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“Incumbent firms in the video game industry such as Nintendo appear to lose out against mobile game start-ups. A discussion whether companies in the traditional video game industry should enter in this new market and how they should organize their innovation and commercial activities to be successful in the mobile game industry”

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Abstract

The games industry is one of the most rapidly growing industries in the past decade and half. Incumbent firms in the video game industry such as Nintendo appear to lose out against mobile game start-ups. Mobile game industry seems to be doubling revenues in the next 2 years with the increasing popularity of mobile devices. Using Porter's five competitive forces analysis, in addition to SWOT analysis for Nintendo company conclusion reached that companies in the traditional video game industry should enter into this new market using three approaches; acquiring companies, incubating startups and developing their own games using their strong experiences in games development and established brand reputation taking into consideration the differences between the two industries in business models and value chains, marketing and the design experience for a mobile game in order to be successful in the new market and generate the maximum revenue and market shares.

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1. Introduction

1.1. Overview of topic

The video games industry is one of the most rapid and fast growing industries in the last 15 years, with different market segmentations and categories, numbers of players are increasing annually and the revenues for companies in industry are increasing, with high expectations for the market. "The games industry is expected to hit the \$100 billion mark in just a few years, according to a newly revised forecast from DFC Intelligence, which predicts that the rise of mobile gaming will lead the industry to hit \$100 billion worldwide just for software alone by 2018".(Gamesindustry.biz- Article By James Brightman 2014) .

Mobile gaming is the new trend of the industry after the popularity and the wide spread of mobile devices around the world. Industry reports indicate that the total number of Americans that play games on their smartphone, tablet or iPod Touch has now surpassed the 100 million mark, a year-on-year increase of 35%, with similar indications in other contents. Growth factors are not only with numbers of players but also significantly time spent inside the game and money on mobile games, making this industry one of the very fast growing revenues with expectations reaching \$29 billion in by 2018 representing 30% of the gaming industry. (Gamesindustry.biz- Article By James Brightman 2014)(DFC Intelligence 2013)

Within the highlights of these facts and market trends, companies in the traditional video games industry seems to be losing against mobile games startups, with this market showing great opportunity in the future for new entrants.

1.2. Study aims and objectives

This study aims to discuss the following dilemma of "Incumbent firms in the video game industry such as Nintendo appear to lose out against mobile game start-ups in the video games industry and whether companies in the traditional video game industry should enter this new market and how they should organize their innovation and commercial activities to be successful in the mobile game industry.

The objectives of the study are:

1. Building an understanding of the current mobile games market in particularly with its future expectations and the video games market in general.
2. To draw an overview of the video game development environment by applying Michael E. Porter's "five competitive forces"- framework on it and understand the factors contributes to its success, then applying SWOT analysis on the Nintendo company as example to highlight ability of traditional companies to enter this new market and its weaknesses.

3. Draw a strategic approach for traditional games companies to enter mobile video games if viable.

2. Methodology

2.1. Market analysis

2.1.1. Video game industry

The video game industry today consists of multiple markets and multiple segments within those markets. Growth is expected to reach 78\$ billion in 2017 from 63\$ billion in 2012 as indicated by a series of reports from DFC Intelligence¹ -(DFC Intelligence 2013). According to DFC Intelligence analyst David Cole, these forecasts even include the decline in the market share of console games which expected to regain some of its momentum in the time frame 2014-2015 and the steadiest area of growth is on the PC and Mobile side. (Yahoo Finance- Five Star Equities 2012). More specifically in the USA, the digital games sales reached \$851 million in July, 2014 up six percent compared to the same month last year,(super data research 2014) as shown in figure 1 below the potentials and growth in USA and Europe markets are on average 23.5% in games which are expected to appeal more to the mid-core market² according to newzoo³ report.(Newzoo et al. 2012) which shows large profitability for the video game industry in general.

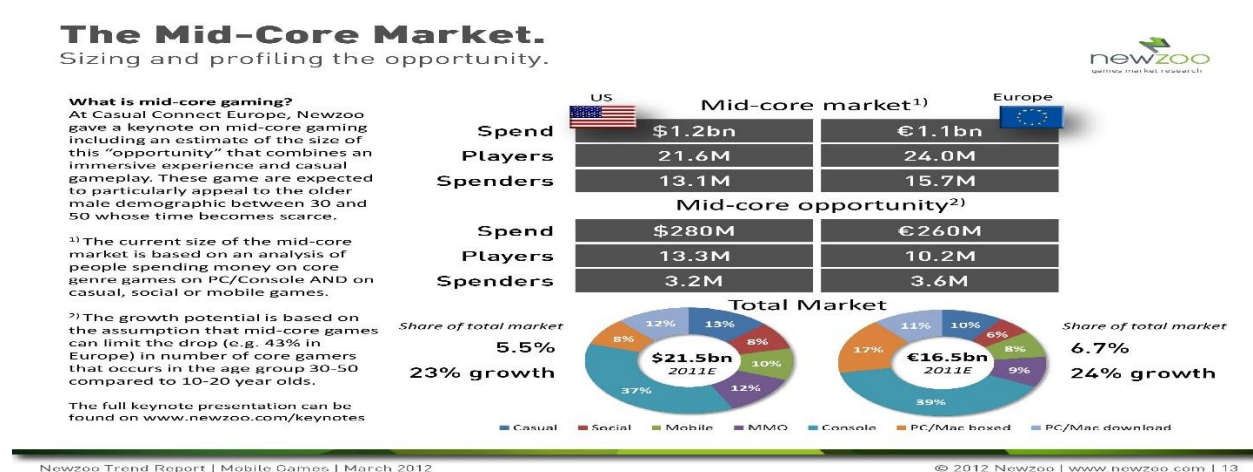


Figure 1 USA and Europe Market Shares and Opportunity (Newzoo et al. 2012)

¹ DFC Intelligence (<http://www.dfcint.com/>), an entertainment and video game industry research firm.

² Mid-core market, demographic aged between 30-50 years.

³ Newzoo (<http://www.newzoo.com/>), is an international full service market research and consulting firm, 100% focused on the games industry.

2.1.2. Mobile games industry

The exponential increase in the popularity of mobile devices led to the increase in growth of mobile gaming. Mobile devices are overtaking Laptops and PCs as the most common device in 2015 at least, especially tablets are expected to be the standard gaming device of the future. (Härmä 2013) and the sales of PCs stabilized recently after declining dramatically since the iPad was introduced but still declining.(Cass 2014) Entertainment Software Association (ESA)⁴ in their latest report indicated that around 53% of video games are played with smartphones in the United States, in addition, Smartphone and wireless devices use increased by 22% to 37% respectively over 2012. (Entertainment Software Association 2014) according to the latest analysis by AppLift⁵ and NewZoo for the market trends in the global mobile games landscape as shown in figure 2 below, “the global mobile games market will grow 27.3 percent annually to double in 2016 and reach \$23.9 billion, and The tablet games market will show 400 percent growth until 2016, reaching \$10 billion.”(AppLift 2013)

Summarizing the rest of results and findings in the analysis:”

- This growth is fuelled by an increase in the number of players and payers as well as a higher average spend per paying mobile gamer.
- Already, 966 million, or 78 percent, of 1.2 billion gamers worldwide play mobile games.
- Worldwide, 368 million consumers, or 38 percent of all mobile gamers, spend a monthly average of \$2.78 on or in mobile games. By 2016, these figures will amount to 50 percent and \$3.07.
- With 48 percent of the global revenue, the Asia-Pacific region is by far the biggest market for mobile games.
- Western and Eastern Europe will grow fastest with Compound Annual Growth (CAGR) rates of over 33 percent. Within the APAC region, China and Southeast Asia boast comparable growth figures.
- Average monthly spend per paying mobile gamer is highest in Western Europe, at \$4.40. In comparison, in North America this figure stands at \$3.87, but with the highest share of payers among players worldwide (45 percent).

⁴ Entertainment Software Association (ESA) (<http://www.theesa.com/>), a game industry related association in the United States.

⁵ AppLift (<http://www.applift.com/>), is a mobile games marketing platform.

- Costs of acquisition for loyal mobile gamers range from \$1.11 and \$0.74 on iOS and Android, respectively, in smaller Latin American countries to \$3.70 and \$1.71 in mature APAC markets such as Japan, South Korea, and Australia.
- Overall, Western Europe, North America, and Asia Pacific will remain the most appealing markets for mobile game publishers.

“(AppLift 2013)

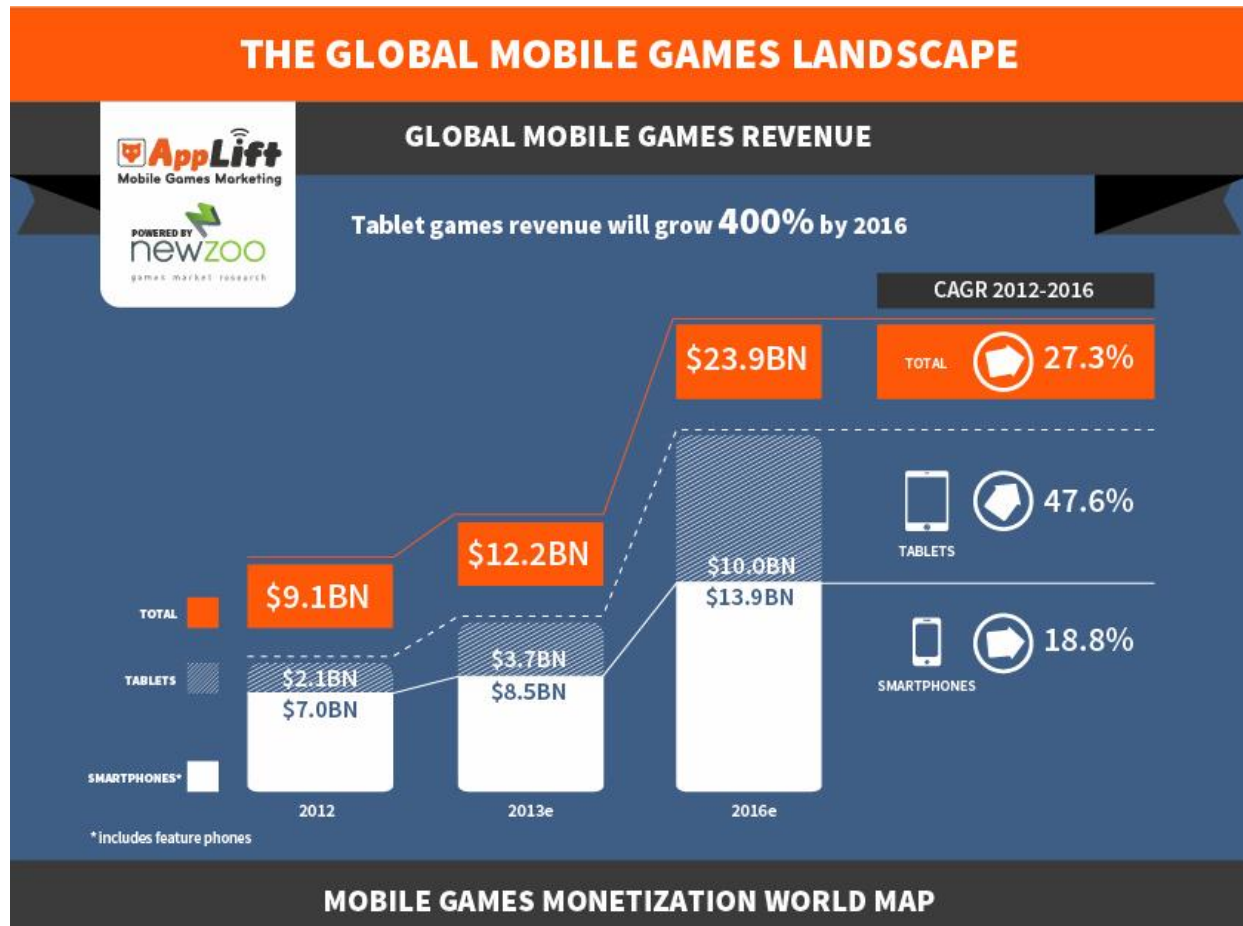


Figure 2 Global Mobile Game Revenue (AppLift 2013)⁶

All the figures, trends and indications imply that the mobile game market is the next dominant market in the coming years with high growth and profit potentials.

⁶ For the full infographic refer to appendix 1

2.2. Five competitive forces: Porter's analysis

Developing a deep understanding of the competitive forces will help traditional game companies in understanding the mobile games environment and deciding on whether to enter the market or not, and if so, how to enter and use these forces in their favor.

“The strongest competitive force or forces determine the profitability of an industry and become the most important to strategy formulation. The most salient force, however, is not always obvious” (Porter 2008: page 26)

2.2.1. Threat of new entrants (High)

The rivalry of this industry and the high revenues always attracted developers and startups to it. However, for them to be able to succeed in achieving high growth curves and high revenues, they need the very deep experience of know-how to develop the game and what will attract the customers. (Härmä 2013) In addition, they need the help of investors or to attract game publishers to achieve growth to the game. Nowadays, it became much easier using digital marketing and revenue generating business models as freemium or advertisements commotions. (Morgenstern 2013)

Overall, the risk is moderate to high, and more towards the high with the attractiveness of the industry and if the developer can capture and grasp the customers need, so they can capture the value and grow really fast and disrupt the market.

2.2.2. The power of suppliers (Low)

The suppliers of this industry comprise platform manufacturers – iPhone, Android, Blackberry, Windows Phone, Symbian, and third party players as GetJar⁷ and Appia⁸. (Jain & Bansal 2011) and mobile game development companies.

- a) Platform specific applications: the problem of applications that run on one platform is mostly platform specific which was a typical problem that most of the other mobile applications faces, is no longer an issue, for most of the game developments make their games available on all platforms with

⁷ GetJar(<http://www.getjar.mobi/>), is an independent mobile phone application store.

⁸ Appia (<http://www.appia.com/>), is the leading mobile user acquisition network delivering mobile application downloads.

development tools available for them to capture largest number of users, and using cross platform development⁹.

- b) High numbers of suppliers: currently, there are more than 10 mobile platforms and but the market shares for smartphones are dominated by mainly by IOS, Android, and windows phone, 11.7%, 84.7%, and 2.5% respectively. (International Data Corporation (IDC) 2014) along with a good number of game development companies. See figure 3 below for overview of the devices market in USA.

USA Market Overview, 2013 Q4¹¹

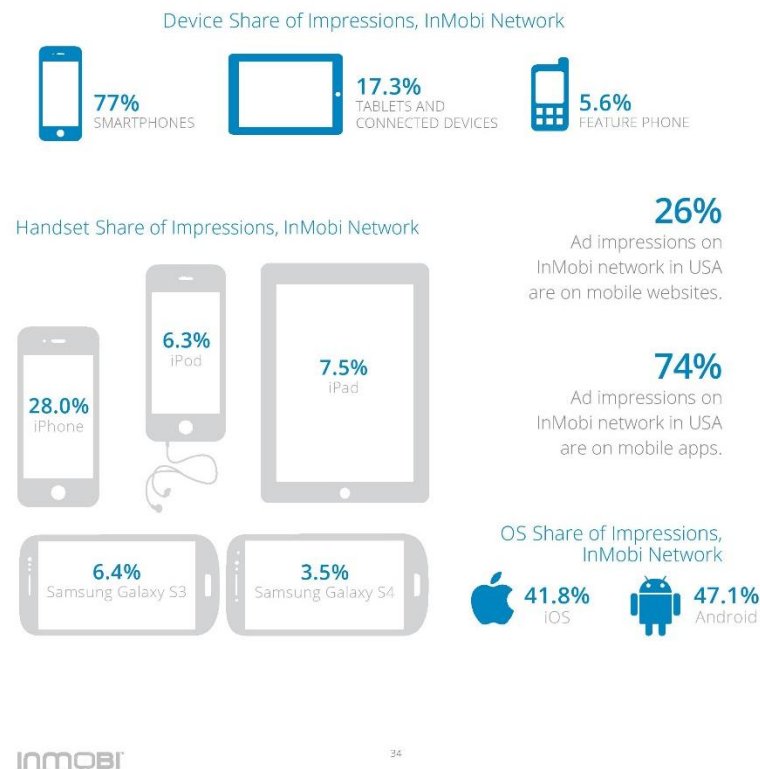


Figure 3 USA Market Overview for Mobile Devices (inmobi 2014)

- c) Inputs required: the input required to develop a game is easily available at competitive prices or even free.

⁹ Cross Platform Development, is the concept developing a game or a mobile application that run on all the devices and operating systems with no change to the code or a lot of efforts to adapt it.

- d) Presence of substitute products: games that perform similar functionality and give the customer the same experience for the players are available in large numbers.

For a platform provider, the key to stay leading in the industry is to permanently provide more user centric and friendly user interfaces and products.

For a game developer on the mobile platforms there is no direct supplier or “real” suppliers. The games are sold in the digital market place and no longer need distributors, which gives the power to the market place owners, who still retain some power, but the digital marketing is the key to whom the game reaches, there for their bargaining power is low.

2.2.3. The power of buyers (very high)

- a. Buyers' volume: according to the Entertainment Software Association, 53% of Americans play video games on a mobile device, with approximately similar and increasing numbers.(Entertainment Software Association 2014) This implies that there is a huge buyer's volume.
- b. Switching cost: within the same platform switching cost is very low(free) between different games or games who provide the same experience, switching to a different platform is much higher due to the involvement of cost in changing the device.
- c. Buyers information: the buyers in this market are highly informed about the latest trends, downloads and games, along with their cost structures. Information is available through various online platforms, social media channels and blogs.
- d. Customer Loyalty: customers in this market segment, show loyalty to some extent to few brands, but they are more attached to the experience they have and the group of friends with whom they play with them.

Thus the bargaining power of the buyers is very high.

2.2.4. The threat of substitutes (Moderate)

- a) Although, there are a large number of substitutes, from board games to online or social games, none of them are exactly the same. “Still to be considered as a substitute, they represent important limitations that lower their relevance in this analysis. As a quick example, to play a board game, you would to have your friends there, while on a video game you can either

play against the computer or against your friends each from their home.”
(Morgenstern 2013)

b) Relative price of substitutes is similar or free.

Hence, the threat of substitutes in this industry is considered moderate.

2.2.5. Rivalry of the industry among existing competitors (Very High)

The competition in this industry is extremely high, due to the attractiveness of the market and large revenues. Competition could be categorized in this industry as: first, strong well established brands as EA games, Kings and Ubisoft who own the largest market share, who compete to dominate the largest piece of the market. Secondly, the new entrants and startups who are fighting to become a player in the market. Third, all the middle companies who either are fighting to stay in the market or getting acquired from the big players as the acquisition of PopCap games by EA games. Entering this market it extremely competitive compared to whatever size or share of the market you are trying to enter there are players who already compete there.

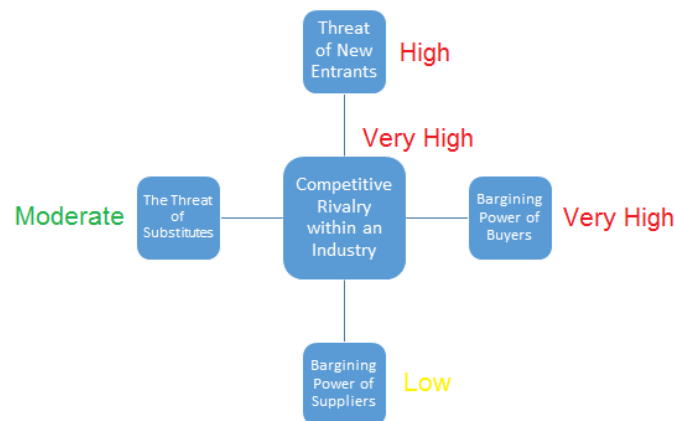


Figure 4 Five competitive forces Porter's analysis

Overall, it is a complicated industry to enter. However, it has high revenues and profits with a large growing market size, and the constant innovation and development of new opportunities makes it extremely attractive.

2.3. SWOT analysis for traditional games company

Understanding the strengths, weaknesses of a traditional games company as Nintendo, will help draw the strategic approach for a successful entry to mobile gaming industry to take advantage of the opportunity of such an attractive market.

SWOT Analysis for Nintendo (Marconi 2014)

STRENGTHS	<ul style="list-style-type: none">- Global brand with strong heritage in video games- Beloved and valued franchises- Approach towards underexplored demographics such as casual gamers, women and the elderly.-has the capacity to experience in developing video games.- Innovative approaches to technology, specially on gameplay- Cheapest home consoles and games on the market	OPPORTUNITIES	<ul style="list-style-type: none">- Video games industry expecting significant growth for the next years- Rise of interest in video games from all demographics- Growing consumer base in emerging markets- Exploration of internet capabilities on the Wii U and online services
WEAKNESSES	<ul style="list-style-type: none">- has no previous experience in mobile video games.	THREATS	<ul style="list-style-type: none">- Current video game market players

	<ul style="list-style-type: none"> - Low technical specifications when compared to consoles from the competition - Lack of third party games as console 		<ul style="list-style-type: none"> - brand dissolution due to entering new market segments -PlayStation 4 and XBOX One - PC and mobile Segments will decrease market share of console
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From the SWOT analysis it is obvious that the traditional game companies have the strength in terms of brand value and familiarity with video game industries which come with large customer base and high reputation, yet have no experience in the mobile gaming development but have the capacity and the capabilities to learn and exploit such opportunities.

3. Approaches to enter the mobile video game market

After considering the market analysis and capturing the value of mobile video game market, in order to seize this opportunity, traditional mobile games should consider the following strategies:

3.1. Acquisition approach

This method represents the short cut to build it, acquiring a mobile gaming company will shorten the path to building a mobile game market, bringing in the know-how experts and mobile gaming brand, and customer base, along with related IPs and immediate market penetration. "Growth through acquisition is a quicker, cheaper, and far less risky proposition than the tried and true methods of expanded marketing and sales efforts." (Annis 2009) An example of this the acquisition of EA games for PopCap in 2011 for a total acquisition price as much as \$1.3 billion, the price was is \$650 million plus \$100 million stock and a multi-year earn-out. (BUSINESS WIRE 2011) ¹⁰according to TechCrunch¹¹ EA CEO John Riccitiello

¹⁰ Business Wire (<http://www.businesswire.com/>), is one the global leader in press release distribution and regulatory disclosure.

¹¹ TechCrunch (<http://techcrunch.com/>), is a leading technology media property, dedicated to obsessively profiling startups, reviewing new Internet products, and breaking tech news.

said in a release: “PopCap’s great studio talent and powerful IP add to EA’s momentum and accelerate our drive towards a \$1 billion digital business. EA’s global studio and publishing network will help PopCap rapidly expand their business to more digital devices, more countries, and more channels.” (Rao 2011) Adopting this method will cover the weaknesses highlighted by SWOT analysis, and help acquiring the opportunities.

3.2. Blue oceans approach (Creating accelerator and incubator programs)

In the last decade the popularity of startups increased dramatically due to multiple factors; to mention few, the lower capital needed to develop a prototype and the success stories startups achieved, with huge revenues as “Angry Birds” game and Facebook. Multiple acceleration and incubation programs have emerged to support entrepreneurs, providing them with early stages support along with seed investments. Applying the same concept on the video game industry will help capture new trends and innovation, which will lower the very high threat of new entrants and gain it to the company side. This method is to have an arm and prevent future competition, by having a share and support new startups and market entrants. Applying the concept of Blue Oceans to discover new industries or new parts of industry instead of trying to outperform current rivalries which creates the demand for the new market instead of fighting over the existing one, capturing all new business opportunities and ease future acquisitions, also could be considered as part of R&D activities but incubation and acceleration programs should be designed and implemented carefully to provide real value for entrepreneurs and startups so it will be able to attract right and good ideas and professional experts.

3.3. Develop their own mobile games approach

The traditional game companies need to develop their own games, with their unique experience or as an extension for the current console games they develop, but they have to consider business model differences, new earning ways, and marketing activities, in addition to the differences in design and experience.

3.3.1. Business model

The first thing traditional video games companies need to consider is the business model for mobile video games changes dramatically from the traditional video games due to the emergence of effective digital distribution channels. The traditional video games business model is a publisher-driven, which means the publisher holds responsibility for

marketing. Meanwhile, with the mobile video games it depends on the digital distribution business model which enables startups or game developers to publish games without a publisher and distribution of the game relies on the specific channel. For example, the operating system specific stores such as iOS app¹² store for Apple Inc. and Google Play for Android devices.(NeoGames 2011: page 11) ¹³

The most significant two changes/differences in the digital distribution business model are the revenue shares between the developer and distribution channel, and the marketing responsibility; the latter will be discussed in the section 3.3.3. In respect of the revenue share, the traditional retail value chain model returns about 8-15% and the rest is distributed between publisher, distributor, and retailer. Whereas, the digital distribution channel value chain model return a revenue approximately 70% to the developer, and the distribution/intermediate channel earns 30% of the revenue. (NeoGames 2011: page 11)

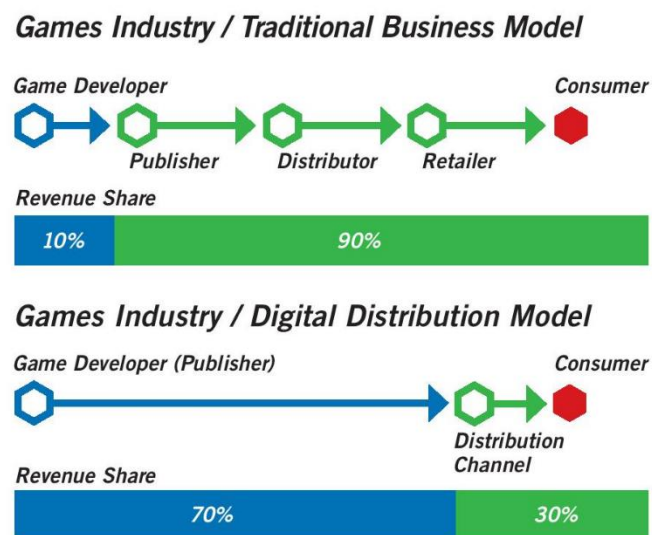


Figure 5 Game Industry Business Model Changes (NeoGames 2011: page 11)

Thus, such a model allows for more profit for the traditional video games company once they enter this market.

¹² App, refers to application, or mobile application.

¹³ NeoGames (<http://www.neogames.fi/en/>), is a member-based non-profit game industry organization. Missioned to accelerate, coordinate, and support the development of the Finnish game cluster. Connects the industry players and serve their shared interests.

3.3.2. New earning model

Monetization is one of the most important factors when developing a mobile game. There are a multitude of ways to earn within the mobile game sector.(Härmä 2013) According to Neogames' report the new earning models used for games are as follows (NeoGames 2011: page 12):

- The traditional way of earning from applications is by selling the app with a single payment. This method is also known as pay per download, the price often being as low as €0.79 a game.
- Freemium or the “free to play” model (often referred to informally as F2P) is a trend which is currently overtaking the market. In this model the application itself is free and the earnings are gathered from in-app purchases or advertising.(Armstrong et al. 2012: page 481) in more details (Härmä 2013) :”
 - In-app purchases are referred to as microtransactions. These microtransactions come from virtual item sales within the game. For example in Supercell's top grossing “Clash of Clans” real currency is used to buy in-game currency, which is then used to speed up the player's game progress and buy virtual goods.(New York Times: Blog by Nick Wingfield 2012)
 - In some cases, the game may at first be free, but further content or new episodes are only available for a payment. (Niipola 2012: page 135)
 - Monetization by advertising is done by selling advertisement space within the game. The game itself is free and revenue collates from advertisements. Peter Vesterbacka, the Chief Marketing Officer (CMO) of Rovio, refers to this model free with ads¹⁴. This advertising model is especially functional in those rare cases where the application is already successful. For instance, Rovio's Angry Bird has been estimated to earn €700,000/month in advertising on the Android platform. (NeoGames 2011: page 12) ”

Usually deciding which model to choose is the key factor of the game success and gaining the maximum revenue, pointed from Rovio experience that each platform users have a main model that attracts most of the users, such as in Android platform users are not willing to pay for the content which leads the mobile game developer to develop games with free with ads.(Niipola 2012: pages142-143) It is obvious from the trends which model needs to be decided at the

¹⁴ Ads: refers to advertisements

stack and that traditional games companies should offer a variety of games with different models to capture the maximum market value.

According to Tekes-ARMS project final report, “Boxed games” in figure 6 below have the same characteristics as single payment games. These games have to be designed with a focus on attractiveness due to the dependency of the first impression of the customer for the game; after purchasing the game, customers gain access to all or most games’ content. The Customers find it more attractive to try free-to-play games which is the most often used in the mobile games, compared to games “game as continuous service”. Word of mouth and virality play the major factor to spread social/free-to-play games. (Tekes-ARMS project Final Report 2012: page 15)

The major issue with social and free-to-play games after launching is retention, which means keeping the player hooked to the game and increasing the time spent inside the game which will increase the chances of selling more microtransaction and advertising present inside the game which will lead to higher revenues, and could be achieved by incentivizing game mechanics and steadily rewarding the player within the game improves retention rates. (Tekes-ARMS project Final Report 2012: page 15)

Game type	Primary Revenue	Pricing	Design emphasis	Relationship emphasis
Boxed games	Retail	Single price	Attractiveness, lot of initial content	Acquisition
Game as continuous service	Subscriptions	Time-based pricing	Long term engagement	Retention
Free-to-play / Social games	Virtual good sales, in-game advertising	Microtransactions	Virality, incentivising game mechanics	Acquisition, retention, monetisation

Figure 6 Business Models and the Shift in customers relationship building emphasis (Tekes-ARMS project Final Report 2012: page 15)

3.3.3. Marketing activities

With the rise of the new distribution channels business model in the video games industry and the shorting of the value chain, means turning down more financial resources that could be used for marketing activities which increase the reliability of the developing company for taking full responsibility for marketing the game, which is where the marketing experts of the traditional game companies comes to use and adds an advantage for the company in the new market. Yet it still less expensive than traditional console games marketing, though, it requires more digital marketing to get the game viral and gain huge number of players.

Some of the in-game incentives and rewards help increase the virality of the game, for example, by rewarding the player after inviting friends to the game, and due to the huge popularity in the last decade of social media channels, and the major role it plays in marketing using its media channels to share players' experience, achievements and scores helps bringing more users to games and increases game popularity.

Using a marketing agency might come in useful as an out sourced task for the new video game company to reduce the risk and increase the chances of game virality. Ed Rumley the COO of Chillingo¹⁵, explains why independent developers need a mobile game publisher and states the following in an article published in gamesindustry.biz web-article (Gamesindustry International: Article by Steve Peterson 2012): "Half of our role is getting a game ready for market. By that I mean making sure the balance is there, making sure the game is fun, and making sure the monetization is correctly implemented. If you don't get that right, you're not going to have success acquiring consumers in the first place. The market is far more competitive today than it was even two or three years ago. If you look at the fragmentation in the markets, it's even greater. That's where I think Chillingo really comes out because we help navigate that for indie developers." Chillingo has published success stories such as "Angry Birds" and "Cut The Rope" which back their opinions.

¹⁵ Chillingo (<http://www.chillingo.com/>), is a leading games publisher on mobile platforms.

3.3.4. Design and user experience considerations

Some of important aspects to be considered when developing a mobile video game (for full list refer to appendix 2):

1. Different devices and platform experiences:

Traditional game companies should notice the difference of design experiences and user experiences on different devices, the experience of games on console and TV and the interaction with user on it differs from the interaction with it on mobile with different screen sizes and input methods. When developing an extension to the games of the console to mobile the experience of user should be dealt with carefully, in addition when designing a new game it should have the same importance.

2. “Develop and market games specific to gamers of their target country:

Mobile developers must understand the typical gaming consumers’ specific to each country. For example, Chinese and Korean gamers prefer RPG and adventure games, whereas Americans prefer puzzle games.

3. Understand app discovery/ distribution specific to each target country:

Each country has varying app distribution ecosystems; nevertheless, developers should take a multi-channel distribution approach, leveraging both organic app store and word of mouth downloads, as well as utilizing mobile, online, and social marketing. In particular, since China has a particularly fragmented ecosystem, developers must partner with established developers and large app platforms in addition to being featured in app stores and running ads. In Korea, the Kakao platform acts as a primary app download discovery epicenter. In fact, developers should monitor the emergence of chat applications as mobile gaming platforms and may even want to incorporate them into their distribution strategies.”(inmobi 2014)

4. Conclusion and recommendations

This report was conducted to learn about the mobile games market opportunities, and decide whether traditional games companies should enter this market or not. In addition to advising and suggesting to the traditional games companies approaches they should take to enter this market successfully.

As stated in chapter 2.1.1 the video game industry has multiple markets and categories with it with huge profit potentials and it is expanding expecting to reach 78\$ billion in 2017 from 63\$ billion in 2012 according to the DFC.(DFC Intelligence 2013). Currently the mobile gaming market is very attractive market to enter as discussed in chapter 2.1.2 with the

exponential increasing in the popularity of mobile devices. In addition to the increasing popularity of mobile games, as shown in the latest analysis by AppLift and NewZoo for the market trends that the mobile game market will grow 27.3 percent annually and double by 2016 reaching 23.9 billion.(AppLift 2013) all indications shows that the mobile game market is the next market that should be entered holding a key to growth and huge profits. To understand the market more, a Porter's five competitive forces analysis conducted in chapter 2.2 to draw a better understanding for the market environment, indicating that:

- The Threat of new entrants is high due to the attractiveness of the industry and the large profit potentials it has.
- The power of suppliers is low due to the availability of resources to develop a cross platform game and to the new model of no "real" power for the supplier due to the applications market places and new business model of distributing the games through digital channels.
- The power of buyers is high, due to the large volume of buyers. 53% of Americans play video games on a mobile device according to the Entertainment Software Association.(Entertainment Software Association 2014) and the increasing popularity of mobile devices and mobile games players around the world. In addition is the low or free switching cost.
- The threat of substitutes is moderate, although the availability of similar or free substitutes is high but they are not exactly the same and for some social games players need their friends and network with them.
- Rivalry of the industry among existing competitors is very high on all the market categories and spaces, due to the opportunity and attractiveness of the market.

As a result of the analysis there are some threats but they could be overcome if the company adopted a correct path to grasp the need of the customers and developed an attractive game to capture the value and the attractiveness of the market. All leading to the conclusion that traditional games companies should enter the mobile games market.

In chapter 2.3, a SWOT analysis for a traditional game company shows the strength and the weaknesses it has to be considered when entering this market. Nintendo was taken as an example of a traditional game company and the highlight of strength was experienced in building games in general, brand name and customer base, and major weakness is that they do not have a "real" know-how to develop and enter the mobile games market.

Based on all of previous analysis 3 main approaches are suggested to enter the market. First, starting with the acquisition approach, in chapter 3.1, as a fast and short cut to the market and immediate market penetration supported with example EA games acquiring PopCap games studio in 2011 to achieve that. Second, blue oceans approach, as highlighted in chapter 3.2, to lower the threats of new entrants and create a barrier, or more of control, and have a part of new entrants to the market by supporting the entrepreneurs and startups in the mobile gaming field creating mutual benefits for both parties, as a long term investment and discover new markets or new parts of the industry rather than just competing with other rivalries. Third, the main approach to the industry by developing their own games, as detailed in chapter 3.3, traditional game companies should consider the main difference between the industries in new business models and earning ways, as for mobile games the business model value chain depends directly on the developer which leads to more earning but increases the responsibility of developer to market and distribute the game, in such case the traditional game companies can use their brands, customer base, and distribution channels to support the new games. Their marketing activities should be more focused around digital distribution channels and social networks. Taking into consideration the platforms to develop the game and earning models in each one of them, focusing on in-app purchases, referred to as microtransactions, and ads revenues. Which raises the issue of retention, the time a player spends inside the game, and how the design should be focused around increasing the player interaction with the game and offer rewards for time spent in the game and inviting friends to join as a social media exchange to increase the microtransactions probability, which will increase the revenue.

At the end, the issue of the game design and user experience is highlighted in chapter 3.3.4 around the differences of experiences of games with different devices and the way the user perceives them, and more how the games should be developed and targeted to country specific and regions along with the way of distributing the games. As highlighted by “The mobile games market has been growing extremely fast and is rapidly changing across different regions. Data is the key to understand these market developments,” said Kaya Taner, the CEO and cofounder of AppLift. (AppLift 2013)

Concluding that the mobile game industry is the new promising market for gaming and traditional games companies should strongly consider going into this new market and capturing the opportunities in it taking into consideration the highlighted differences between markets and the suggested approaches.

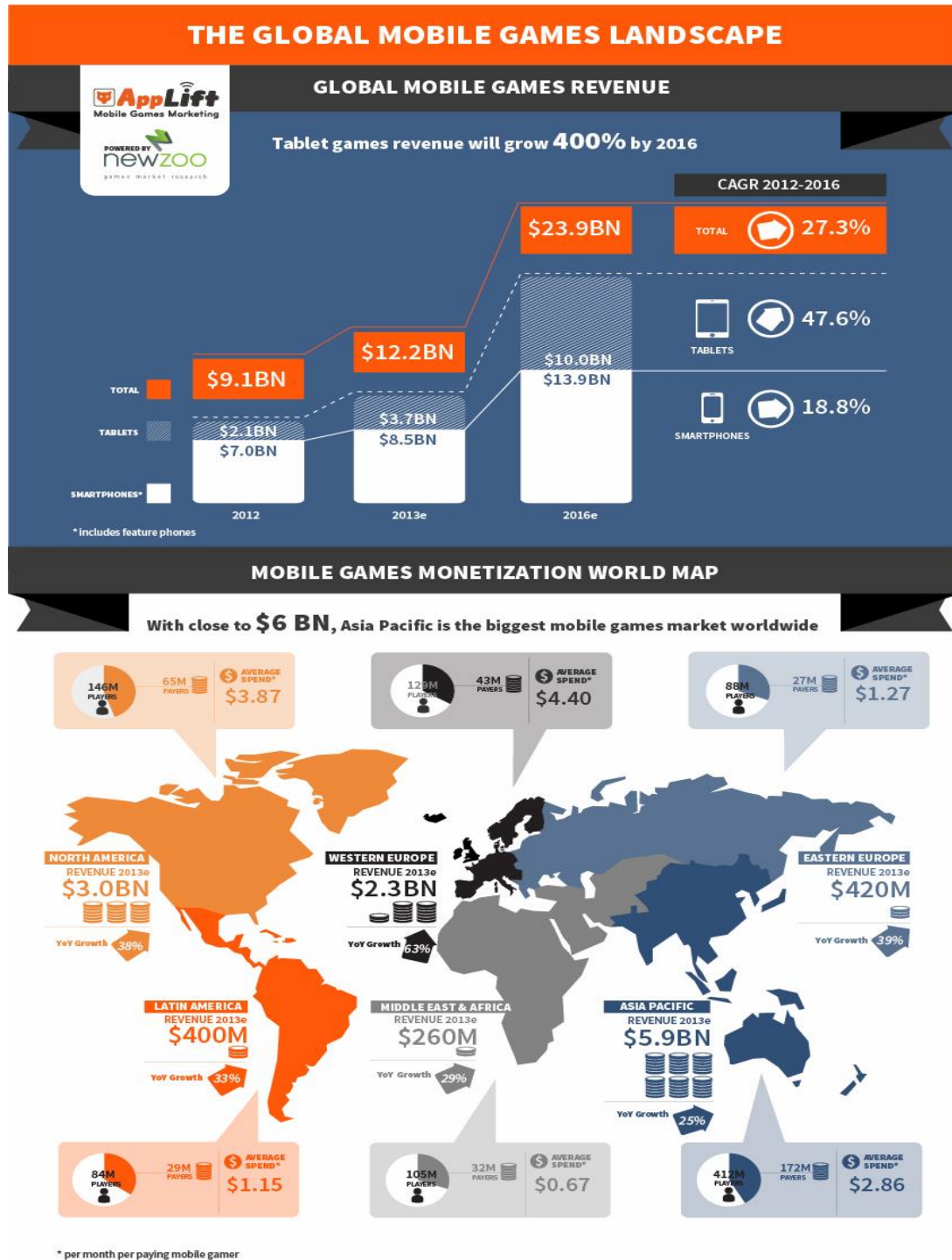
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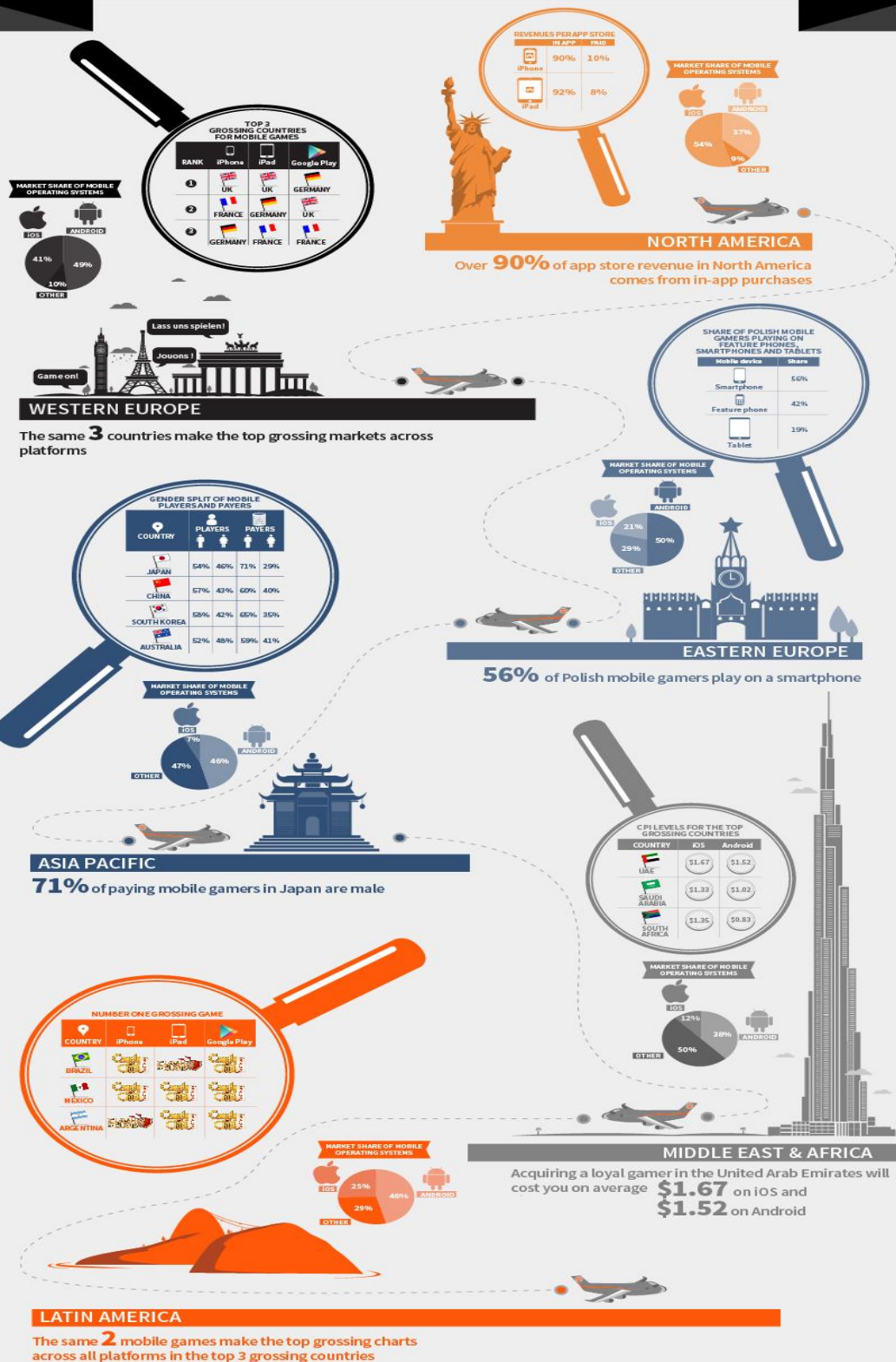
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6. Appendixes

6.1. Appendix 1



SELECTED INSIGHTS ACROSS THE REGIONS



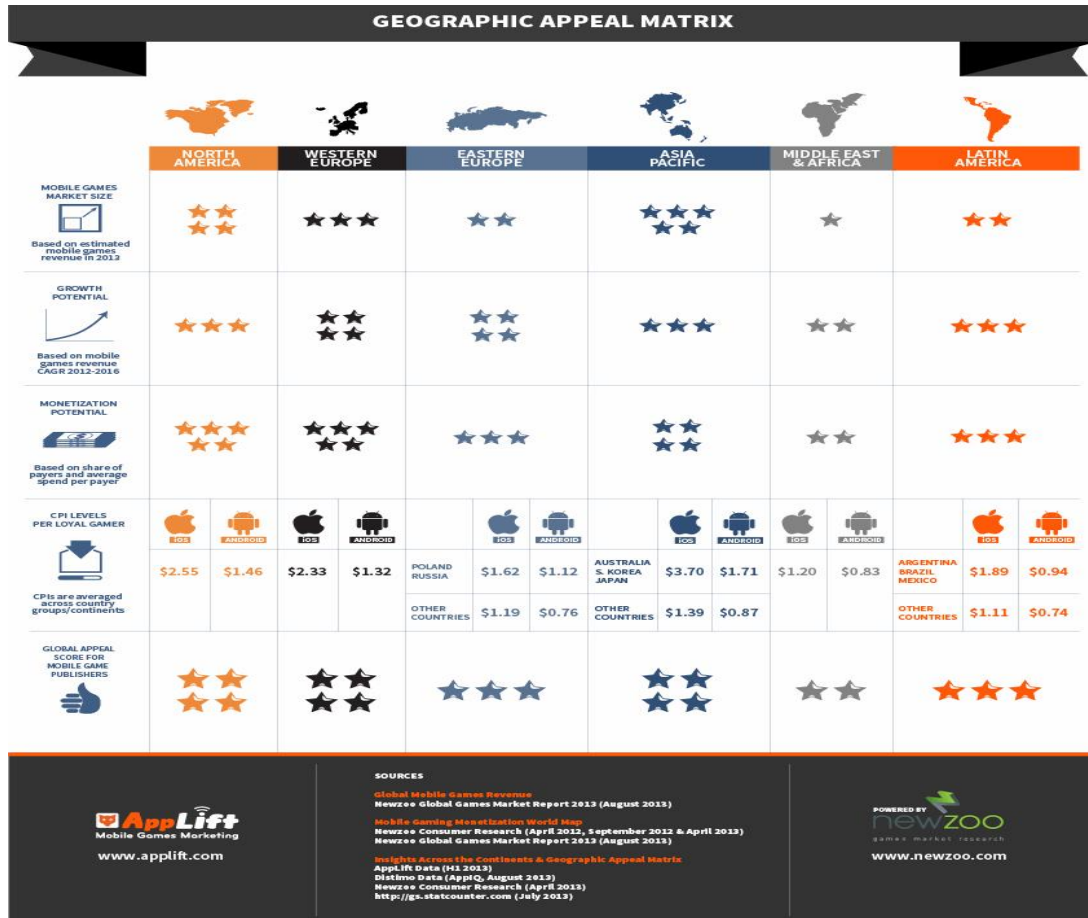


Figure 7 The Global Mobile Games Landscape (AppLift 2013)

6.2. Appendix 2

Recommendations

- 1. Develop and market games specific to gamers of their target country:** Mobile developers must understand the typical gaming consumers specific to each country. For example, Chinese and Korean gamers prefer RPG and adventure games, whereas Americans prefer puzzle games. In addition, gamers who prefer the same game genres share similar reasons for gameplay (e.g. strategy gamers play because they enjoy the challenge and casino gamers play primarily to kill time).
- 2. Understand app discovery/ distribution specific to each target country:** Each country has varying app distribution ecosystems; nevertheless, developers should take a multi-channel distribution approach, leveraging both organic app store and word of mouth downloads, as well as utilizing mobile, online, and social marketing. In particular, since China has a particularly fragmented ecosystem, developers must partner with established developers and large app platforms in addition to being featured in app stores and running ads. In Korea, the Kakao platform acts as a primary app download discovery epicenter. In fact, developers should monitor the emergence of chat applications as mobile gaming platforms and may even want to incorporate them into their distribution strategies.
- 3. Utilize the free-to-play game model:** Mobile game developers looking to break into East Asian mobile game markets should create free-to-play game models with in-game purchases. The threat of software piracy continues to deter many developers from producing single-player or localized games. Also, charging for a download usually comes at the expense of scale. An alternative to charging for app downloads is to generate income through subscription fees or in-game purchases. American game developers should follow suit, creating mobile-optimized free-to-play models with in-game purchases.
- 4. Leverage in-game purchases:** Mobile game developers need to tailor their in-game purchases to their target gamers. For example, Korean gamers who prefer quick and simple gameplay will upgrade to beat a tough level, whereas American gamers who prefer very challenging gameplay will upgrade to beat a tough level or unlock new levels. Depending on the country, developers may need to partner with a local third-party payment platform – in China, Tencent's TenPay or Alibaba's Alipay are two of the most used payment platforms.
- 5. Capitalize on Game Traffic:** All gamers are not equal, but developers should be able to monetize all gamers. Mobile developers can monetize non-paying or low quality gamers by placing 3rd party ads in their games. Chinese and American gamers both average over 30 minutes per game session, and more than three-quarters of gamers in all three countries play at least once a day. Developers should also take advantage of newly emerging mobile ad formats, such as native and customizable ads, app galleries, and value-exchange ads.
- 6. Optimize with data:** Data is key. Mobile developers need to take a data-centric approach when designing their games and crafting their distribution and monetization strategies. Developers must merge consumer insights with gameplay metrics to continuously optimize their campaigns, effectively maximizing their revenue potential.

Figure 8 Mobile Video Game Development Design Recommendations (inmobi 2014)