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
- 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