



IMGD 1001: The Game Industry

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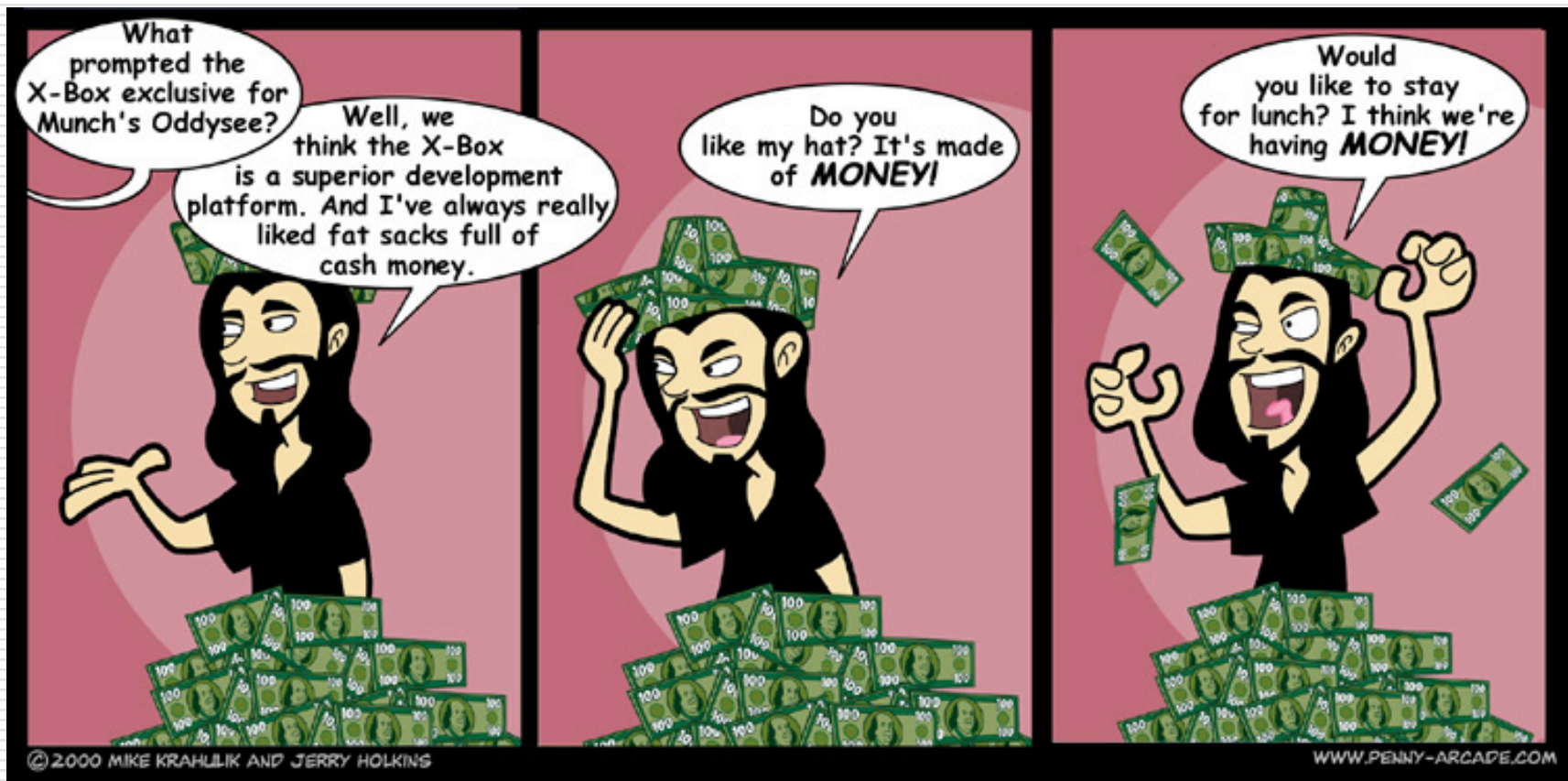
Hit-Driven Entertainment

- ❑ 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, not from marketing

Big Business!

- ❑ Estimated \$50B/year
- ❑ About the same as movie industry
- ❑ Music industry: \$65B (2009)
- ❑ Pet food: \$45B (2009)
- ❑ Estimated \$65B by 2013

How the game industry works:



Roles

- ❑ Developers
- ❑ Publishers
- ❑ Platform Holders
- ❑ Distributors
- ❑ Retailers
- ❑ Middleware/Service Providers
- ❑ Press and Academia

Developers

- The people who actually build games
- Content design, creation, assembly
 - Game design, story, dialog, engineering, music, SFX, docs
- Size varies (one person to hundreds)
- Some are part of a publisher or *platform holder*
- Some are independent
- Examples?

Publishers

- The people who bring games to market
 - Supervise marketing, manufacturing, distribution, public relations (PR), support
 - May also handle project management, quality assurance (QA) and licensing
- Usually assume most of the risk and reap most of the rewards
- Many specialize in particular market segments (sports, MMORPGs, etc)
- Examples?

Publisher Relationship with Developers

- ❑ Star developers can bully publishers, because publishers desperate for good content
- ❑ 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 also have in-house developers

Platform Holders

- ❑ The people who make and sell gaming hardware (Examples?)
- ❑ Most are also publishers, developers and digital distributors
- ❑ Sell platform licenses and replication services to publishers
 - Stringent certification, final approval
- ❑ Sell required hardware, software and support to developers

Distributors

- ❑ The people who move boxes and bits
- ❑ Middlemen between publishers and retailers
- ❑ Compete on price, speed, availability
- ❑ Low margins (around 3%)
- ❑ Digital distribution is changing everything

Retailers

- ❑ The people who sell boxes
- ❑ Also sell shelf space and advertising to publishers
- ❑ Earn 30% margin
- ❑ Mass market: Walmart, Target, Toys-R-Us, Best Buy
- ❑ Specialty stores/chains: GameStop
- ❑ Digital distribution: 30% and growing

Service Providers

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

Middleware Providers

- The people who make and sell development tools
- Game engines, asset creation, source control, project management
- Difficult business
 - Few customers, large upfront cost
- Profitable if you can break in

Service Providers

- ❑ The people who help publishers and developers
- ❑ Art: Concept, 2D/3D assets, packaging
- ❑ Audio: Sound FX, music, dialog
- ❑ QA: Playtesting, platform certification
- ❑ Public relations, advertising, career placement, vocational training
- ❑ Conference/award organizers, professional societies (IGDA)

Press and Academia

- The people who talk about games
- Paper/electronic magazines and books for players, industry
- Web sites (Gamasutra), blogs
- Colleges, universities, institutes
 - Theory, research, career development
 - Academic journals and conferences

What does it cost to make a game?

- ❑ \$50-100K: Budget phone/casual
- ❑ \$100-500K: Indy, nice phone/casual, budget DS, ultra-budget Wii, many PC games
- ❑ \$500K-1M: Budget console, better DS/PC
- ❑ \$1-5M: A titles (Titan Quest)
- ❑ \$5-100M: AAA titles
- ❑ \$100M+: Out-of-control AAA
 - Star Wars: The Old Republic = \$300M+

World of Warcraft

- ❑ \$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)

Development Models: Developer Driven

- ❑ Developer creates concept, builds demo
- ❑ Developer pitches concept/demo to publisher
- ❑ Publisher agrees to fund it
- ❑ Developer gets advance \$\$\$ against royalties based on net receipts
- ❑ Developer uses advance to build game
- ❑ Publisher boxes, ships, markets, collects \$\$\$
- ❑ Developer MIGHT get more \$\$\$ if advance is earned out

Gross and Net Receipts

- Gross receipts
 - The amount of money a publisher is paid from the sale of a game

- Net receipts
 - The amount of money a publisher actually earns from the sale of a game after deducting various expenses

- Developer royalties are based on net

- But what is the net? Better find out!

Development Models: Publisher Driven

- ❑ Publisher originates concept (usually a license)
- ❑ Selects and hires developer(s)
- ❑ Developer earns milestone-based fixed fee and/or advance against royalties (based on “net receipts,” of course!)
- ❑ Developer builds game
- ❑ Publisher boxes, ships, markets, collects \$\$\$
- ❑ Developer might get more \$\$\$ if royalties are part of deal and advance is earned out

Development Models: Independent

- ❑ Developer originates concept
- ❑ Builds game with self-funding, somehow
- ❑ Developer persuades Web-based publisher (s) to carry the game
- ❑ Publisher operates Web store
- ❑ Developer gets 30-40% of each sale
- ❑ Popular games may get picked up by a retail publisher and sold in boxes
- ❑ Some developers self-publish, keep 100%

Games are a Tough Business

- ❑ Less than 10% of published titles break even
- ❑ Development and marketing costs are rising
- ❑ Licenses and sequels lower risk
- ❑ Self-publishing is very risky
- ❑ You pay a “fun tax” to work in games

Exercise: Getting to Market

- ❑ 2 minutes to write a one-sentence game description of a game you want to make
- ❑ Form up into pairs or teams
- ❑ 2 minutes to decide on ONE of your ideas

Exercise: Allocate Points

- You have **14** points
- Allocate 0-6 points for each of the following facets:
 - P: Prototype/Pitch
 - How much effort you place on developing a solid prototype to pitch to publishers
 - D: Development
 - How much effort you place on development
 - M: Marketing/Sales
 - How much effort you place on marketing your project
 - F: Fun
 - 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
 - D: Development
 - M: Marketing/Sales
 - F: Fun

Exercise: How Many are Left?

- Yes, luck is a factor
- You can control it some with **skill** and **money**
- But there's never enough of either to make it a sure thing