: © IHS Screen Digest, 2011
• Political support is essential
  Regulation needs to be flexible
  • Europe must not unintentionally give advantage to competing digital economies by over- or under-regulating its own markets
  • Net-neutrality is essential for digital service markets
  • No forced standards, the field must be kept open for innovation

• New business models lead to higher diversity – but its also riskier and demand more skills

Support systems need to updated for the digital era
  • real innovations have to be identified behind the formal quality of applications, funding structures have to be simplified;
  • Games as a specific ‘model’ category;
  • Support for many small projects instead of few big ones; a threshold, for example, by placing the maximum EU contribution per project to about five million Euro;
  • a SME-quota, at least 50% of the funding has to go to SMEs
THANK YOU
For any further questions please do not hesitate to sent an email to Malte.Behrmann@egdf.eu