Business of Video Games

Fall Semester, September 6 to December 16, 2016
Course number: MKTG-UB.58.001
Location: T-UC25
Instructor: Joost van Dreunen, jvd228@nyu.edu
Class meets on Thursdays, from 4:55 pm to 6:10 pm.

COURSE DESCRIPTION

Abstract
This class discusses the interactive entertainment industry, and looks at how business strategies inform aesthetic practices in the development, distribution, and marketing of video games.

Course Summary
Video games are now a mainstream form of entertainment. In economic terms, this industry has experienced tremendous growth, despite a grueling recession, growing to an estimated $110 billion worldwide. A key development that has changed the playing field for both the producers and consumers of interactive entertainment is a shift away from physical retail to digital and online game distribution. The audience for games has also shifted—no longer the exclusive practice of hardcore gamers, video games have gained mass appeal in the form of social and casual gaming, on the internet, on consoles, and smartphones. At the same time, the development and publishing of games has become far more accessible. The game behind the game, in a manner of speaking, has changed.

In this class, we explore the basic components of the current video game industry. Every week, we review major current events, will hear from people currently working in the industry, examine case studies, and discuss the overall business landscape. Central to each class is the notion that practical business considerations and the design-driven creative process do not have to be in opposition.

COURSE OBJECTIVE

This course aims to provide students with:
☆ An understanding of games industry characteristics, its drivers and major players;
☆ An overview of historical and current strategy questions confronted by game companies;
☆ A rudimentary set of games business-related solutions applicable toward the developed, publishing, and distribution of interactive entertainment;
☆ Enough information about the video games industry to formulate a credible business plan.
METHODS OF EVALUATION

Attendance and participation (25%)

Don’t be late, and don’t miss class.

If you know in advance that you will be unable to attend, I expect you to inform me. Because active discussion and exercises are part of this class, attendance and participation are important: they are the best way to demonstrate what you have been learning and fine tune your ideas in dialogue with your classmates. An excess of two unexcused absences over the course of the semester will negatively impact your grade.

Mid-term project: Executive Memo (25%)
The CEO of a major game company has charged you with providing a short 2-3 page memo to help define the firm’s next strategic move.

For this exercise, you are free to choose one of the following firms: Activision/Blizzard, Bandai Namco, Electronic Arts, King, Konami, Microsoft, NCSoft, Nexon, Nintendo, SEGA, Sony, Square Enix, Take-Two Interactive, Tencent/Riot Games, Ubisoft, Wargaming, Zynga.

The analysis will cover three main areas of investigation:
1. Landscape: A brief overview of the company’s history, market positioning and overall performance.
2. Trends: Major market and industry trends relevant to the company.
3. Opportunity: A clear explanation on how to best capitalize on market opportunities, and avoid any threats.

In your analysis, you are encouraged to use publicly available source material, such as annual reports, SEC filings and freely available market research reports.

Final project (50%)
Pick one of the following projects. All final projects should be 5 to 7 pages total, including bibliography, charts and an executive summary.

1. **Fundraising**
   Build the business case for a game prototype or concept to be presented to a possible investor, publisher or partner. The objective of the business plan is to think through the various steps that make up the process of developing and launching a game. Your final deliverable should contain the following components: competitive landscape, cost structure, distribution strategy, marketing and revenue potential.

2. **Emerging market entry: China, Russia, Brazil**
As head of strategy of a game publisher, you are expected to present the case to your CEO and management team whether or not your company should enter one of these markets. Make the case either in favor of or against this decision based on a sound, logical argumentation in combination with market data and at least one case study of another company that did decide to enter one of these markets. You are free to determine what game type (e.g. mobile, MMO, etc.) your company will use in this effort.

3. **M&A evaluation**
   Take-Two Interactive (NASDAQ: TTWO) has hired you to perform an evaluation of their decision to acquire Zenimax/Bethesda. Using publicly available sources such as earnings reports in combination with what you know about the games market to make either the case for or against this acquisition.

4. **Entering the games market**
   You are tasked with the assignment to help a team of financial investors that are part of large, traditional media conglomerate decide on whether or not they should move into the games market. Make the case either in favor of or against this decision based on a sound, logical argumentation in combination with market data and at least one case study of another company that decide to do so. Think beyond just merely developing or publishing games and provide an overview of the larger ecosystem to find possible synergies and opportunities.

**Plagiarism**
Academic plagiarism is a serious offense. If you do it, in any form, you will fail the entire course. Just to be clear, this includes every unacknowledged use of materials written by others (even sentences or obvious paraphrases without quotes). Please see the University’s guidelines for further information on this matter.

**Late Assignments**
Late assignments will be marked down one letter grade for every day they are overdue. If you think you are going to be late with an assignment, you must notify me at least 24 hours before the assignment is due. Please respect your own time and mine.

**TEXTS AND SUPPLIES**

The central text for this class is an industry report by sell-side analyst Michael Pachter from Wedbush Securities. Students are expected to read the entire report, but may do so on their own time. The text itself will be made available via NYU Classes.

- Michael Pachter, “Post Hoc Propter Hoc; Why the Next Generation Will Be as Big as Ever,” Wedbush Securities, February 12, 2014

In addition, students are encouraged to immerse themselves in the business and culture of games, by reading web sites such as the ones listed below:
• [A]List Daily: http://www.alistdaily.com
• Edge Online: http://www.edge-online.com
• Gamasutra: http://www.gamasutra.com
• GamesBeat: http://venturebeat.com/category/games/
• Game Industry Biz: http://www.gamesindustry.biz/
• Polygon: http://www.polygon.com
EVALUATION

A=Excellent
Outstanding work in all respects. This work demonstrates comprehensive and solid understanding of course material, and presents thoughtful interpretations, well-focused and original insights, and well-reasoned commentary and analysis. Includes skillful use of source materials, illuminating examples and illustrations, fluent expression, and no grammar/typing errors.

B=Good
This work demonstrates a complete and accurate understanding of course material, presents a reasonable degree of insight and broad levels of analysis. Work reflects competence, but stays at a general or predictable level of understanding. Source materials, examples, illustrations, are used appropriately and articulation/writing is clear. Paper has been carefully proofread.

C=Adequate/Fair
This work demonstrates understanding that hits in the ballpark, but which remains superficial, incomplete, or expresses some significant errors or weaknesses. Source materials may be used inadequately or inappropriately, and arguments lack concrete, specific examples and illustrations. Writing/articulation may appear vague, hard to follow, or loaded with typos and other technical errors.

D=Unsatisfactory
This work demonstrates a serious lack or error in understanding, and fails to express the most rudimentary aspects of the course. Sources may be used entirely inappropriately or not at all, and writing/articulation appears deficient.

F=Failed
Work not submitted or attempted.
TIMELINE & TOPICS

September 8: Welcome and introduction.

September 15: Games industry basics.
We start by taking a high-level look at the video games industry. We'll review its history, the current market, key terminology and principles, and relevant drivers of change.

September 22: Empire on the edge of a volcano.
In Western markets, retailers have traditionally played a key role in the marketing and distribution of video games. Digitization, however, forces retailers to recast their role in the value chain.

September 29: The epic quest for intellectual property.
Developing games based on existing licenses is a tried and true practice for many publishers. It reduces risk and provides a relative predictable model in an otherwise hit-driven market. We will review what's involved in licensing content for game development.

October 6: Digital transition: forward through the rearview mirror.
As the development, publishing, distribution and consumption of interactive entertainment shifts toward a digital model, we'll examine the effect on traditional game publishing and how publishers try to meet this challenging opportunity.

October 13: The end of the world of World of Warcraft.
A predictable cash flow that characterizes subscription-based games is a great way to offset the volatility of the interactive entertainment market. This strategy, however, also has strong implications on a game's design and publishing. We will investigate the origins of this genre by reviewing traditional forms of game play that centers on ongoing character development and collectibility, and see how the recent emergence of free-to-play heralds the inevitable decline of this genre.

October 20: The cost of free.
Originating in Korea, the free-to-play MMO genre has found a growing popularity among Western gamers in recent years. We'll review the strategy employed by firms like Nexon with regards to entering the retail-based Western market, their success at monetizing large audiences, and how Western publishers have both successfully and unsuccessfully attempted to adopt this new model.

October 27: No class.

November 5: Everyone’s a gamer now.
In only a few years, gaming has become a mainstream form of entertainment. No longer an activity exclusively reserved for a narrow hard-core audience, digital games...
are now for everyone. We’ll explore the implications of games ascending to a common past time, its design implications and its underlying market dynamics.

**November 10:** Small screen games for the world's biggest market.
The explosive popularization of smartphones and tablets has proved disruptive to all other market segments. Its ability to reach millions of people worldwide has made mobile gaming one of the fastest growing categories in the industry today, turning the games market upside down. Or are there limits to its growth and ability to entertain?

**November 17:** Core gamers’ bastion: PC DLC.
For a long time, analysts have considered the PC gaming market to be declining and even irrelevant. The advent of digital distribution, however, has turned the fortunes of both its dedicated gamer audience and, especially, independent game developers.

**November 24:** No class! Thanksgiving.

**December 1:** The greatly exaggerated death of the console.
Since the first console appeared in the late 1970s, the role of platforms has changed considerably. Today both hardware and software-based platforms provide a wide range of entertainment options. We will examine the various platform providers, their respective strategies, and how each influences game design in their own way.

**December 8:** A new challenger appears: competitive gaming.
As free-to-play online multi-player games became more popular, so, too, has the success of real-life competitive gaming events and tournaments. Currently, eSports are in its infancy, but are rapidly growing. We will look at some of the major publishers active in this space, the renewed interested and market opportunity for advertisers, and examine the implications of eSports as a mass sports event.

**December 15:** Business model innovation as a competitive edge.
The ability to change and adapt business models, by relying on different ways to generate revenues, has proven a key competitive edge for game developers and publishers alike. In this lecture we’ll review how different revenue models have gained popularity in recent years, allowing to mitigate risk and the development of unique game genres.