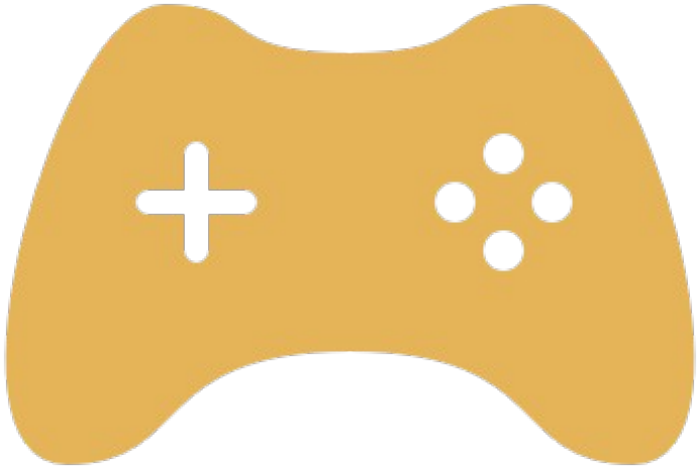
VIDEO GAMES AS A BUSINESS

HISTORY 3801



THE TOPICS AT HAND

- 1. A tour of some history, some big companies, etc. Market collapses and major players!
- 2. Canada’s game industry.
- 3. The business model of gaming.
- 4. Governments and games: funding and fostering development?

1. SOME HISTORY

- We sit at an awkward crossroad in gaming. On one hand, there are plenty of development tools and great indie titles out there to enjoy. On the other hand, the general trend has been towards larger companies gobbling up smaller studios, for better or for worse.

- For example, despite the proliferation of indie games almost a third of the industry is captured by three companies. Any guesses who they are?

SONY

Microsoft

Nintendo®

EPIC GAMES

SILICON KNIGHTS

A TALE OF ONE STUDIO: SILICON KNIGHTS

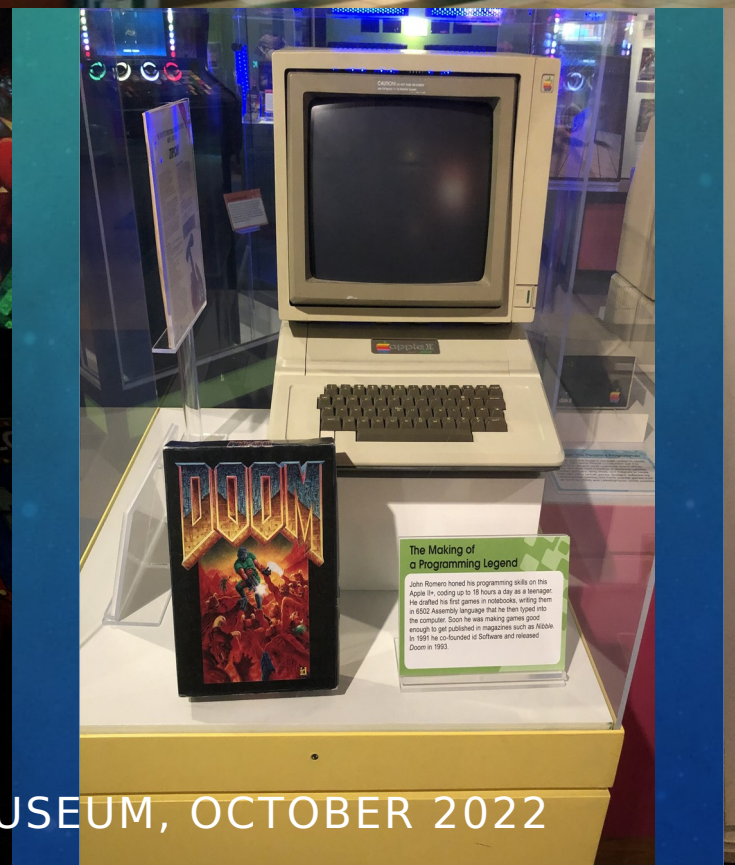
- Silicon Knights was a Canadian company with a decently long history, based in St. Catherines, Ontario. They were what we would call a “middle market” company: not a big player, but working on some interesting projects that could potentially become breakout hits.

- Like many smaller studios, Silicon Knights was reliant on larger companies. Despite having their own ideas and projects, they were reliant on the Unreal Engine (Epic Games). Eventually, disagreements over the engine led Silicon Knights and Epic to court.

- This is one dramatic story, but the idea of using a licensed engine is pretty much the norm nowadays.

THE VIDEO GAME: TOO HUMAN

According to Judge James C. Dever III, Silicon Knights had “deliberately and repeatedly copied thousands of lines of Epic Games’ copyrighted code, and then attempted to conceal its wrongdoing by removing Epic Games’ copyright notices and claimed them, instead as their owns.” The judge ordered “that all unsold copies of the *Too Human* game and Silicon Knights’ more recent release *X-Men: Destiny* be destroyed. Silicon Knights went bankrupt.

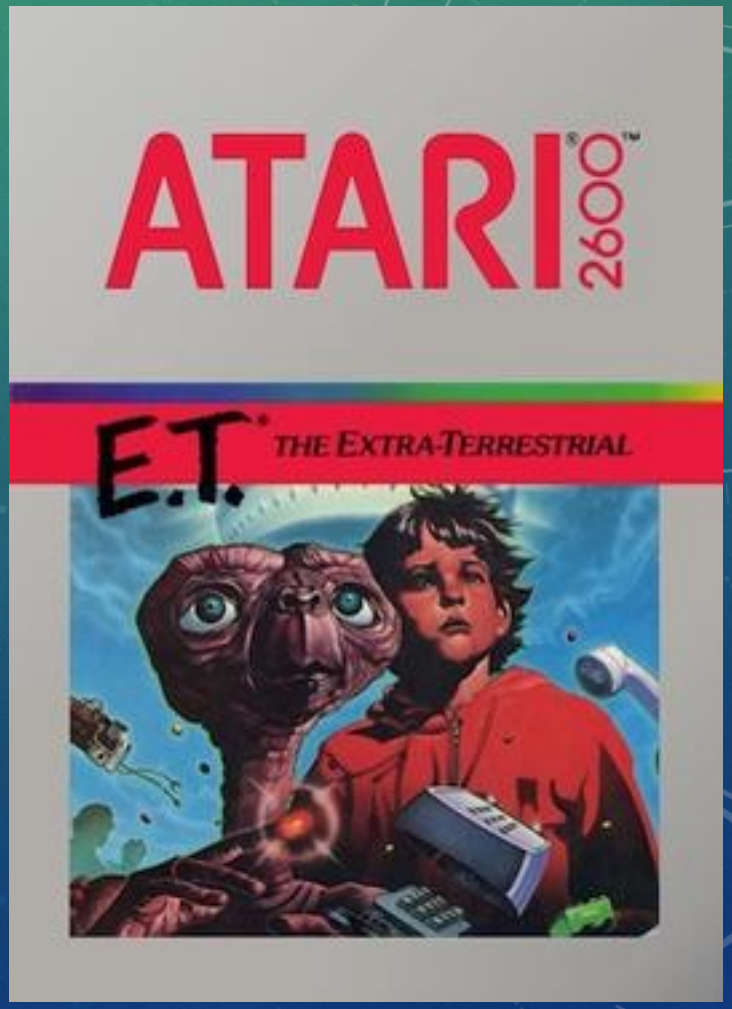


PHOTOS: M. MARTEL, THE STRONG MUSEUM, OCTOBER 2022

1- THE BUSINESS LANDSCAPE: THE BIG PLAYERS

ATARI

- Atari: launched in 1977
- Massive success at first, hindered by overly optimistic expectations, the overproduction of hardware, and a swarm of low-quality games.
- A leader, but one which was effectively killed by a market crash in the mid 80s.

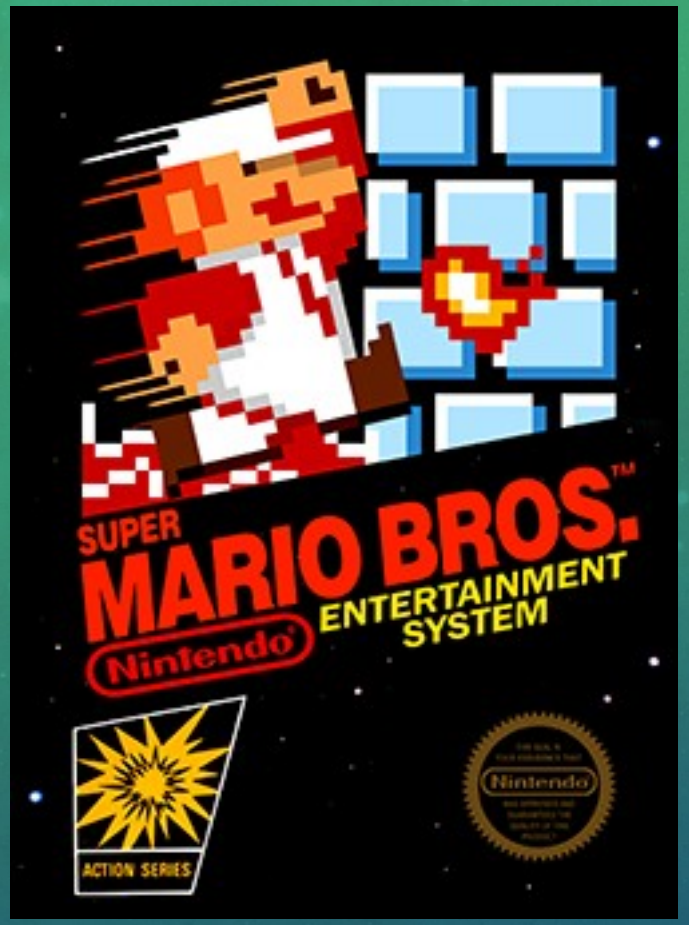


En.Wikipedia.org

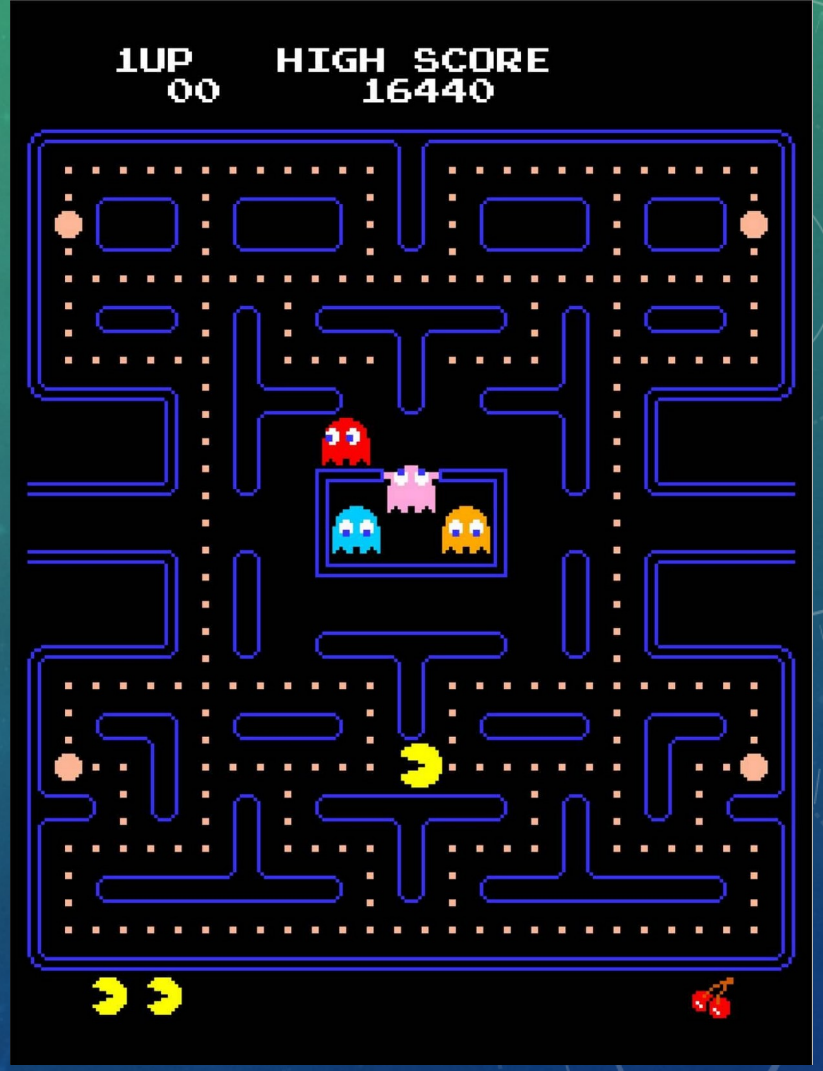
NINTENDO

Japanese playing cards source: wikiwand

Fusajiro Yamauchi founded Nintendo Koppai in 1889. The company did not initially make video games. . .obviously.



NINTENDO, PAC MAN (MADE BY NAMCO AND LICENSED TO NINTENDO AND OTHERS), AND MARIO BROS.



Mario Bros (1983)

PHOTOS: M. MARTEL, THE STRONG MUSEUM, OCTOBER 2022

By 1988, Nintendo commanded an 83% share of the North American video game market and at least 90% of the Japanese video game market.

Cost of the NES: $100-ish (in 1988 or $266-ish in 2024). Usually came with Duck Hunt/Marios Bros and a “Zapper” light gun.

In conceiving the Game Boy, Gunpei Yokoi wanted a system to be inexpensive and appealing to a wide audience. He died in 1997, sadly not seeing the full extent of his invention’s success.

Game Boy was released in the United States in July 1989.

Ad (released in 1989)

Cost: $89.99 in 1989 or $239.50 in 2024.

ORIGINAL GAME BOY TOP 10

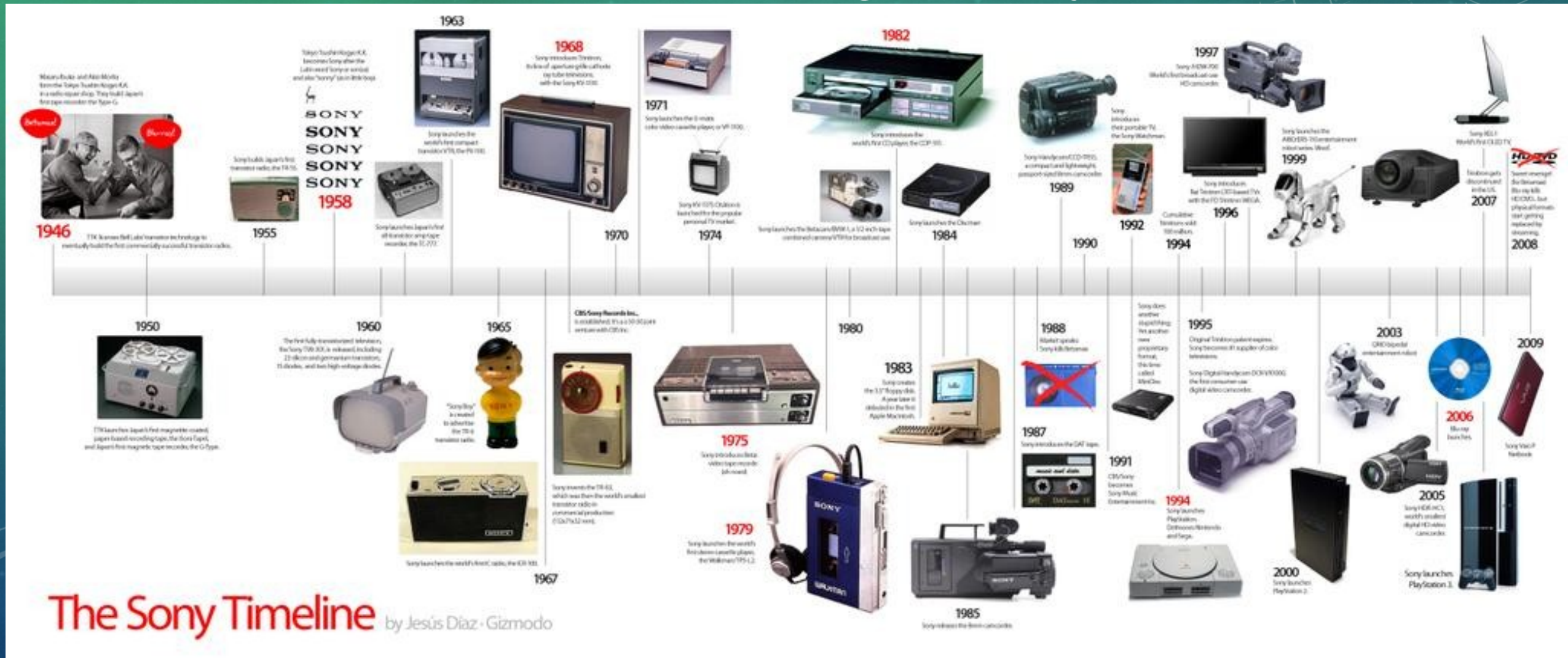
Names of the game	Millions sold
Tetris	35
Pokémon Red, Green and Blue	31.3
Super Mario Land	18.1
Pokémon Yellow	14.6
Super Mario Land 2.6	11.2
Dr. Mario	5.3
Mario Land: Super Mario Land	5.2
Kirby’s Dream Land	5.1
Donkey Kong Land	3.9
The Legend of Zelda	3.8

SEGA

- It was formed by businessmen Martin Bromley, Irving Bromberg, and James Humpert in Honolulu, Hawaii to manufacture coin-operated games such as slot machines for military bases.
- The company moved to Japan and merged with competitor Rosen Enterprise and using the first two letters in Service and Games became Sega Enterprises in 1965.

SONY

- Founded by Akio Morita and Masaru Ibuka in 1946
- Sony was derived from a combination of two words: **so**nus, which is Latin for sonic and sound, and son**ny**, which was a slang word for boy in the United States.



THE PLAYSTATION TOP 10

Names of the games	Number of copies sold
Gran Turismo	10.9
Final Fantasy VII	9.8
Gran Turismo 2	9.4
Tekken 3	8.3
Harry Potter and the Philosopher's Stone	8
Tomb Raider	7.1
Final Fantasy VIII	7
Crash Bandicoot	6.8
Tomb Raider II	6.8
Metal Gear Solid	6

MICROSOFT

Microsoft released Xbox in North America on November 15, 2001, for $299.99
Microsoft chose Toys “R” Us in the heart of Times Square for its launch party. It spent $500 million on the launch campaign for Xbox.

With a focus on sports games, shooters, M-rated titles and the like, Microsoft arguably hoped to appeal to an older demographic. The console did very well in North America!

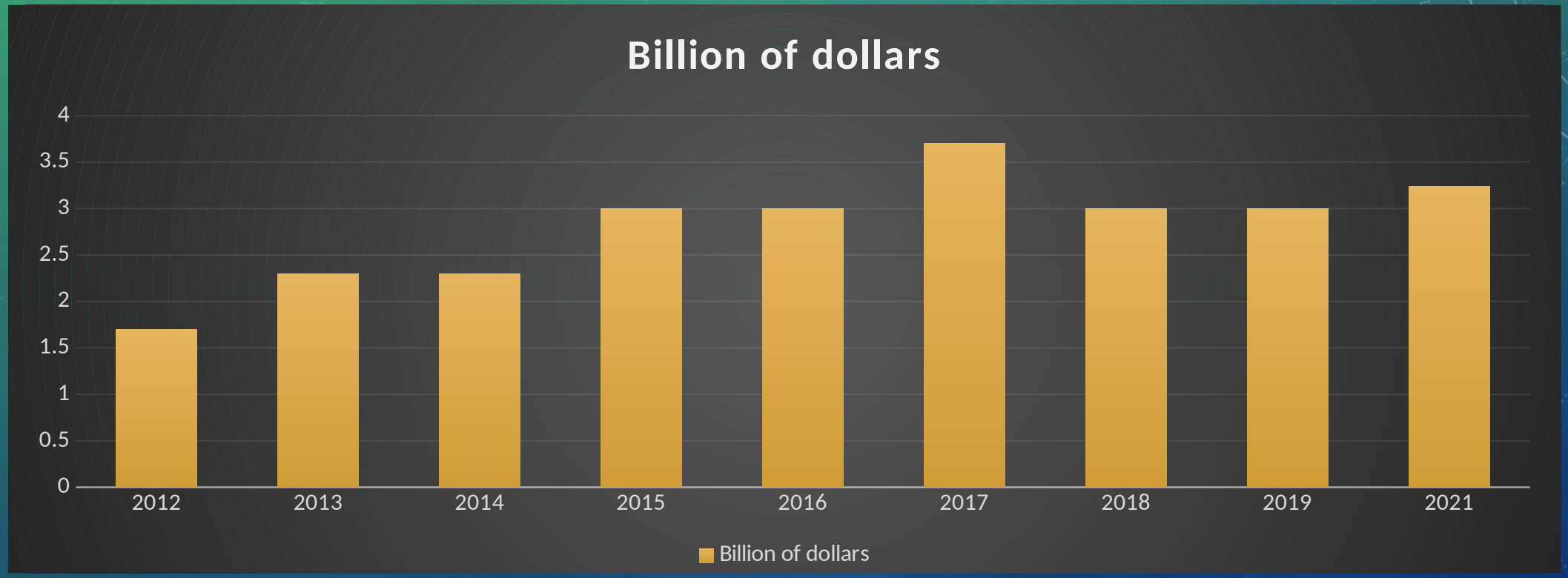
Ad (November 2001)

Source: reddit.com

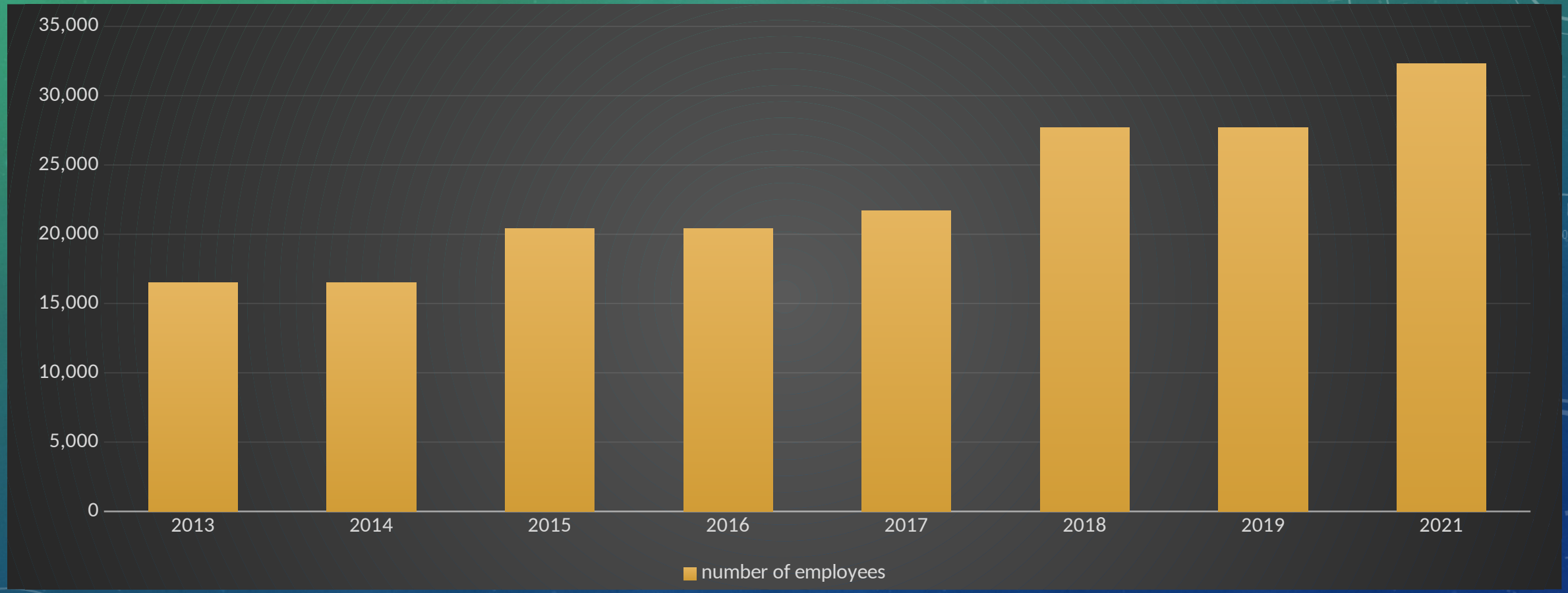
CANADA'S VIDEO GAME INDUSTRY

Canada's video game industry is one of the world's largest.
Each year, it produces hundreds of the world's biggest, most popular and most innovative games. It's a leading industry in Canada's growing digital economy and Canadians are taking notice.

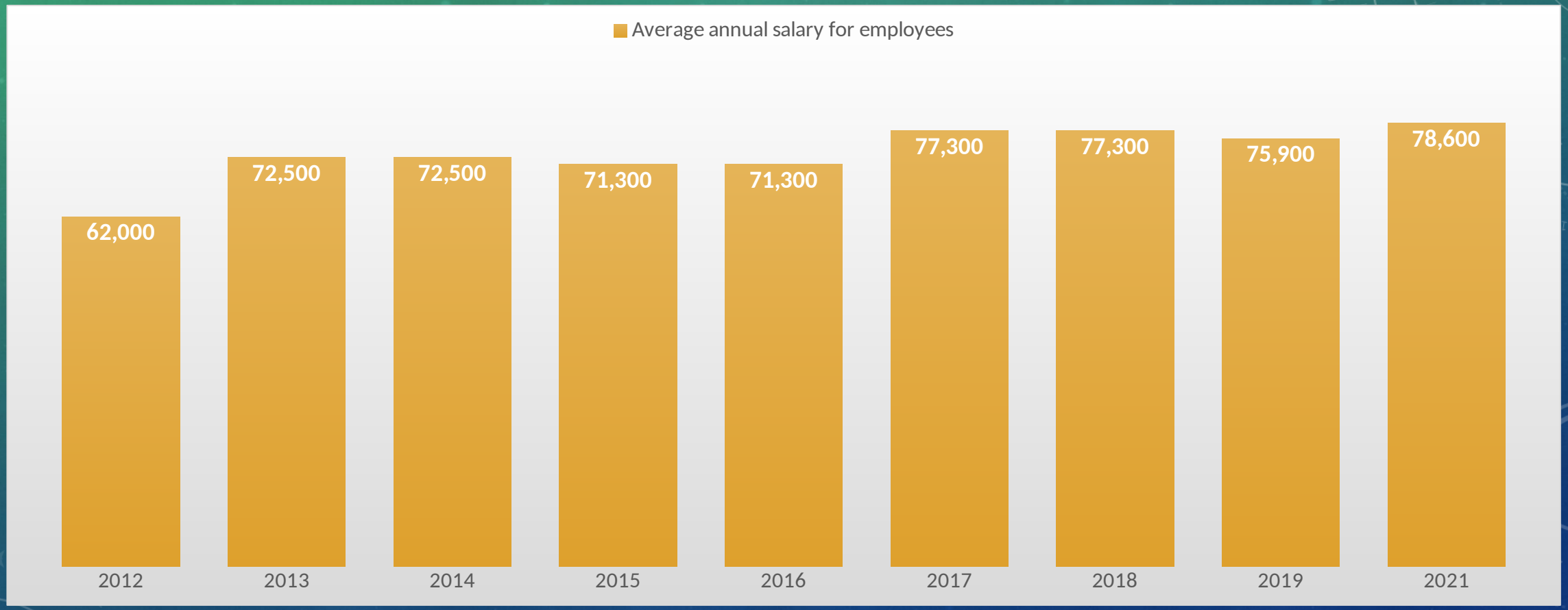
2- THE VIDEO GAME INDUSTRY IN CANADA (ECONOMIC IMPACT)



2- THE VIDEO GAME INDUSTRY IN CANADA (NUMBER OF FULL-TIME WORKERS)



2- THE VIDEO GAME INDUSTRY IN CANADA (AVERAGE SALARY)

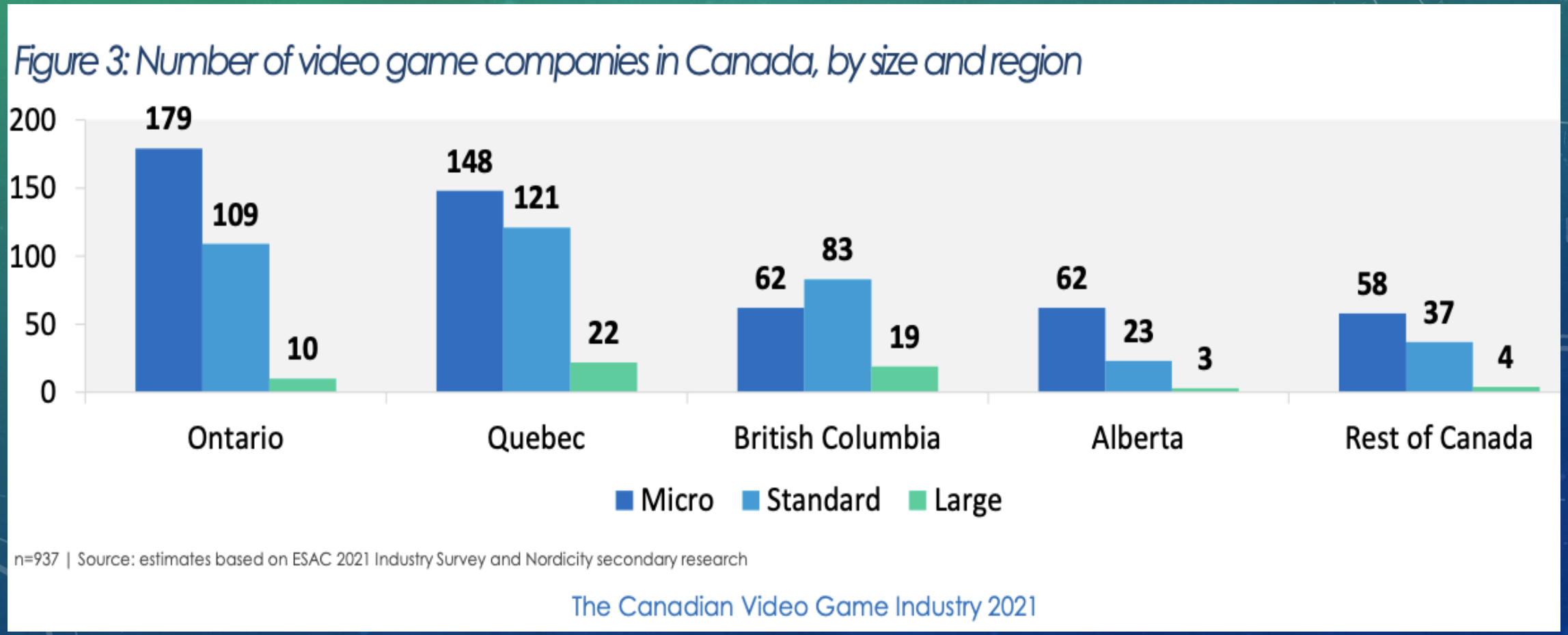


2- THE VIDEO GAME INDUSTRY IN CANADA (NUMBER OF COMPANIES IN CANADA, 2017 AND 2019)

FIRM SIZE	2017	2019	2021
Micro (less than 4 employees)	228	377	509
Small (5 to 25 employees)	241	213	
Medium (26 to 59 employees)	62	35	
Standard (5 to 99 employees)	370		
Large (60 to 99 employees)	39	30	
Large (more than 100 employees)	26	37	58
TOTAL	937	596	692

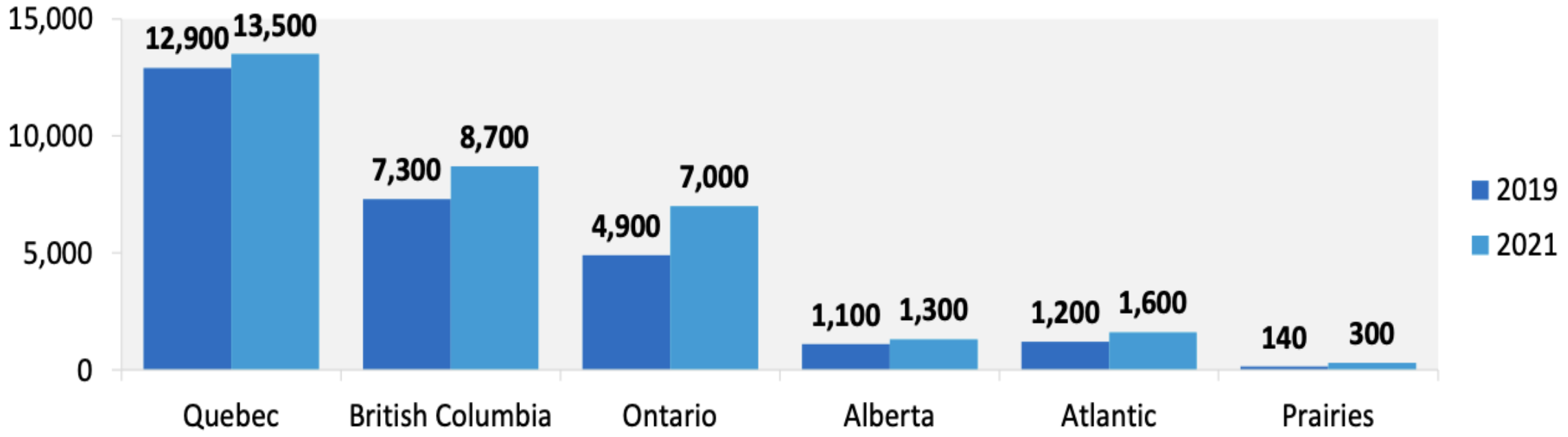
- Source: Essential facts 2019 Canada, Essential facts 2021 Canada, https://theesa.ca/resource/essential-facts-2019/

2- THE VIDEO GAME INDUSTRY IN CANADA (NUMBER OF VIDEO GAME COMPANIES IN CANADA BY SIZE AND REGION)



2- THE VIDEO GAME INDUSTRY IN CANADA (EMPLOYMENT BY REGION)

Figure 9: Direct employment at video game companies in Canada, by region



n=159 | Source: estimates based on ESAC 2019 and 2021 Industry Surveys

2-THE VIDEO GAME INDUSTRY IN CANADA (GEOGRAPHY OF CANADA'S VIDEO GAME INDUSTRY

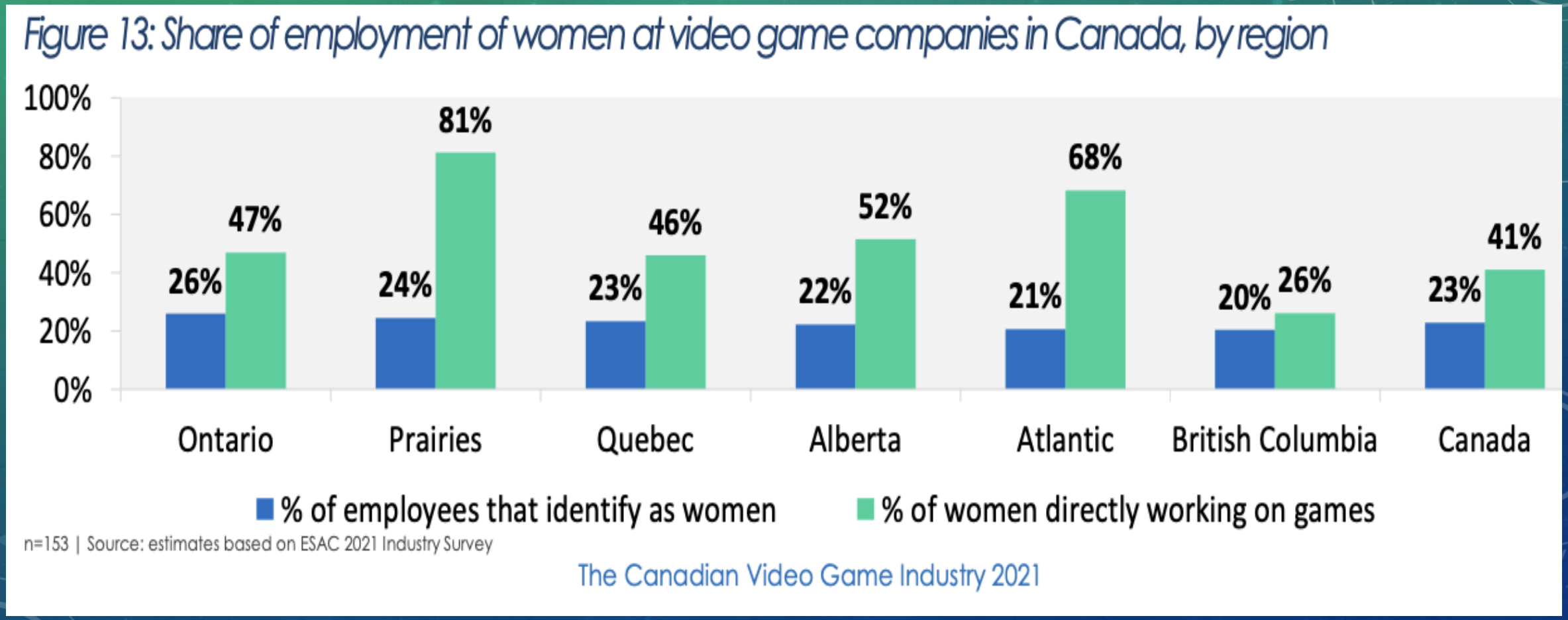
Table 2: Number of video game companies in Canada categorized by region

REGION	2017	2019	2021
Alberta	25	66	88
British Columbia	139	116	161
Quebec	198	218	291
Ontario	162	235	298
Atlantic	28	38	59
Prairies (Manitoba and Saskatchewan)	21	20	40
Total	**573**	**692**	**937**

n=937 | Source: estimates based on ESAC 2021 Industry Survey and Nordicity secondary research

SOURCE: ESSENTIAL FACTS 2021 CANADAHTTPS://THEESA.CA/WP-CONTENT/UPLOADS/2021/11/ESAC-2021-FINAL-REPORT.PDF

2- THE VIDEO GAME INDUSTRY IN CANADA WOMEN IN THE INDUSTRY



SOURCE: ESSENTIAL FACTS 2021 CANADAHTTPS://THEESA.CA/WP-CONTENT/UPLOADS/2021/11/ESAC-2021-FINAL-REPORT.PDF

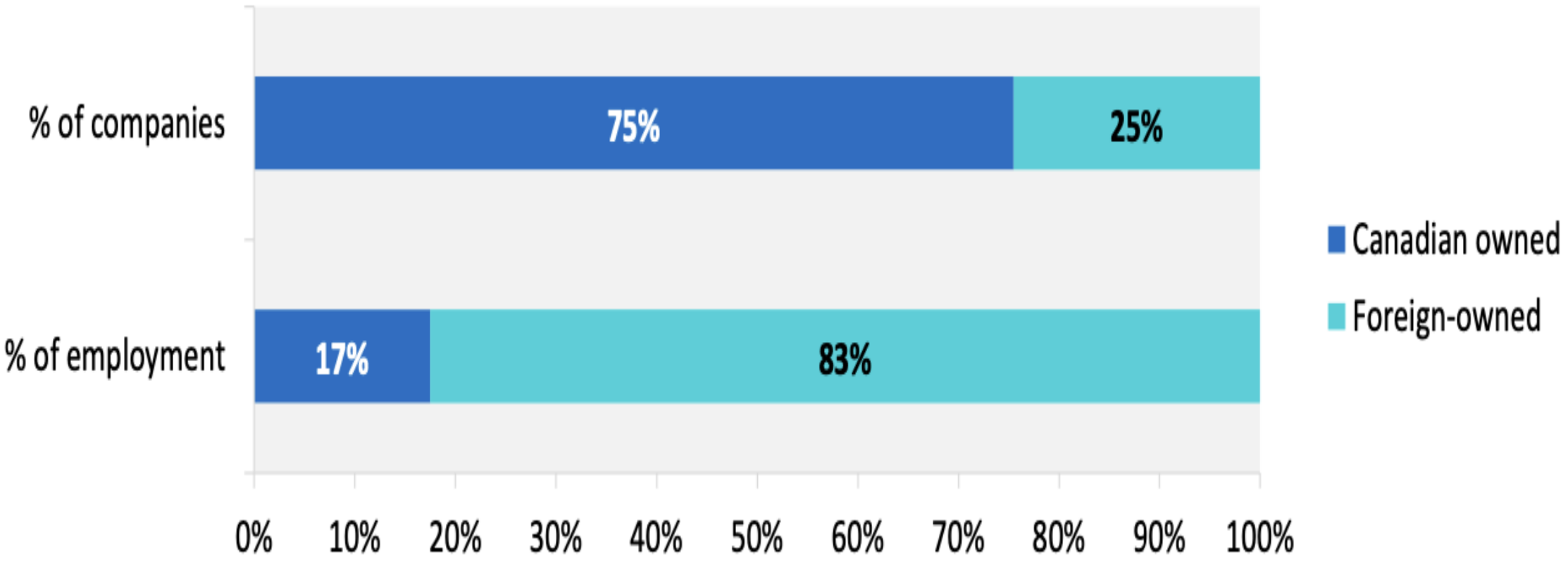
2- THE VIDEO GAME INDUSTRY IN CANADA

- 75% of all companies are Canadian-owned and controlled (this means that 25% of all companies are foreign-owned and controlled, an increase of 11% since 2019).

BUT

- 17% of all employment in the industry is in Canadian-owned companies (this means that 83% of all employment in the industry is in Foreign-owned companies)

Figure 16: Video game company ownership by share of number of companies and employment



n=159 | Source: estimates based on ESAC 2021 Industry Survey

SOURCE: ESSENTIAL FACTS 2021 CANADAHTTPS://THEESA.CA/WP-CONTENT/UPLOADS/2021/11/ESAC-2021-FINAL-REPORT.PDF

3- THE BUSINESS MODEL

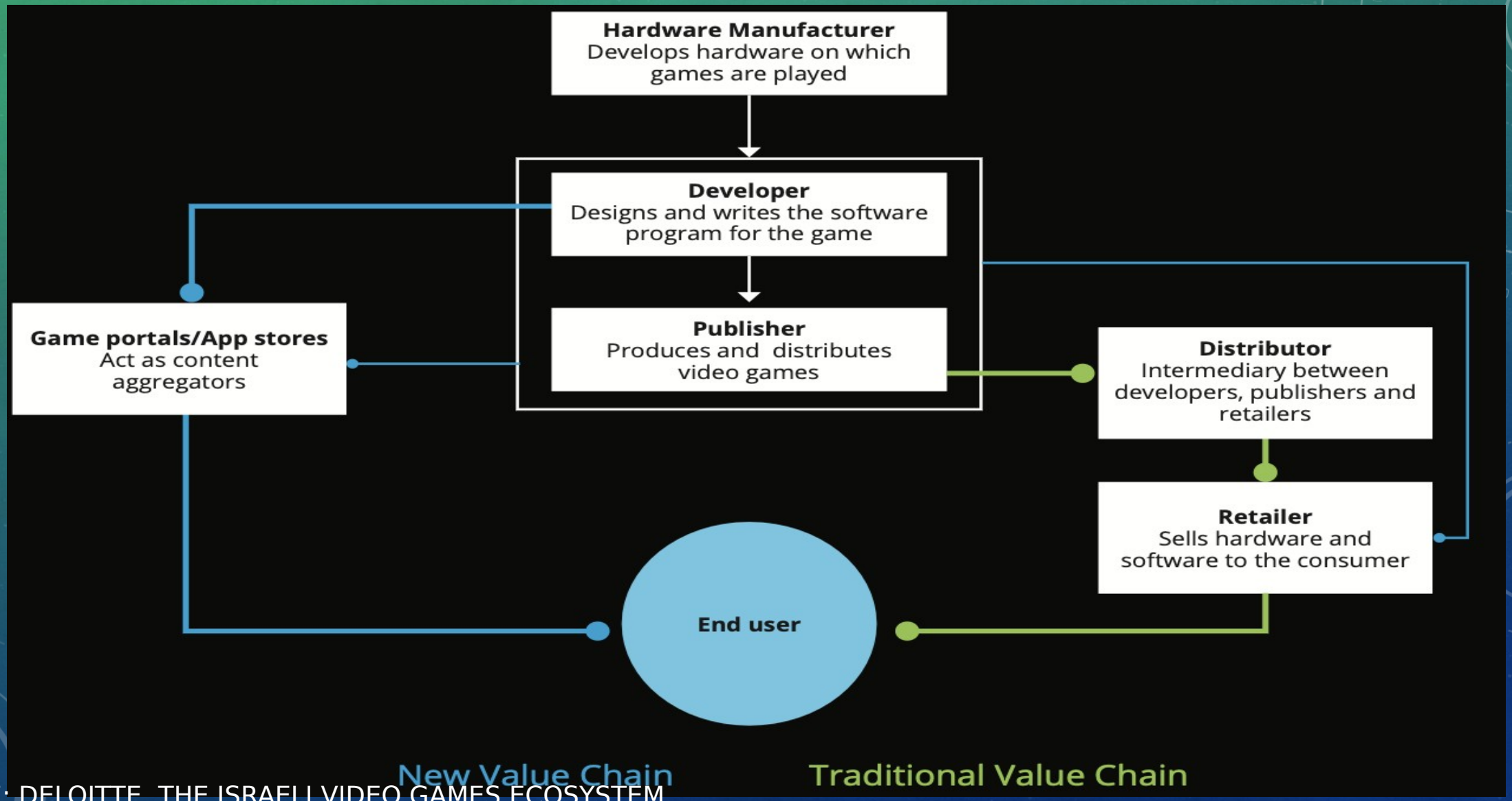
COST TO DEVELOP, MANUFACTURE, AND DISTRIBUTE A VIDEO GAME

business	Earnings	Percent
Developer	$6-$9	12%
Publisher	$24-$27	42%
Manufacturer	$7-$12	17%
Distributor	$3-$4	6%
Retailer	$12-$15	23%

HOW TO RAISE CAPITAL AND REDUCE COSTS?

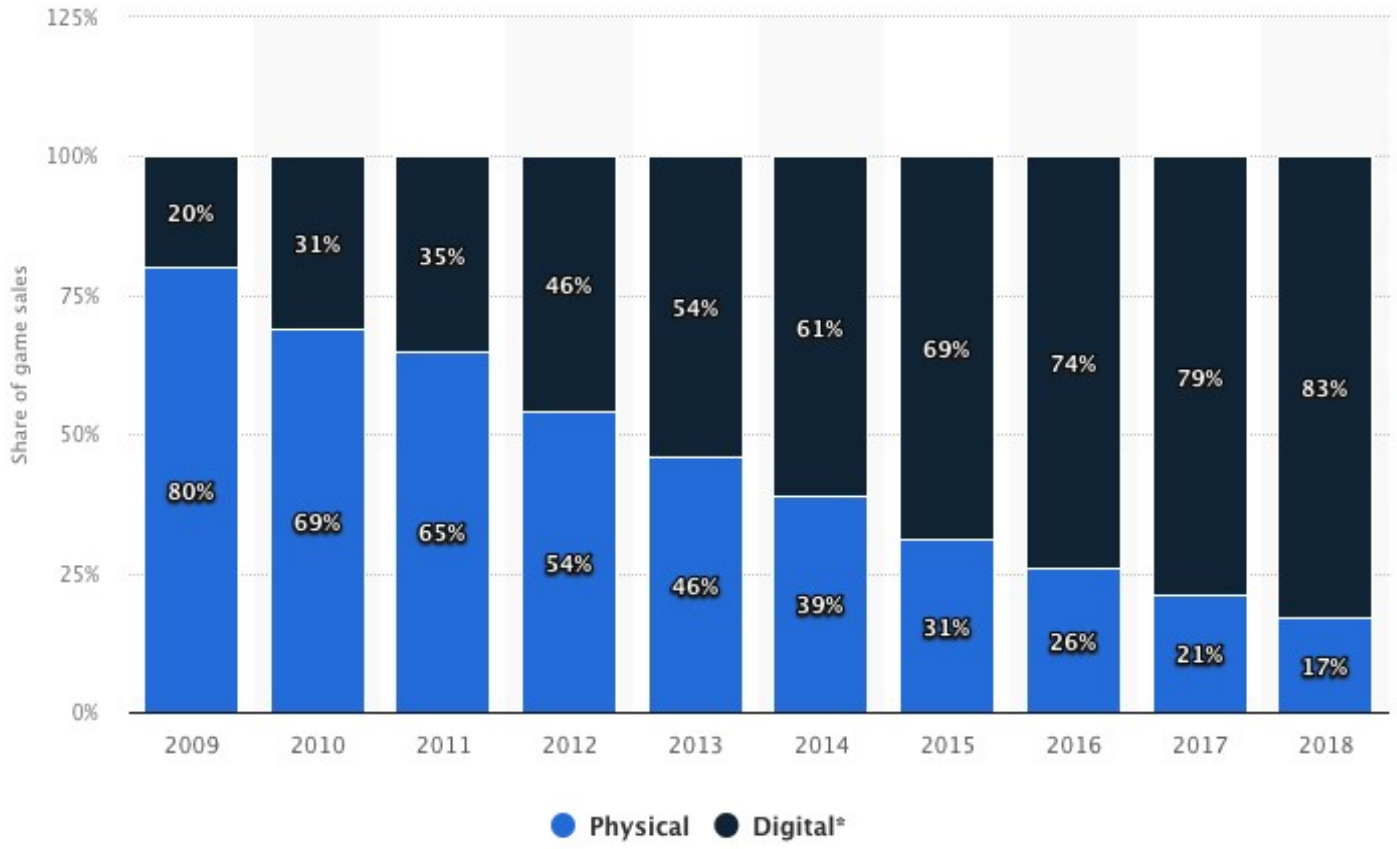
- Distribution: downloadable versions of games (no middleperson distributor)
- To make the user or gamer pay more for less.

TRADITIONAL VALUE CHAIN VS. NEW VALUE CHAIN



SOURCE: DELOITTE, THE ISRAELI VIDEO GAMES ECOSYSTEM, 2018

Distribution of computer and video game sales in the United States from 2009 to 2018, by delivery format



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Additional Information

Show source

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Sources

→ Show sources information

→ Show publisher information

Release date

May 2019

Region

United States

Survey time period

2009 to 2018

Supplementary notes

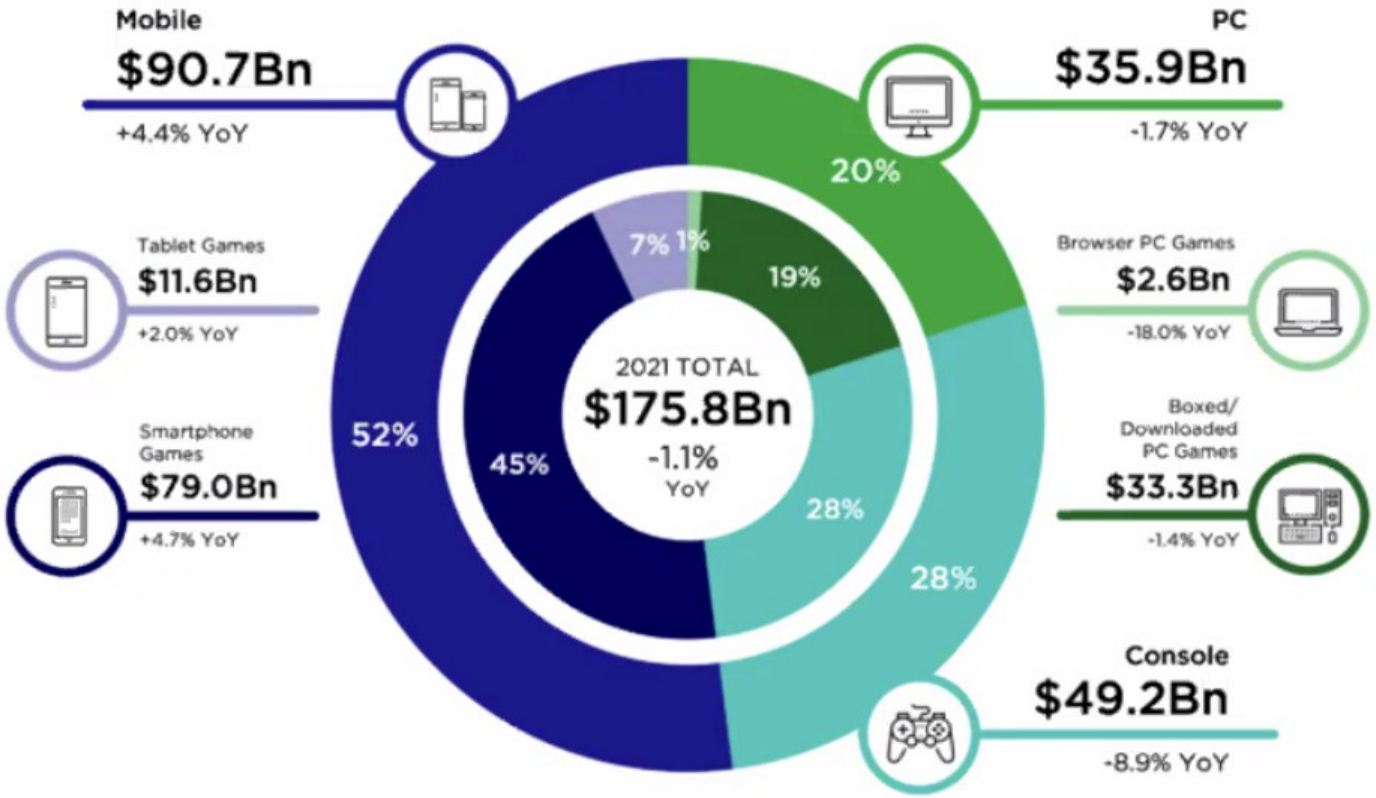
* Digital format sales include subscriptions, digital full games, digital add-on content, mobile apps and social network gaming.

Figures for periods prior to 2018 come from previous reporting.

SOURCE: STATISTA.COM

2021 Global Games Market

Per Device & Segment With Year-on-Year Growth Rates



$90.7Bn

Mobile game revenues in 2021 will account for 52% of the global market

Source: ©Newzoo | Global Games Market Report | April 2021

newzoo.com/globalgamesreport

TOP TEN HIGHEST-EARNING FREE-TO-PLAY GAMES IN 2020 AND THEIR RESPECTIVE DIGITAL REVENUES

Honor of kings	$2.45 billion
Peacekeeper Elite	$2.32 billion
Roblox	$2.29 billion
Free Fire	$2.13 billion
Pokemon Go	$1.92 billion
League of Legends	$1.75 billion
Candy Crush Saga	$1.66 billion
AFK Arena	$1.45 billion
Gardenscapes: New Acres	$1.43 billion
Dungeon Fighter Online	$1.41 billion

3- THE BUSINESS MODEL AND STATE SUPPORT

- Access to new markets
- Outsourcing
- State support

France

The Support Fund for Video games (FAJV) was co-funded by the French Ministry for Industry and by the Centre National du Cinéma (CNC). The FAJV supports companies at the development stage or during the production phase. The two primary forms of aid offered are a subsidy for the creation of intellectual property and financial support for R&D and innovation. Trade events may also be funded.

United Kingdom

The UK games fund which is funded by the UK Government is intended for supporting the UK games development sector and in particular the early-stage games development community. Video Games Tax Relief, afforded to companies producing games which qualify as being British, can be worth up to 20% of the core production costs of a game. Other tax benefits such as R&D relief, may also be utilized.

Denmark

The DFI which is financed by the Danish Ministry of Culture, offers a subsidy program for Danish video games. Support is granted for the development, production and launch of digital, interactive games, regardless of technological platforms and distribution process. The fund offers support for the development, production and launch stages, ranging between 50- 60% of the budget of each stage.

Spain

The National Support for the Development of Video Games fund, which is managed and financed by the Spanish Ministry of Industry, supports the development of software and gaming projects. The support provided is a mix of subvention and loan. Maximum subvention, is 10% of the project's total spending. Aid in the form of a loan may complete the grant to up to 100% of the eligible project costs.

Canada

The government grants upfront R&D support, which can provide companies with up to 50-80% of the total project cost. The Business Development Bank of Canada, has a mandate to 'aggressively support video game start-ups within Canada'. The Canada Media Fund, provides 'repayable contributions for specific funds, and for development, production, and marketing'.

Netherlands

The Dutch Game Garden (DGG) is a government-funded incubator and business center with multiple locations in the Netherlands, intended to accelerate the growth of the Dutch game industry both nationally and internationally. The foundation provides wide ranging support for starting and established game developers. In addition, the Game Fund, financed by the Dutch Ministry of Education, Culture and Science, encourages the development of artistic games.

SOURCE: DELOITTE, THE ISRAELI VIDEO GAMES ECOSYSTEM, 2018

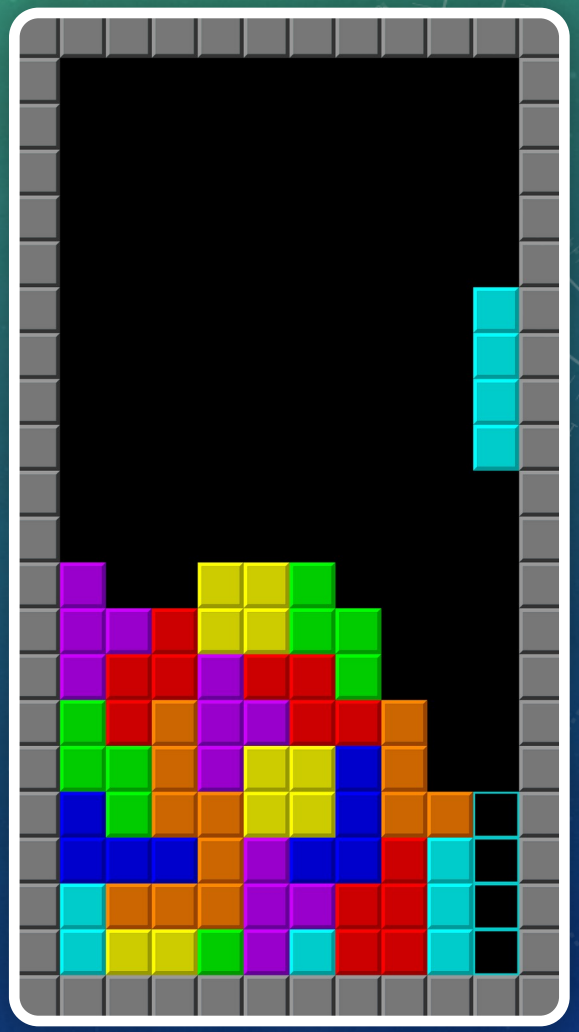
UBISOFT IN MONTREAL

Since 1996, the Quebec government has offered a tax credit for the production of multimedia titles. It covers up to 37.5% of labour costs. The Ontario Interactive Digital Media Tax Credit is a 35 to 40 % refundable tax credit on eligible labour expenditures and eligible marketing and distribution expenditures for eligible interactive digital media products, including video games.

- Photo from Ludia, July 2022

ONE FINAL STORY ABOUT GOVERNMENT AND GAMES

- Tetris: an absolute classic. Developed by Alexey Pajitnov in 1985, Tetris was regarded as highly addictive and stimulating by its early fans. The problem? Alexey lived in the Soviet Union, and had developed the game on computers owned by Elorg (Elektronortechnica, the government's primary import/export agency for computer software).
- In effect, Pajitnov could not claim ownership of Tetris. The game effectively became property of the Soviet Government, and when companies like Atari and Nintendo sought the rights for the game, they ultimately had to negotiate with Elorg.
- There is a whole messy story here, messy enough to make movies out of. Which someone has. But that's not the point here. The point is this: government interest in videogames is not new, as evidenced by this case. Yet, their interest is almost wholly financial: we will see a different relationship between governments and games in the weeks to come.



The average Canadian gamer spends $78.25 per year on video games.