

# SYLLABUS—BUSINESS OF VIDEO GAMES

Fall Semester, September 2 to December 15, 2015

Course number: MKTG-UB.58.001

Location: T-UC19

Instructor: Joost van Dreunen, jvd228@nyu.edu

Class meets on Thursdays, from 4:55 pm to 6:10 pm.

## COURSE DESCRIPTION

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### Abstract

This lecture series aims to provide insight into the video games industry by making obvious how business practices shape and evolve the development, distribution and consumption of interactive entertainment. The goal of this course is to give business professionals active in this market a better understanding of the overall ecosystem, its trends, drivers of change and key industry players.

### 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 \$74 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

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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

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### 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 of paramount importance: they are the best way to demonstrate what you have been learning as well as 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**

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There is a reader for this class that each student is expected to purchase. 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/>
- Games Industry Blog: <http://www.gamesindustryblog.com>
- Inside Social Games: <http://www.insidesocialgames.com>
- MCV: <http://www.mcvuk.com>
- Polygon: <http://www.polygon.com>

## **EVALUATION**

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### **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**

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### **September 3: No class meeting.** Course preparation.

In preparation for the upcoming semester, students will read the following text to familiarize themselves with the basics of the games industry.

Reading(s):

- Michael Pachter, “Post Hoc Propter Hoc; Why the Next Generation Will Be as Big as Ever,” Wedbush Securities, February 12, 2014, p. 1 – 59.

### **September 10:** Games industry—Overview.

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.

Reading(s):

- Nichols, Randy (2014) “The Video Game Business.” Palgrave Macmillan: 2014. Chapter 1.

### **September 17:** The retail 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.

Reading(s):

- Michael Pachter, “Post Hoc Propter Hoc; Why the Next Generation Will Be as Big as Ever,” Wedbush Securities, February 12, 2014. Pages 18-19, 90-93, 97, 144.
- Morrison, Stilian. “Is GameStop an interesting investment opportunity?” Market Realist, July 10, 2014. <http://marketrealist.com/2014/07/gamestop/> Accessed August 2014.
- Chatterjee, Sayan, and Timothy Yee. “GameStop.” HBS No. W11640. Ontario: Richard Ivey School of Business, 2012.
- GameStop Corp. August 27, 2015 Form 10-Q. Filed August 27, 2015. Available via <http://investor.gamestop.com>

### **September 24: 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.

Reading(s):

- Gupta, Sunil and Dharmishta Rood. “Angry Birds.” No. 9-512-033 Boston: Harvard Business School, 2012.
- Software Publishing and Development Agreement, ACT WZ08638533, between Activision Publishing, Inc. and Bungie, LLC, April 16, 2010.

### **October 1:** 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.

Reading(s):

- Trimble, Chris. "Hasbro Interactive." HBS No. 2-0021. Dartmouth: Tuck School of Business, 2004.
- Gupta, Sinil and Kerry Herman. "Take-Two Interactive Software, Inc." No. 9-511-002. Boston: Harvard Business School, 2011.

**October 8:** 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.

Reading(s):

- Activision Blizzard, Inc. August 4, 2015. Form 10-Q. Filed August 5, 2014. Available: <http://investor.activision.com/common/download/sec.cfm?CompanyID=ACTI&FID=1104659-15-55909&CIK=718877> Last accessed August, 2015.
- CCP Games. "CCP 6 Month Update, September 2013." Investor Presentation.
- Raph Koster, "On "Pay To Play" Or, MMORPG Business Models 101", Raph Koster's Website, no date. Available: <http://www.raphkoster.com/gaming/busmodels.shtml> Last accessed August, 2015.
- Halaburda, Hanna and William Collis, Rob McKeon and Ivan Nausieda. "One Game to Rule Them All: Lord of the Rings Online and the MMO Market." No. 9-712-434. Boston: Harvard Business School, 2012.

**October 15:** 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.

Reading(s):

- Celly, Nikhil. "Tencent: Expanding from China to the World." No. HK1009. The Asia Case Research Centre, The University of Hong Kong.
- NEXON Co., Ltd. May 14, 2015. Investor presentation Q1 2015. Available: [http://ir.nexon.co.jp/en/library/pdf/20150514\\_2.pdf](http://ir.nexon.co.jp/en/library/pdf/20150514_2.pdf) Last accessed August, 2015.

**October 22:** 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.

Reading(s):

- Fields, Tim and Brandon Cotton. "Social Game Design: Monetization Methods and Mechanics." Elsevier: 2011. Chapter 8.
- Schüll, Natasha. "Addiction by Design: Machine Gambling in Vegas." Princeton University Press, 2012. Pages 52 – 76.
- Zynga, Inc. August 7, 2015 Form 10-Q. Filed August 7, 2015. Available: <http://investor.zynga.com/common/download/sec.cfm?companyid=AMDA-KX1KB&fid=1193125-15-281342&cik=1439404> Last accessed August, 2015.
- International Game Technology PLC. 2015 Second Quarter Results. August 11, 2015. Available: <http://merger.igt.com/~media/ef94dfd4ea1649ae9c3ab93aaa744a75.ashx?la=en> Last accessed August, 2015.

**October 29:** No classes. **Mid-term project.**

**November 5:** 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?

Reading(s):

- King Digital Entertainment Plc. August 13, 2015. Q2 2015 Earnings presentation. Available: [http://investor.king.com/files/doc\\_presentations/2015/King-Q2-2015-Earnings-Presentation.pdf](http://investor.king.com/files/doc_presentations/2015/King-Q2-2015-Earnings-Presentation.pdf) Accessed August, 2015.
- Glu Mobile Inc. August 7, 2015. Form 10-Q. Filed August 7, 2015. Available via <http://phx.corporate-ir.net/phoenix.zhtml?c=207033&p=irol-sec> Accessed August, 2015.

**November 12:** 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.

Reading(s):

- Orland, Kyle. "Introducing Steam Gauge: Ars reveals Steam's most popular games." Ars Technica, April 15, 2014, <http://arstechnica.com/gaming/2014/04/introducing-steam-gauge-ars-reveals-steams-most-popular-games/>, accessed August, 2015.

**November 19:** 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.

Reading(s):

- Broekhuijzen, Thijs and Joseph Lampel and Joost Rietveld. "New Horizons or a Strategic Mirage? Artist-led-distribution versus alliance strategy in the video game industry." Research Policy (2013). Elsevier.
- Michael Pachter, "Post Hoc Propter Hoc; Why the Next Generation Will Be as Big as Ever," Wedbush Securities, February 12, 2014, p. 33 – 60.

**November 26:** No classes—Thanksgiving recess

**December 3:** 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 interest and market opportunity for advertisers, and examine the implications of eSports as a mass sports event.

Reading(s):

- SuperData Research, Inc. "eSports Market Brief," May, 2015.
- Thompson, Barney. "Let the egames begin. How computer gaming came out of the bedroom to become a \$100bn industry." August 14, 2015. <http://www.ft.com/cms/s/2/64bfe382-412f-11e5-9abe-5b335da3a90e.html> Accessed August, 2015.

**December 10:** 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.

Reading(s):

- Rietveld, Joost and Joost van Dreunen. "Business Model Innovation in the UK Market for Digital Video Games," August 2014. Not yet published.