

Computer Game Marketing

CIS 487/587

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Adapted from John Laird's
EECS 494 notes
and the Steve Rabin text

Sales Statistics

- 60% of Americans play video games
- 70M+ Playstations worldwide
- 4M Xbox
- 4M GameCubes
- Everquest 400K monthly subscribers

Industry

- Average game costs \$3-10M to develop and requires 12-24 months to complete
- About 1 in 10 games breaks even or makes money
- Sequels and franchises are popular
- Very few self-published titles
- Number of small developers is shrinking

Hit Driven Business

- The focus is on entertainment not utility
- Games generate emotional responses, stimulate the senses, and provide escape from reality
- Quality is king
- Hits are made by creative people who know games, not by marketing execs

Changing Markets

- Platforms shifts change balance of power among developers and publishers
- Conflicts between hardcore gamers and mass market continue to increase
- Cost of projects makes it hard for small developers to survive
- Publisher consolidation will changes types of games produced
- Globalization affects products as well

Business Models

- Software developers and publishers depend on dollars from game sales
- Console developers lose money on consoles and make money from proprietary media and games sold
- Internet games usually have an initial cost plus a monthly fee

Revenue from \$50 Console Game

Amount	Purpose	Paid By	Paid To
\$3	Cost of goods	Publisher	Media manufacturer
\$7	Publishing license royalty	Publisher	Platform holder
\$13	Retailer profit	Consumer	Retailer
\$3	Markdown reserve	Publisher	Retailer
\$8	Development cost	Publisher	Developer
\$10	Operating cost	Publisher	Internal (overhead, freight, co-op, bad debt)
\$6	Marketing	Publisher	Ad agencies and media
Items in bold can be converted to profit through careful publisher cost management.			

Platform Holders

Revenue comes from:

- Hardware sales
- Licensing fees from compatible peripherals
- First-party games
- Licensing fees from third-party games
- Licensing fees from development tools
- Revenues from sales of proprietary delivery media

Consoles

Closed Platform

- Console companies (Nintendo, Sony, Microsoft) control nearly every aspect of games on their platforms
 - Proprietary development hardware and software
 - Permission to become a licensed publisher
 - License to use console company trademarks in marketing materials
 - May require permission to start a game
 - Certification of a finished game
- Investment in hardware must be offset by revenue from software (around \$7/unit for third-party games)

PCs

Open Platform

- CPU (Intel, AMD) and graphics chip (NVIDIA, ATI) manufacturers provide developer support and market their technology benefits directly to consumers
- Application software providers give developers free tools to ensure compatibility
- Box manufacturers (Dell, HP) may bundle hot software titles to add value to their sale
- Low barrier to entry for developers, but high competition for shelf space

Outsourcing

- Tool developers create engines and middleware to sell to game developers
- Contract services
 - Motion capture
 - Art
 - Cut-scenes
 - Audio
 - Software Quality Assurance

Motion Capture

- Used to automate animation process for more realism in human characters
- Magnetic or optical systems
- Internal motion capture studio at publisher or external service provider
- Services include accompanying software and technicians, and post-capture data processing and tuning

Art and Animation Service Providers

- Developers can outsource art and animation assets to external companies
- Specified at contract and included in development budget
- Art houses can become full-service developers with judicious addition of programming talent
- Cost is a function of quality, team location, and volume of assets

Quality Assurance Service Providers

- Alternative to maintaining team of full-time salaried testers
- Established in PC publishing, due to amortization of multiple hardware configurations over multiple projects
- Gaining ground in console publishing; security of sharing proprietary console equipment is a perceived concern

Business Model Elements - 1

- Unit sales
(predicted vs actual sales with returns)
- Advances and royalties
 - First party manufacturers get about \$7/unit
 - Developers get 10-40% based on past performance
 - Licensors get 5–15%

Business Model Elements - 2

- Product development (\$2-10M)
- Marketing
 - Typical budget \$1-3M
 - TV ads cost an additional \$1-2M
- General administrative costs
 - Management, legal, HR, finance, etc.

Studio System

- Developers paid for delivered milestones out of “royalty advances”
- Studio assigns management to an executive producer and staff
- Producers encourage developers to complete milestones and provide creative input, as well as management





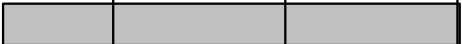


Development Milestones: Development Timeline

Here are some example development periods for different platforms:

- 4-6 months for a high-end mobile game
- 18-24 months for an original console game
- 10-14 months for a license / port
- 16-36 months for an original PC Game

Development Milestones: Milestone Definitions

- An example milestone schedule for a 20-month development cycle:

Milestone Phase	Month 1-3	Month 4-6	Month 7-9	Month 10-12	Month 13-15	Month 16-18	Month 19-21
Pre-Production - Core Concept Doc Full Concept Proposal Project Scheduling and Cost							
Proof of Concept							
Alpha Stage							
Beta Stage							
QA Testing							
Gold Master							
Production and Duplication Platform Specific Testing							

Ship Date

Vertical Structure

- Developers
- Publishers
- Distributors
- Retailers

Developers

- Design and implement game including all multimedia elements
- Groups usually pretty small
- Similar to textbook authors
- Work for royalties and funded by advances
- No capital, distribution channels, or marketing resources

Game Developers: Full-Service

- Cover all disciplines: art, animation, programming, asset management, production
- Idea for the game (“intellectual property”) can come from developer or publisher
- Work for publisher on contract basis
- Paid set amounts per milestone completed
 - Payments are advances against future royalty payments
 - Royalties are calculated as percentage of publisher’s “net receipts”
 - Definition of net receipts is frequently obscure

Publishers

- Funding and development
- Manufacturing
- Marketing and public relations
- Distribution
- Customer support
- Assume all the risks and take most of the profits

Greenlighting

- Used by publishers to determine which projects move forward (go/no go based on progress and risk assessment)
- Typically done 5 times over 18-36 months
 - Concept
 - Assessment
 - Prototype
 - First playable game
 - Alpha release

Public Relations Firms, Advertising Agencies, and Merchandising Teams

- PR firms communicate with
 - “consumer” media (ie mass-market general media)
 - “specialist” video game publications
- Ad agency prepares creative for marketing campaign
 - good communication ensures alignment of vision with publisher
- Merchandising teams ensure all is in order at store level

Delivery Media Manufacturers

- Delivery media for closed platforms include anti-piracy technology
 - Engineered by platform holder
- Console companies historically manufacture finished goods for publisher
 - Nintendo and Sony continue to do so
- Sega pioneered direct relationships under license between DVD manufacturers and publishers
 - Microsoft follows this model with Xbox
- Some publishers only manufacture disks, then complete assembly at contracted packaging companies

Sales Channel: Distributors

- Purchase games from publishers, and resell to smaller independent stores and chains
- Compete on price, speed and availability
- Earn profit margin of around 3%

Distributors

- Game distribution was initially modeled after book distribution
- Becoming less important and as retail sales are shifting (manufacturers of all goods work directly with retailers)

Retail

- Brick-and mortar retailers generally earn 30% margin on a \$50 game
- Sales of packaged goods by internet retailers follow the brick-and-mortar model
- Electronic download of games via internet still in infancy

Retailers

- Initially mail-order and computer stores
- Shift in 1980's to specialty chain stores (25%)
- Shift in 1990's to mass market retailers (70%)
- Internet sales growing but not dominant yet (5%)

The Pitching Process: Prototype

Key game prototype features:

- Core gameplay mechanic
- Key USP's / points of difference
- Game engine / technological proficiency
- Artistic / styling guide
- Demonstration of control / camera system
- Example gameplay goals

The Pitching Process: Pitch Presentation

Key pitch presentation content:

- Concept overview & genre profile
- Unique selling points
- Proposed technology & target platform/s
- Team biographies & heritage
- Outline marketing information, including potential licensing opportunities

The Pitching Process: Game Design

Focuses on intimate detail such as:

- Storyline
- Control dynamics
- Camera system
- Level progression
- Game features and functionality
- Score systems etc.

The Pitching Process: Technical Design

Covers technical topics including:

- Graphics engine
- AI routines
- Audio system
- Online capability and requirements
- Peripherals/controllers
- Development asset management/backup

The Pitching Process: Project Schedule & Budget

Schedule & budget must:

- Be detailed and transparent
- Allow for contingency scenarios
- Have several sets of outcomes for different size publishers
- Be realistic

Deal Dynamics: Research

Points developers should research of prospective publishers:

- Are they financially stable
- Do they have global reach
- Do they market / PR their games well
- Is there a history of non-payment of milestones or royalties
- Have they canned many titles

Deal Dynamics: IP Rights

Intellectual Property Rights include:

- Game name
- Logos
- Unique game mechanics & storyline
- Unique characters, objects & settings
- Game Source Code including artwork & associated assets
- Unique sounds and music

Payment Negotiation: Overview

Current approximate development costs:

- \$4-5 million for AAA multi-platform
- \$2-3 million for AAA PlayStation 2 only
- \$1 million for A-quality single platform

Payment Negotiation: Deal Structure

The developer must carefully balance the following parameters:

- Clearly defined PR & marketing support
- Cash advance against royalties
- Milestone payments
- Post-release royalty payments

Payment Negotiation: Advance Payments

- An *advance royalty payment* is usually the agreed royalty rate multiplied against a percentage of the total unit guarantee
- Advance royalties will generally fit in around the 60-100% mark of the predicted first year unit guarantee

Payment Negotiation: Guarantees

Guarantees usually come in two forms:

- A figure that is contractually guaranteed by the publisher and must be paid for regardless of how well the game actually sells
- A figure that is based on an amount of units sold necessary to maintain title exclusivity with that publisher

Payment Negotiation: Milestones

- Milestone payments represent the agreed rate of release for development funding
- Developers will usually be given a lump-sum advance payment, with the remainder of the payments split into regular milestones payable upon delivery of agreed content

Payment Negotiation:

Royalty Negotiation

- Royalties are percentage payments of profits made above and beyond the recoup of development costs
- Royalty rates are calculated the wholesale price of the product
- Developer royalties can range from 0 percent for work for hire, to 40 percent for a self-funded AAA title.

Payment Negotiation: Royalty Negotiation

Other considerations:

- Rising-rate royalty, increasing percentage the more units sell
- Clear royalty definition of 'wholesale price' (I.e. including cost of goods etc.)
- Right to audit publishers books
- Currency/exchange rate/VAT figures