Luke Dougherty

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Dr. Kline

E-Commerce in the Video Game Industry

Video games are a relatively new industry, having only reached major mainstream appeal

within the last decade. As the medium has evolved, it has had to adapt to the changing world of

technology, the Internet, and e-commerce. It is vital to analyze the recent emergence of e-

commerce in the video game industry so that companies may effectively utilize it and not

alienate users.

Microtransactions are by far the most popular use of e-commerce in the game industry

because of their prevalence on mobile devices in apps. These are (usually) around one dollar

purchases made to temporarily enhance the user's experience slightly within the app. An

example of this would be receiving another chance at a puzzle in Candy Crush or upgrading

equipment in a strategy game. Most downloadable games available for a phone's respective app

marketplace feature some type of microtransaction – whether the app was originally free or not.

Sometimes they will be a one-time payment to remove ads from the app, essentially upgrading

from a free to a premium version.

Many times, microtransactions upset players because they impede the user from having

fun without paying, as opposed to allowing more fun to be had when paying. Usually this occurs

because of an energy system, which *FarmVille* popularized in 2009. In *FarmVille*, the player can

only do a set number of actions before running out of energy. To replenish energy, the player

must either wait for it to recharge over the course of the day, invite new friends to play via a

referral system, or pay a fee to instantly replenish the energy meter. This incredibly popular gameplay system requires players to consistently revisit the game every day, bring in new players, and make money off those who are impatient. However, many users disdain the addition of such features because of their seemingly insidious nature.

Microtransactions are taken to the extreme with clicker games, also called incremental or idle games. The first clicker game, *Cow Clicker*, launched on Facebook in July 2010. It was intended as a satire of social games, with essentially the only action being clicking on a picture of a cow every few hours to increase the "Cow Clicks" counter. Like other social games, it still featured an option to refer other users to obtain bonuses as well as the choices to buy premium items and more clicks. The game peaked at 56,000 users in October 2010 (Tanz, 2011). Ironically, the game was a monumental success and spawned the new clicker genre of games. They all feature the same core gameplay loop as *Cow Clicker*, except with different themes and slightly varied game mechanics (like saving up clicks to buy an upgrade to get more automated clicks per second). The success of *Cow Clicker* and other clicker games highlights the surprising amount of revenue that can be obtained without a huge amount of effort. It is a dangerous slope to tread, but most clicker games are viewed innocuously by consumers compared to the energy systems of a *FarmVille*.

There are many large companies within the mobile / social game industry, but the three most popular ones within America are Zynga, Supercell, and recently Nintendo. Zynga (formed in July 2007 in America) was the earliest of the three to jump in and make large returns in the market, launching *FarmVille* on Facebook in June of 2009. Within six weeks, the game reached over ten million daily users, with a peak of 32 million daily players (Lien, 2012). Supercell (founded in June 2010 in Finland) followed soon after with their biggest hit, *Clash of Clans*,

arriving in the summer of 2012. Nintendo (founded in September 1889 in Japan) began a five-game partnership with DeNA, a Japanese e-commerce company focused on mobile portals, internet advertising, and mobile gaming platforms. 10% of DeNA was acquired by Nintendo in the deal, whereas DeNA only obtained 1.24% of Nintendo (Martin, 2015). This alliance was necessary for Nintendo because of their lack of knowledge in the mobile market – they had only experience with dedicated gaming handheld devices such as the Nintendo DS and Game Boy product lines. They released *Miitomo* and *Pokemon GO* in March and July 2016, respectively, and have announced an exclusive Mario game for Apple's App Store.

Most consumers do not actually pay for microtransactions (let alone buy an app): "just one-third of smartphone or tablet users in the U.S. will buy an app of any kind this year, and growth is slowing" (Needleman, 2015). Now, almost every company's main goal when creating a microtransaction-focused game is to aim for "whales". This is a term used to refer to the big spenders of microtransactions: most people either never or very occasionally spend a dollar or two, which pales in comparison to the hundreds of dollars or more used up by an extremely small percentage of players. As more companies try to aim for whales, consumers become more aware of their strategies and lose interest: in turn, companies change their focus to be fun first, then focus on microtransactions.

With the advent of Internet being more common-place, the seventh generation of video game consoles (Nintendo's Wii, Sony's Playstation 3, and Microsoft's Xbox 360) focused heavily on implementing the Internet. Each console had an online marketplace where full games could be bought and downloaded over the Internet, as well as many smaller digital exclusive games. Shortly after these marketplaces were initiated, a new concept called "Downloadable

Content" or "DLC" was created. These are digital transactions usually ranging from five to twenty dollars that offer additional levels, equipment, playable characters, and more.

After DLC had become widespread and accepted as normal for most large games, "Season Passes" were created (first introduced by *Rockstar Studios* when releasing *L.A. Noire*). A season pass is a one-time purchase that guarantees all future DLC released for a game for free, allowing the user to save money. Not all studios will announce exactly what the season pass will get the user ahead of time (because the DLC may still be in development), resulting in some blind purchases by consumers. Occasionally publishers will also go back on their word and end up releasing some DLC that is not included with the season pass, requiring a separate purchase. Over the years, however, DLC has begun to change from a way to support a product after its initial release into an excuse to release games devoid of features and sell them at a premium. *Star Wars Battlefront*, released in November of 2015, was released from the large publisher Electronic Arts that was criticized for its minimal amount of content. A season pass was offered, but at a steep price of fifty dollars, when most other season passes costed twenty. The game did sell fourteen million copies, but because of the expensive season pass and minimal content the player base quickly died off, decreasing the future player base for a follow-up title (Macy, 2016).

Game consoles' online marketplaces have had the ability to sell full games via a download since early in the seventh console generation, but it has become much more standard for every game to be available both physically and digitally as time goes on. At first, games would only be available on the marketplace months or years after the initial retail release. Now, digital purchases are becoming a popular enough choice for consumers that many software is coined as "Day 1 Digital".

Digital game marketplaces are not exclusive to consoles: they are much more popular on the PC, because almost no PC game receives a physical release (with even less retailers offering to stock them). Valve's Steam (launched in September 2003) is the most popular marketplace because of its extremely discounted sales and integration as a fully featured gaming client. Other game publishers have recently formed their own clients and marketplaces as well to combat Steam and gain more revenue: Ubisoft's Uplay, EA's Origin, and Blizzard's Battle.net are the three of the most popular publisher-owned clients. The biggest downside to most of these marketplaces is that software is frequently locked under DRM (Digital Rights Management). DRM requires games to be connected to the Internet for them to launch – an effort to combat piracy. The only large DRM-free marketplace is GOG, which gives it a significant enough competitive advantage to occasionally combat Steam's sales numbers (Newhouse, 2015).

Digital purchases set retail stores at a significant disadvantage: it is one of the main reasons for Gamestop's struggles over recent years. To combat this, Gamestop has straddled into games publishing, creating GameTrust Games. However, Gamestop is not the only one: Amazon has also started to publish games after acquiring the developer Double Helix in February 2014.

Although digital purchases are becoming increasingly popular (especially on PC), the world is not quite ready for a major entirely digital console. This has been attempted by two major companies in the past: Sony's PSPgo and the initial plan for Microsoft's Xbox One were both met with severe backlash. The PSPgo was initially released in October 2009 as part of the Playstation Portable line of handheld consoles. The hardware did not feature a means to play any physical media previously released for the console line, and tried to push the system's digital marketplace (even though not all physical games were available digitally). The system resulted in having very little consumer interest and low sales numbers. Similarly, upon announcement the

Xbox One was planned to have consistent DRM. This would mean that to play any game, the console must have the disc in the console and be connected to the Internet at the same time. The backlash to the vision for the Xbox One was so severe that Microsoft changed their entire DRM policy before release.

E-commerce is shaping the video game industry through microtransactions, downloadable content, and the selling of digital games. Microtransactions in free games enable more consumers to test the waters. DLC offers developers a way to keep a retail game alive long after its release. Digital game downloads allow developers to sell (almost) straight to the consumer, as well as offer the convenience of an immediate purchase. Throughout these changes, some companies struggle to find the line between maximizing profit and retaining consumer loyalty. By taking a close look at how consumers are affected by e-commerce in the industry, a balance can be found.

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