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| **The Effects of Microtransactions on the Video Game Industry**  **Luke Burgess – 1703091@abertay.ac.uk**  Study of Games and Cultures of Play – ELE014  BSc Ethical Hacking Year 1  2017/18 |

*Note that Information contained in this document is for educational purposes.*

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## Aim

The aim of this report is to look at the modern trend in video game development to include microtransactions within the game to encourage players to purchase additional downloadable content with real currency.

This report will explore the different ways in which microtransactions are implemented and while citing references, will consider whether these changes to the video game industry are harmful or not.

## What are Microtransactions

Microtransactions (sometimes abbreviated to MTX) are virtual goods within a video game which can be purchased by the player or owner of a game with real currency. This is a business model which deviates from the original idea where you would purchase a game at full price and then all current and future content is included in the original cost. Microtransactions are typically seen on pc, console and mobile games and are usually sold to the player through an in-game shop interface where different items or currencies may be purchased.

There are three main ways in which games are sold to the player and this tends to change the way microtransactions are applied within the game. The first is the traditional model where the player pays an upfront cost for the game. An example of this would be Star Wars Battlefront 2 (2017). The second is freemium which is a model where the game is free to play however microtransactions may play a big part in the game and your success playing it. This is often labeled “pay to win” which suggests you must pay for microtransactions to do well at the game. An example of this is League of Legends. The third model is a subscription-based model such as World of Warcraft where you pay a set fee for the game each month. The typical reason this model is used is due to the constant work developers put into adding new content to this game in all aspects including new storylines and quests, new classes and races, balancing between these classes, bug fixing and upgrading the performance and graphics of the game.

## What are loot boxes

Loot boxes are a type of microtransaction and are also commonly known as loot crates or prize crates. These are virtual containers that contain in-game rewards such as skins, voice lines etc. that you can buy with real currency or in-game currency bought with real currency.

There is great controversy around loot boxes as a type of microtransaction as the random style it gives rewards to the player is often compared to gambling. A major news website, The Guardian, (https://www.theguardian.com/games/2018/apr/26/belgium-is-right-to-legislate-against-video-game-loot-boxes, 2018) stated: “[Games](https://www.theguardian.com/games) are getting more and more expensive to make, but the video games industry should not need to employ the tricks of the gambling industry to plug the gap.”.

## Gambling regulations

Loot boxes have sparked a lot of negativity regarding their likeness to gambling. Many people and organisations have called for loot boxes to be governed by gambling regulations to prevent video games from promoting gambling to children as this may result in gambling addictions later in life.

On the 25th April 2018, the Belgian Gaming Commission has concluded that loot boxes are a form of gambling and therefore cannot be included in games in their country or the games developers may face jail time and large fines. This is a very big decision as many other European countries may decide to take a similar approach following this. Even in the United Kingdom, petitions such as the parliament.uk (https://petition.parliament.uk/petitions/201300, 2018) petition has grown in popularity, with this one having reached close to 20,000 signatures have emerged asking the government to follow suit. China, Japan, Australia, The Netherlands and the Isle of Man have also decided to regulate loot boxes under gambling law.

## Freemium games

‘Freemium’ games are games including League of Legends and DOTA 2. The freemium model is a different payment model from the traditional payment model where players pay an upfront cost for the game at a brick and mortar store for example Game. Or a digital distributor such as Steam, Uplay or EA Origin. This style of payment model is where players get the base game for free, but the player must pay for more features down the line. Such as ‘skins’ or in terms of League of Legends which is a Mobile Online Battle Arena(MOBA) game where 5 players work together to destroy another 5 players base. This is an example of a ‘Freemium’ game because League of Legends is free to download but the player can spend ‘Riot Points’ which is a fictional currency in the game that players can purchase for real money and then they buy Heroes and Skins with the ‘Riot Points’. Once the Heroes have been unlocked the player can then play these Heroes in the game.

The freemium game allows developers such as Riot the creators of League Of Legends to ship their game for free. This allows new players of the game to play the game without cost initially so that they can decide if they enjoy it before investing money. If they do enjoy the game, they can then purchase new items for their heroes to support the developers. The income that is generated by the player base who are buying items from the in-game shop can then be used to develop new Heroes or ‘skins'. When League of Legends was released there were 40 heroes available to players. According to (http://leagueoflegends.wikia.com/wiki/List\_of\_champions, 2018) “As of 7 March 2018 there are currently 140 released champions”. This is a clear example of how freemium games allow the developers to create new features and ways to play the game.

The disadvantages of freemium games are that the players can potentially spend more money for the game than if the player were to just buy the game up front. League of Legends is a great example of this. In League of Legends, the player can buy a champions bundle which unlocks 20 heroes that the player can use. This bundle costs around £20 and after the player has purchased this bundle they still have over 100 other characters to purchase or unlock and many skins for each character still available for purchase. Many players have reported spending in the thousands of pounds for just League of Legends alone which if retailed using the traditional method may have only cost these players forty pounds.

Games such as Star Wars Battlefront 2 (2017) have been criticised by politicians including Hawaiian state representative Chris Lee for their use of loot boxes as reported by the BBC (http://www.bbc.co.uk/news/technology-42110066, 2018): “In a statement [posted to YouTube, Mr Lee singled](https://www.youtube.com/watch?v=_akwfRuL4os) out the use of loot boxes in Electronic Arts' Star Wars Battlefront II game. He called the game a "Star Wars-themed online casino designed to lure kids into spending money".”.

## Traditional games

The traditional method of selling games includes titles such as Overwatch or Counter Strike: Global Offensive. These are titles where the player can purchase the game at full price. More recently with these games, the player can also pay for virtual goods such as loot boxes for skins and other cosmetic items. Counter Strike is an example of this because the player can get loot boxes from playing the game however they must then purchase keys from the steam marketplace to open them. When the player buys a key and opens the loot boxes they have a chance to get a rare skin for a knife or a gun.

A benefit of this model is that players do not need to pay for more content to get the full experience of the game, for example, Overwatch has released new maps, heroes and game modes free of charge. Players are given the option to purchase skins for seasonal events such as Christmas, Summer and Halloween events to customise characters that they play in the game, however, this will not give them a practical advantage over other players that have not bought these skins.

Counter Strike: Global Offensive is unique that when the player receives an item for a loot box that is rare the player can choose to sell the item on the steam marketplace for virtual currency. This can, in turn, be used to purchase other game titles from the steam store. The money generated from this sale cannot be taken out of the steam marketplace this is to prevent players from taking the money out of the steam marketplace. There have been other methods that players have found to circumvent this by buying keys for games. These keys can be sold on 3rd party game selling websites such as g2a.com and kinguin.com.

Another way that players can choose to make use out of Counter Strike: Global Offensive loot box system is through 3rd party trading websites. These are websites were players upload the items that they received in loot boxes to a trading bot and then they can gamble these items for other rare items that other players have uploaded. An example of this was CSGOLotto.com this was a betting website that was owned by two YouTube personalities called Tever “TmarTn” Martin and Thomas “Syndicate” Cassell which according to (https://www.eurogamer.net/articles/2017-09-08-youtubers-escape-fine-for-promoting-csgo-lotto-site-they-secretly-owned, 2018): “TmarTn and Syndicate both encouraged their audience to plough money into gambling website CSGOLoto.com, while failing to disclose they were, in fact, the site's owners." In America, the Federal Trade Commission will require internet personalities to give the proper disclosure or they could face harsh fines.

This model can also lead to what is considered many are unethical practices such as ‘pay-2-win’ this is a term given to games that don’t allow the player to progress in the game unless they purchase items in the game that will help the player progress. This includes tactics like having the player wait an unreasonable amount of time to complete an action or having the player only able to complete no more than a few actions every hour or so. A popular example of this is a game called Clash Of Clans. This is a mobile game where the player controls a base. The player adds new items to their base and upgrades their base. Units and buildings take time to upgrade but a player can spend gems to speed this process up. Gems are the premium currency that can be bought with real currency. Every time that an item is built it takes exponentially longer to build the next tier of the item.

## Subscription-based games

Subscription-based games are a model in which the player typically pays a monthly membership fee to be part of the game. The biggest example of this is World of Warcraft. In this game, players will pay a flat fee for the expansions in which huge amounts of content are added every second year. Players pay a subscription via either credit/debit card or by buying game time cards in a game store. This allows the game developers to develop a game indefinitely adding new content, fixing bugs and balancing issues and improving the quality of the game. Due to this, World of Warcraft has been successfully running and improving since it’s release 14 years ago. World of Warcraft among many other subscription-based games implements micro transactions mostly for aesthetic items such as skins, pets, and rideable in-game mounts. They have also implemented the option to buy in-game gold which gives a noticeable advantage in the game over those that have not purchased it. While it does not spoil many areas of the game as many items are not purchasable with gold, the result of this is that the number of gold players owned became inflated and the value of gold was drastically reduced. The positive of this, however, is that it rendered gold farming and selling, a massive issue within World of Warcraft, unfeasible and stopped illegitimate businesses profiting from unethical practices such as botting and hacking accounts to make real money.

## The result

So what does this all mean? Since microtransactions and paid for downloadable content have become popular within the industry, almost all new game releases have followed suit. Because of this, many gamers have been left to feel like newly developed games are missing critical content or features that in days gone by would have been released for no extra cost as part of the main game. The resounding feeling that games withhold content to sell to the players later has been very clear, especially when discussing games such as Destiny, Destiny 2, the Call of Duty Franchise among many others. Another result is that many games will let customers buy them at full price and even play them while still being in development stages. The result of this is that customers buy incomplete games which remain in development for long periods of time such as Player Unknown Battlegrounds or that players buy a game at full price based on promises and expectations set early on which the games company are unable to deliver as planned. The biggest example of this would be No Mans Sky.

## Conclusion

In conclusion, the inclusion of microtransactions in the video game industry has had both very positive and negative effects. In many cases, the extra money that customers have spent on products has allowed developers to spend more money in developing games at a higher cost and hopefully higher quality. On the other hand, many games are now being released before completion with teething issues, or lack of content or even worse, failing to deliver on promises made to customers at a much later date.

Many countries have decided loot boxes will fall under gambling regulations which is an important step to protecting young people from normalising gambling behavior and addictions before they have fully matured to the point of identifying the risk of gambling as an adult.

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