Updating Business Models: Innovation through Online Games

Prepared by Giuditta de Prato
for the Innovation & Regulation in Digital Services Chair/ IPTS workshop
Paris September 13, 2011

Based on the teamwork “ASSESSING THE COMPETITIVENESS OF THE EU VIDEOGAMES SOFTWARE” by Giuditta de Prato, Claudio Feijoo, Daniel Nepelski, Marc Bogdanowicz, Jean Paul Simon.

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Institute for Prospective Technological Studies

Mission:

- to provide customer-driven support to the EU policy-making process

- by developing science–based responses to policy challenges

- having both socio-economic and scientific /technological dimension
1. A disruptive segment in a dynamic industry
2. The online game ecosystem
3. Value chain and business models evolution
4. e-lab for future e-services
5. Conclusions: e-lab for future e-services
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Online games: global view

Revenues generated by/on the Internet (private cons.), 2008

Source: A.T. Kearney analysis, 2010
Online games: global view

Growth perspectives by/on the Internet - Forecast 2008-2013

Source: A.T. Kearney analysis, 2010
1. A disruptive segment in a dynamic industry

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### Online games

**“Browser-based games“**
- no installation required
- easy to play
- easy plot / content
  - small efforts / teams
  - short projects
  - smaller investment

**“Client-based games“**
- client activity still relevant
- sw engine to be installed
- persistent virtual worlds
- complex content / plot
  - big teams
  - long projects / persistent
  - big investments funded by publishers

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single user / stand alone games → multiplayer games → MMOGs
Table 11: Traffic Rank of Online game web sites: top 10

<table>
<thead>
<tr>
<th>Rank</th>
<th>Online game web site name</th>
<th>Alexa Traffic Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Play-Free-Online-Games.com</td>
<td>47,358</td>
</tr>
<tr>
<td>2</td>
<td>Apex Web Gaming</td>
<td>55,574</td>
</tr>
<tr>
<td>3</td>
<td>Multiplayer Online Games Directory</td>
<td>86,907</td>
</tr>
<tr>
<td>4</td>
<td>Omerta</td>
<td>107,869</td>
</tr>
<tr>
<td>5</td>
<td>Internet Gaming</td>
<td>69,006</td>
</tr>
<tr>
<td>6</td>
<td>Myth-Weavers</td>
<td>149,234</td>
</tr>
<tr>
<td>7</td>
<td>GamesByEmail.com</td>
<td>176,567</td>
</tr>
<tr>
<td>8</td>
<td>RolePlay onLine!</td>
<td>179,1149</td>
</tr>
<tr>
<td>9</td>
<td>Top Mud Sites</td>
<td>217,784</td>
</tr>
<tr>
<td>10</td>
<td>Just Riddles and More</td>
<td>152,369</td>
</tr>
</tbody>
</table>

Source: Author's elaboration on data from Alexa.com, last accessed on 28 July 2010.
<table>
<thead>
<tr>
<th>Rang</th>
<th>Nom du site</th>
<th>Classement Alexa par trafic (Alexa Global Traffic Rank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Play-Free-Online-Games.com</td>
<td>76,919</td>
</tr>
<tr>
<td>2</td>
<td>Apex Web Gaming</td>
<td>78,224</td>
</tr>
<tr>
<td>3</td>
<td>Mizahar.com</td>
<td>105,643</td>
</tr>
<tr>
<td>4</td>
<td>Multiplayer Online Games Directory</td>
<td>102,973</td>
</tr>
<tr>
<td>5</td>
<td>Internet Gaming</td>
<td>68,00</td>
</tr>
<tr>
<td>6</td>
<td>Mafia Scum</td>
<td>133,484</td>
</tr>
<tr>
<td>7</td>
<td>Imythess</td>
<td>197,970</td>
</tr>
<tr>
<td>8</td>
<td>Iron Realms</td>
<td>316,522</td>
</tr>
<tr>
<td>9</td>
<td>Role Play Gateway</td>
<td>218,369</td>
</tr>
<tr>
<td>10</td>
<td>Hogwarts Extreme</td>
<td>585,028</td>
</tr>
</tbody>
</table>
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Value chains in (re)construction…

**Browser-Based VideoGames**

- Middleware
- ISPs & portals / game sites
- HW Manufacturer
- Developers & Devel.s/Publishers
- Publisher
- Customers / Users

**Client-Based VideoGames**

- Middleware
- HW Manufacturer
- ISP & portals / game sites
- Developer
- Publisher
- Customers / Users
- Distributor
- Retailer
...and new actors in the value chain

Game portals gain relevance..

<table>
<thead>
<tr>
<th>Online game site (sample on top 25, US)</th>
<th>Estimated number of users</th>
</tr>
</thead>
<tbody>
<tr>
<td>comcast.net</td>
<td>12M</td>
</tr>
<tr>
<td>verizon.net</td>
<td>6M</td>
</tr>
<tr>
<td>pogo.com</td>
<td>5.6M</td>
</tr>
<tr>
<td>zynga.com</td>
<td>5.5M</td>
</tr>
<tr>
<td>gamevance.com</td>
<td>5.1M</td>
</tr>
<tr>
<td>addictinggames.com</td>
<td>4.2M</td>
</tr>
<tr>
<td>playsushi.com</td>
<td>3.8M</td>
</tr>
<tr>
<td>miniclip.com</td>
<td>3.1M</td>
</tr>
<tr>
<td>iwon.com</td>
<td>2.4M</td>
</tr>
<tr>
<td>armorgames.com</td>
<td>1.6M</td>
</tr>
<tr>
<td>ea.com</td>
<td>1.5M</td>
</tr>
<tr>
<td>gamehouse.com</td>
<td>1.5M</td>
</tr>
<tr>
<td>y8.com</td>
<td>1.2M</td>
</tr>
<tr>
<td>worldofwarcraft.com</td>
<td>1.1M</td>
</tr>
<tr>
<td>runescape.com</td>
<td>1.1M</td>
</tr>
<tr>
<td>freeonlinegames.com</td>
<td>1000K</td>
</tr>
<tr>
<td>battle.net</td>
<td>1000K</td>
</tr>
<tr>
<td>wonderhowto.com</td>
<td>920K</td>
</tr>
</tbody>
</table>

Source: doubleclick ad planner by google, March, 2010
Online games: Bus.models in(re)construction

Main revenues models: retailing
Secondary revenue options: advertising
Additional revenue options: value added apps

- In-game advertising
- Virtual items
- Micro transactions
- Game extensions
- ….
## Online games: trends

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actors:</strong></td>
<td>new role of portals/aggregators new opportunities for studios</td>
</tr>
<tr>
<td><strong>Value chain:</strong></td>
<td>re-organisation: disintermediation re-intermediation</td>
</tr>
<tr>
<td><strong>Business models:</strong></td>
<td>different distribution of revenues new streams of revenues (virtual items, micro transactions…)</td>
</tr>
<tr>
<td><strong>Demand:</strong></td>
<td>wider age range, higher nr of users, social networks, communities..</td>
</tr>
<tr>
<td><strong>Technologies:</strong></td>
<td>not technology driven, but technology enabled..</td>
</tr>
</tbody>
</table>
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very advanced tech
- motion recognition, engines, virtualisation..
.. and much more

It may change rapidly: WILDCARD

Affecting business and market
- Spillovers in services!
  - eHealth
  - edutainment
  - e-gov services
  - “applied games”

- Convergence is happening..
  - Sony PlayStation 3 can use DVD or Blu-ray
  - Havok engine was used for the Matrix trilogy
  - Singer Lady Gaga and Zynga created Gagaville
  - Gaming on connected TV

• THE functioning interactive content in a 3D internet world..
  - 3D technology finding its way in mobile devices and handheld consoles: 11 million units forecasted in 2014
Online Video Games Segment

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5. Conclusions
Growing market, in value but also in audience
Changing demand under pressure from a variety of factors such as:
- Technological ease
- The emergence of social computing and communities
- The wider offer (supply of simple and short games)
Capturing an until-now unsatisfied demand across age categories, socio-economic classes, or gender.
Improving the games characteristics, adding a number of new functionalities,
and even opening new sub-segments
  - once it became possible to allow to millions of players to interact simultaneously.
The emergence of on-line video-games and of mobile gaming is likely to shift the whole video game market structure

- Bringing innovative business models allowing novel ways to monetize the service

- Paving the way toward e-services
Games should be free. Free games are more social because they’re more accessible to everyone. We’ve also found them to be more profitable. We have created a new kind of customer relationship with new economics—free first, high satisfaction, pay optional”

Source: form for the SEC
http://sec.gov/Archives/edgar/data/1439404/000119312511180285/ds1.htm
Full report available at:
http://is.jrc.ec.europa.eu/pages/ISG/COMPLETE.html

Thanks

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Source: Karl M. Kapp