

# Discord and Its Game Store, Fortnite and the Social Aspect of Gaming, Game Store Competition

9-12 minutes

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Good morning,

We are down to the last three posts of the year. Tomorrow I plan on posting the annual Stratechery Year in Review, then after Thursday's Daily Update there will not be another Daily Update until Monday, January 7th, first due to the holiday break, and then due to a much-needed family vacation. As always, the Stratechery posting schedule can be viewed [here](#).

For all of you procrastinators, Stratechery gift subscriptions make great last-minute Christmas presents and are available [here](#). In addition, you can still buy Stratechery merchandise [here](#).

On to the update:

## Discord and Its Game Store

From [The Verge](#), back in October:

Discord's digital game store, which first launched to just 50,000 users in Canada back in August, is now available globally in a public beta capacity, the chat company announced today. The marketplace, simply called Discord Store, is launching with 22 titles, including Team Cherry's Hollow Knight and other indie gems like Dead Cells and Into The Breach. Five of those 21 titles are labeled "First on Discord" titles, meaning Discord is the primary distribution for those titles at launch.

Discord, a PC gaming-centric application that combines voice and text chat with a robust platform for third-party integrations, has been one of the fastest-growing gaming-centric companies of the last decade. It launched just three years ago, and it now counts 150 million registered users, many of whom use the app for chat and as a way to see what their friends are playing at any given moment.

I have been negligent in writing about Discord, probably the most important social network to arise since Snapchat. Discord started out as voice-over-IP application tailored for gamers, but unlike incumbents like Skype, it was tailored for groups from the beginning. Over time it has added all of the additional functionality you would expect from a communications app: group chat, direct messaging, video conferencing, along with status updates geared towards games.

The rise of Discord — which was valued at \$1.65 billion [last April](#) — reflects something very fundamental about gaming that I suspect is missed by many: for young people in particular gaming is a social experience.

## Fortnite and the Social Aspect of Gaming

You can see this most obviously in Fortnite, the Epic colossal that [I have written about previously](#). Keith Stuart explained in August that [Fortnite Is so Much More Than a Game](#):

Through a variety of clever design decisions, Epic has constructed a true digital Third Place, a hangout where players are given a huge amount of autonomy to seek out the experiences they want. As a child of the late 1970s and early 1980s, it hit me a few weeks ago that Fortnite feels like a skatepark. Or if you prefer, a drag strip. Or a surfing beach. Or a roller disco. It has a central function that draws people in, but more important, it provides a safe place to hang out, experiment, and mess around. To be free...

For my sons and a lot of kids their age, Fortnite is not a game they play, it's a place they go — and, importantly, it's a place they go with friends and not with Mom and Dad. It's fulfilling the same development role as those illicit teen spaces from the 1970s and '80s — those dodgy youth clubs, arcades, and video stores that we discovered unchaperoned...

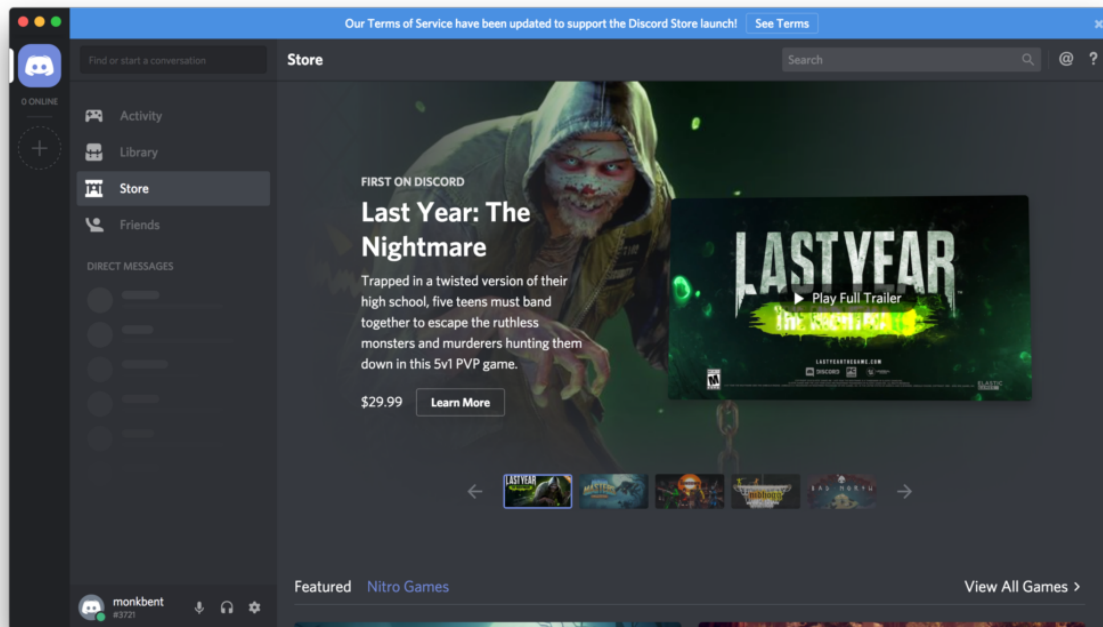
People who don't play Fortnite, or video games in general, often say it's sad that modern teens aren't going to skateparks and roller discos and that they're getting these formative experiences online instead. In some ways, I guess it is, but kids aren't necessarily to blame here. Teenagers are caught in a crappy sociocultural Catch-22: Adults are worried their kids are spending too much time on smartphones and consoles, but at the same time they're constantly policing and restricting access to physical environments...What's really interesting about Fortnite is how it subtly synthesizes many of the things teens look for in urban spaces. In his seminal 1977 work, *Growing Up in Cities*, author and urban planner Kevin Lynch studied teens in four cities around the world to understand what attracted them to certain hangouts. Among the key features were a sense of safety and free movement, a cohesive and stable community, and nearby green areas for exploration, playfulness, and organized competition. These are all aspects of the Fortnite experience.

This, as I noted in that earlier update, explains why Fortnite monetizes so phenomenally well: it is [Selling Feelings](#), including the ability to display status or show-off, things that matter more intensely where your friends are than just about anywhere else.

Still, while Fortnite is in many respects a phenomenon unto itself, that doesn't mean the social aspect of gaming is any less important across the vast universe of other titles; few of those titles, though, are tuned for the social aspect the way Fortnite is (think of Fortnite as being the fully integrated option that appeals to the mass market, the Apple of games, as it were). This is where Discord comes in: it imposes a social network on top of games of all types, even as its audience uses Discord to discuss topics far more wide-ranging than merely games.

The question, though, is what about monetization? It makes sense that Discord not monetize actual communication: the most valuable aspect of any social network is whether or not your friends are there, and the likelihood your friends are there — or can be persuaded to be there — are much higher if the network in question is free. What does make sense are monetizing the sorts of things that have always been monetizable in the consumer space: convenience and status. To that end, in 2017 Discord started offering the Discord Nitro subscription offering: for \$4.99/month users could use custom avatars across multiple servers, have increased upload space for videos, etc.

The real value of 150 million users, though, is as a distribution channel, which is where the Discord Store makes so much sense: if you have an app that 150 million people are opening regularly, why not put a storefront there?



Discord went further than that though: at the same time the company relaunched Discord Nitro, upping the price to \$9.99/month and also including access to tens of games (the library has been growing steadily); here is an attempt to gather the best of both worlds — subscription revenue plus the ever-reducing customer acquisition cost unlocked with increasing content captured by owning distribution.

## Game Store Competition

Still, Discord's path to profit won't be easy. Check out this tick-tock with regards to game stores on the PC:

- In October, as noted above, Discord launches its Game Store with a 70/30 revenue split with developers, mimicking Steam, the 800 pound gorilla in the space.
- In November, [Steam adjusts its revenue share](#), reducing its take to 25 percent for revenue over \$10 million, and 20 percent for revenue over \$50 million.
- The first week of December, Epic, the publishers of Fortnite, [announced their own store](#) that would not only leverage the popularity of Fortnite but also give 88 percent of revenue to developers. Epic also included a popular Fortnite feature that allows popular streamers to profit from viewers that buy in-game currency.
- Two days later, Epic not only launched their store earlier than expected, they also launched with two high-profile exclusives called *Ashen* and *Hades*. These are the sort of titles that compel gamers to go the hassle of downloading new storefronts other than Steam.
- Last week, Discord responded by [cutting its take from 30 percent to 10 percent](#). The company said [in a blog post](#):

Turns out, it does not cost 30% to distribute games in 2018. After doing some research, we discovered that we can build amazing developer tools, run them, and give developers the majority of the revenue share.

Needless to say, I don't think this was a surprise to Discord: *of course* it doesn't cost 30% to distribute a game — [or an app, for that matter](#), much less digital content. 30% is justified by nothing more than fiat. That's the thing, though: the surest way around fiat is competition, and ultimately, the biggest reason why 30% is crumbling in PC gaming is because the PC is an open platform. Valve (Steam) can build a store, Epic can build a

store, Discord can build a store, and while they can charge developers whatever they want, their pricing power is ultimately regulated by good old competition.

This is quite obviously good for developers, who gain more of the revenue from their creativity, and, I strongly suspect, good in the long run for consumers, who are likely to face both lower prices and more creative games; this should more than make up for the complexity of managing multiple stores. The only losers are the market-makers themselves, but is that, relatively speaking, such a loss?

This, more broadly, gets at a critical analytical distinction: if your concern is investment opportunities and the creation of profitable businesses, a lack of competition is a good thing. What Apple shareholder, for example, would object to the company having a stranglehold on app distribution and digital content monetization? However, it is increasingly difficult to square that concern with that of society broadly: consumers benefit from simplicity, certainly, but of what value is that relative to the increased innovation unlocked by distributing monopoly profits to those actual making the things worth buying?

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