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DEVELOPMENT OF AN INDUSTRIAL MARKETING FRAMEWORK
FOR SME'S: A GAME INDUSTRY CASE STUDY

Master of Science thesis

Examiner: prof. Artur Lugmayr
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ABSTRACT

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This study provides a complete coverage of the current status of the video game business and digital distribution through explanation of business models, and a focus on Finnish market with one case example. Literature review was done completely to provide a foundation for the reader to understand the business environment of Finland and how different parts of the value chain function. In addition to that, a case study was completed through an interview with a SME to present a practical example of the firm's approach in marketing their product.

To initiate this study, video game business in today's world was analyzed followed by market and industry trends globally. Value chain in different aspects of the industry were discussed with factors and influential elements. Small and medium sized businesses were discussed along with their characteristics, after that different business models for video games were elaborated. In the final chapter, Finnish game market was through analyzed and the roles of different players and stakeholders were described.

Video game business has evolved drastically in all aspect from technical aspects to business aspects. Finland has a very special place in this multibillion business, introducing many titles which are household names right now. This has created the desire for many new comers to enter the market, their success in the market depends on the quality of their product as well as a fitting business model.

PREFACE

During my studies in Tampere university of Technology, I had the opportunity to study courses in media business and I also participated in MindTrek conference two years in a row, I knew I wanted to work in this field. I also had written one academic paper for one of the main courses in my program about video games. This thesis is the study of the video game business in general and marketing of the products and related business models are the focus. It has helped me to have a better understanding of the industry and new approaches that firms take to generate more revenue in a very competitive market.

I have had the opportunity and honor to work for Professor Artur Lugmayr as a research and teaching assistant and he kindly has given me the opportunity to write the thesis under his supervision. I am more than grateful for all these opportunities. I also would like to express my gratitude to Mr. Mikko Karsisto of Apex Games to give me the opportunity to work closely with him and his company and conduct the interview and research.

Tampere, 10.4.2015

Kaveh Khaleghi

CONTENTS

List of Symbols and abbreviations

ACLV   Average Customer Lifetime Value

B2B   Business to Business

B2C   Business to Customer

CA   Content Aggregator

CAGR   Compound Annual Growth Rate

COGS   Cost of Goods Sold

CP   Content Provider

ESA   Entertainment Software Association

GaaP   Generally Accepted Accounting Procedures

GP   Game Provider

GaaS   Generally Accepted Auditing Standards

IGDA   International Game Developers Association

IP   Intellectual Property

NO   Network Operator

MMO   Massively Multiplayer Online

MMOG   Massively Multiplayer Online Game

MMORPG   Massively Multiplayer Online Role-playing Game

RMAH   Real Money

RMMP   Real Money Market Place

RPG   Role-playing Game

SME   Small and Medium Sized Businesses

WNP   Wireless Network Provider

WWW   World Wide Web

R   Registered
TM   Trademark

1. INTRODUCTION

1.1 Background and the reason for this study

Video games have come a long way, from a just a hobby or a source of entertainment to a multibillion industry that has been able to influence and attract different demographics and tastes, the video game market in 2013 has been $93 Billion (Meulen 2013). There are always references to great movies, outstanding novels and great pieces of music and now it's time to consider video games more than a product and call it an experience(Castro-Garcia 2013). Like any other market, there are incumbents which have large market share and international presence and new comers in the form of small and medium enterprises which are looking to establish themselves. These SME's have contributed to the industry to a great extent and some of the block buster video games in today's market have come out of small studios. A famous example is Rovio ™ Company which was founded by three students from Aalto University in Helsinki, Finland which is behind the very successful video game Angry Birds ™(Liu & Li 2012).

It needs to be mentioned here that there are both risks and rewards for SME's, some similar to bigger companies and some unique, for instance Rovio ™ which was once on the edge of bankruptcy managed to work on simple but brilliant idea and turn the initial $136000 to today's company value which is $1.2 Billion(Hed 2014). Hence, it can be understood that there are strategies in design, selection of platform, target audience and most importantly the marketing and its related business models which enable a company to offer good quality product that is economically feasible for the company and brings value for the customer at the same time.

This study focuses on revealing the current status of the video game market and industry trends and different options and possibilities which it brings for the game creators. The market and technology both are dynamic and changes happen really fast. Throughout this thesis, the reader gets an overview of the marketing and business models in video internationally and in the case of Finland when a company case is evaluated later on.

1.2 Research problems, objectives and scopes

The main research problem is:

What are the marketing elements for small and medium sized businesses in video game industry?

The main research problem is divided into four research group sub topics that are forming the chapter 2-4. The discussion is going to become more details as the study proceeds, starting from the video game business in digital age and finally focusing on game companies in Finland with a company case profile. The first part of the research builds the background of the study:

RQ 1: what changes has happened in the video game market?

Chapter 2 covers an overview of the video game market and industry trends, it also evaluates the process of creating value for the customers and suppliers in different aspects of the business.

RQ 2: what is SME? What are the business models used for marketing the products in the context of game companies?

Here first of all SME's are going to be explained with their characteristics different variables and parameters, then business model is defined and finally business models or video games will be elaborated, especially the ones suitable for SME's.

RQ 3: What is the situation of the game industry in Finland?

This illustrates the different aspects which SME's are engaged in and what they can do to utilize the opportunity.

RQ 4: what kind of business model and distribution strategy has been adopted by video game SME's?
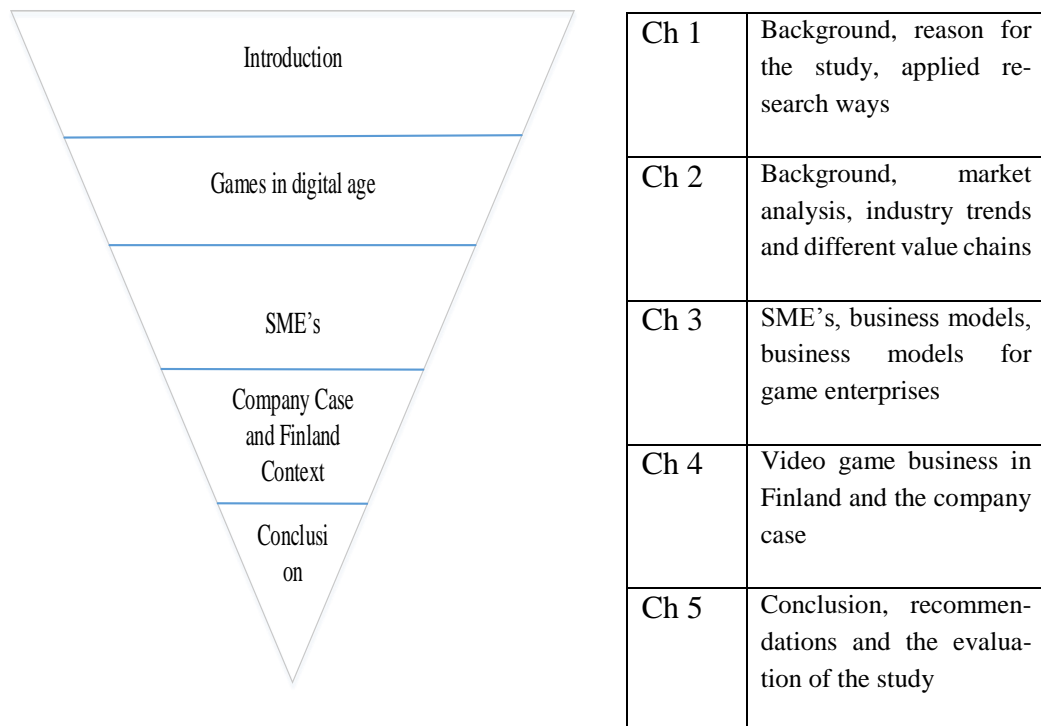
The ultimate goal of this study is to offer a comprehensive picture of video game SME's marketing methods. This can be achieved in three steps:

1. Analysis of the video game development process and specialized business models in chapter 3
2. Analysis of Finnish digital game environment
3. Relating the previous two points with the case study about a Finnish company

The focus of this research is limited to the Finnish video game market and other geographical regions are excluded, the company case example is also from Finland. Both traditional and new approaches to value chain have are going to be analysed about physical and online distribution of the games. The company case is limited to the business model and marketing of the product, suggestions about the business models and marketing approaches.

1.3 Structure of the thesis

The thesis starts from giving a picture about game industry in chapter 2 to the SME's and definition and components of business models in chapter 3, after that it proceeds to chapter 4 which covers the Finnish market and investigates the case to give a comprehensive picture regarding the topic. The flow of the topic and description of each chapter have been illustrated visually in Figure 2 below in the pyramid and the table respectively.

Introduction			

Ch 1	Background, reason for the study, applied research ways
Ch 2	Background, market analysis, industry trends and different value chains
Ch 3	SME's, business models, business models for game enterprises
Ch 4	Video game business in Finland and the company case
Ch 5	Conclusion, recommendations and the evaluation of the study

Pyramid labels (top to bottom): Introduction; Games in digital age; SME's; Company Case and Finland Context; Conclusion

Figure 1 Structure of the thesis

1.4 Earlier research

A research has found that during the years 2003-2006, 120 journal articles have been written regarding the subject of SME and e-business (Parker & Castleman 2007). Also there has been the interest of writing thesis about the impact of digital marketing on SME's such including one that was written about this subject in Ireland (Vo 2014). This shows the importance of the subject, however there is a lot of room for research on video game SME's and not has been done in that field. The introduction of new distribution channels, high costs of developments, strong competition in the market are challenges that need to be taken into consideration.

1.5 Research methods and material

The basis of this study has been comprehensive literature research which explains what the whole research is about and then empirical qualitative case study in the form of inter-view. Qualitative research methods are those ways used for collecting qualitative data such as texts, image and sounds(Moody 2002).

1.5.1 Literature review process

The literature review has been carried out with the selection of reputable journal articles, magazine articles, course materials, websites, game websites, consulting firms and etc. The work experience as the research assistant to the candidate's supervisor as well as the personal interest and work experience in this field were very helpful during this process. The resources about marketing and new business models are the methods companies use globally and not necessarily are related to Finland's market directly. The research was pursued by searching different databases for keywords like "game industry overview", "game industry in digital age", "traditional and modern value chains" and different com-binations for SME's and business models. In this process, it has been the researcher's effort to use new sources where they were available. The other point that has been fol-lowed throughout the text, is the combination of theoretical frameworks with practical examples and numbers. This would help to crystalize the concepts for the reader and also for future research.

1.5.2 The selected method for the qualitative empirical research

Interview was chosen as the qualitative research method for this research. According to Yin (2003), there are four criteria for conducting a case study: 1. the focus of the research is to answer "why" and "how" type of questions, 2. the researcher can't alter the behaviour of those individuals that are involved in the study, 3. the researcher wants to relate to a certain condition and analyse it and 4. Finally the boundaries between the phenomenon and the context are not clear (Yin 2003). This study analysed the possible marketing methods and business models selected by SME. The case study was chosen as the empirical part because it analysed the marketing methods in the context of SME and more detailed in the context of Finnish game industry. In this environment, certain traits and patterns have been developed that contribute significantly to the decision making. As a result, it facilitated the research process to investigate the matter in the certain context.

The company case was chosen from Finland, the most important reason is the top position of Finnish game industry and many start-ups that have formed in this country in video gaming industry. The company personnel and manager were interview with a series of questions regarding the distribution methods, marketing activities and business models that they have chosen for their products. The interview was recorded and the results were analysed and written down. The goals are the interview, the preparation for it and follow up efforts can be described as the following:

- For the first step, to gain a better understanding of the Finnish market, a vast research was done about the value chain in Finnish video game industry, different stakeholders that contribute to the value chain and different metrics and statistics. This step was necessary for the questions to become clear and purposeful, the other important reason was to cover all the relevant questions and factors.
- The goals of the interview were mainly focused on the marketing strategy of the firm. As it is explained throughout the study, business models are the backbone of the marketing process. So various questions were asked to find out the current and potential business models. The relevance of the business model with other marketing factors such as target market and audience, funding and financing, selected platforms and promotions were analyzed.
- The follow up process aimed at providing updates about the release of the game, possible changes in the business models, recently done activities by the firm and the role of the side businesses and gamification aspects for the whole business. A brief interview was conducted with the company manager.

Main interview and follow-up interview are placed in appendixes A and B, respectively.

2. VIDEO GAME BUSINESS IN DIGITAL AGE

Game industry has played a major role in entertainment industry's economy over the past twenty years. This becomes more noticeable considering that other sectors such as music and movie industries have been already established (Marchand & Hennig-Thurau 2013). In monetary terms, gaming industry has experienced a growth between 9-15% in a period of 25 years (Zackariasson 2010). The industry is not only associated with fast growth rate but also it is considered to be dynamic and progressive. In addition to the original platforms (computer and console), New platforms such as smart phones and other hand-held devices have been added to the gaming spectrum (Marchand & Hennig-Thurau 2013).

This chapter evaluates the current situation of the game business in different levels. Different value chains. Next, the new profit making methods in the industry will be explained.

2.1 Market Analysis

2.1.1 Market Trends

In every industry there are technology disruptions that promote and change the business and money making methods. The digital age has revolutionized the conventional methods of business models, distribution mechanisms and creative processes in cultural industries (Chantepie 2010). The fact that digital art is being produced more and more and use of computer is inseparable part of production is an obvious indicator that new technologies are directly associated with how the arts products are produced (Paul 2003).

One of these revolutionary technologies is Internet, according to a survey the percentage of the Americans with Internet access has increased from 67-83% between the periods of 2000-2013. At the same time, the access to broadband Internet has experienced a dramatic growth, reaching to 83% (Jeffrey I. Cole, Michael Suman, Phoebe Schramm, Liuning Zhou, Andromeda Salvador 2013). Wesley mentions that game companies have tried to exploit this opportunity by utilizing Internet to reach to more customers. For instance game distributors, tried to reverse the decline in PC game sales by distributing the games online. The main advantage is to offer an on-line game experience and to expand the customer base.

However there are also challenges, For instance piracy is a major issue. One example is the game "Raycatcher" which sold 1000 copies the day it was released but 35000 copies were downloaded through illegal file sharing portals (Wesley & Barczak n.d.). As some parts of the market have experienced decrease in sales others have been the new source of revenue.

According to a research that has been done by GLOBAL COLLECT, the global game market in 2013 was estimated to worth 70.4 billion USD. Consoles contributed 43% to the market which was the highest share whereas PC games had the lowest share of 9%. MMO or massively multiplayer online games had 21% market share which is very high and shows continuous rise in online gaming. This trend reveals the importance of online game experience and network effect which was mentioned before. The rest of the market was divided between mobile games with 18% market share and casual games with 9% which is equal to mainstream games in PC. Casual games are those games which target non-professional and non-gamers and have simple rules which allow the gamer to learn them easier and play the game in shorter amount of time (Baniqued et al. 2013). There are interesting facts about the gamer's demographics and playing habits, demonstrating the continuous growth in the industry. According to the ESA (entertainment software association), 59% of Americans play video games and there are in average two gamers in each household and that household in the States owns at least one console. The average age of a player is 31 years old, a good indicator for the participation level of adults in gaming. Also the average age of the people who buy games is 35. Forty eight percent of the gamers are female and the number of female gamers who are fifty years old and above has increased noticeably by 32% from 2012 to 2013. People who frequently buy games are divided equally in terms of gender. Only 21% of buyers mentioned price as the decisive factor compared to 48% that preferred good graphics, strong storyline and their favourite sequel as the key factor in the respect decision making.

In Figure 2, some interesting insights about the demographics and playing behaviour are shown. In the left pie chart, market share based on the platform is drawn, consoles still dominate the market with 43% and casual social media platforms for games has the least with 9%. The market share of MMO and mobile games is noticeable with 24% and 18% respectively. In the right pie chart, gamers are categorized based on how much they play and as it can be seen, still majority of the buyers are frequent players.
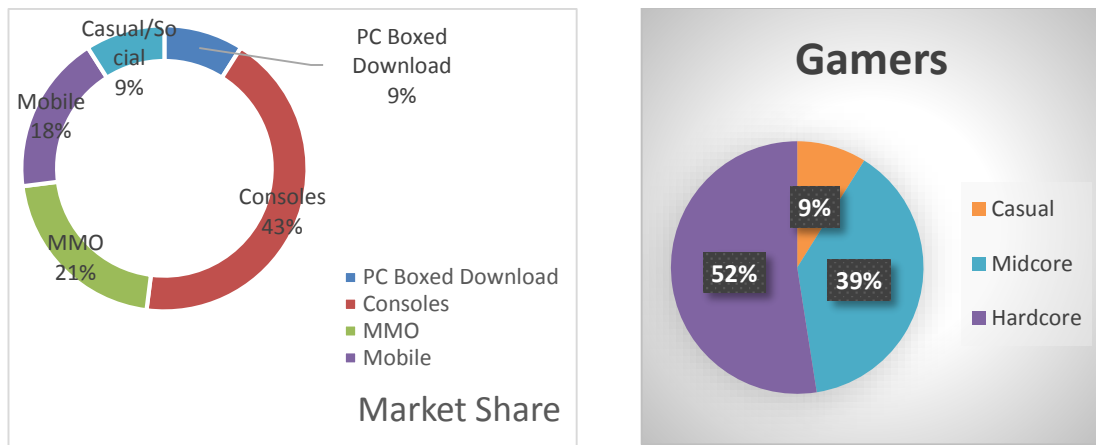
Figure 2 The global market share based on platform 2013 based on a financial analysis by Newzoo (left) and Market segmentation based on professionalism in gaming 2013 (right) (Salisbury 2013)

Video game market is a two-sided market. This concept can be described with its two main elements: 1. two groups of agents have interaction with each other which is done through an intermediary or a platform and 2. Decision of each group of agents influences the results of the other agents. For example, Microsoft Xbox™ is an intermediary and end consumers and video game developement studios are the two sets of agents. Either of the agents are interested in the platform just because the other one shows desire for it (Rysman 2009).

Two main strategies that are used to exploit a platform are pricing and openness. Pricing in two-sided markets has a complex pattern, pricing on one side of the market depends on the demand and costs of the consumers on the other side. In addition to that, the involvement of one side and the amount of revenue which is generated from it. The concept of openness has two elements, first a firm should analyze and choose what kind of market it wants to place itself in, one-sided, two-sided or multi-sided. Latter one explains how the firm should establish a relation to other competing platforms, some platforms offer compatibility, others pursue incompatibility and some others seek integration (Rysman 2009).

2.1.2 Industry Trends

As a result of different factors such as technological breakthroughs, changes in user be-
haviours and changes in market a series of industry trends have been shaping the market.
The most important ones are listed below (Michaud 2013).

1. Next generation consoles are going to strengthen the market in the period of four
   years starting from 2013. The focus is to offer suitable services and to make the
   console standout from others in different aspects not only the hardware features.
   Cloud services, mobility across the platforms, offering different options for online
   and offline gaming and social networks integration are some of these new prac-
   tices in video game console world.
2. Online gaming will be the dominant source of revenue during the same time pe-
   riod reaching its peak at 2017.
3. "Free to play" will be the major business models for many MMOG (massively
   multiplayer online games). This models gives the option to users to start the games
   free of charge and later there are many options for payment to unlock certain fea-
   tures as the user proceeds further. This model will be explained in more detailed
   in next chapter.
4. Mobile gaming is becoming more and more important to the extent that it can
   compete with consoles despite the game experience difference.
5. Tablet platform gives the gaming experience of smart phones but with a better
   quality on a larger screen. It is very interesting to mention that gaming is the major
   activity done on tablets reaching up to 67% of the activities.
6. Free to play model plays a major role in social network games contributing up to
   85% of revenue and the rest of the revenue comes from advertising. The other
   point is about the division of revenue generation from user's side, the small num-
   ber of users contribute the most amount of revenue spending up to $25 average
   on a monthly basis while the rest of the group spend $1 to $5.
7. Offering games on different platforms is very common practice, for instance most
   of the games on top 20 sales list of Apple store are accessible both on iPad™ and
   iPhone™. This presence is either in the form of service, integrated part of the
   game or by the objects that can be connected to home consoles.

Video game industry is classified as a creative industry. Creative industries are those industries that have the ability to hire significant number of creative people (Dcms 2013). The nature of these industries is based on creativity and continuous innovation in intellectual property, however maturity is inevitable (Tschang 2007). Two elements, cost and complexity, contribute to a great extent to the maturity process which results in rationalization. Rationalization in this case refers to industry focus on productivity profitability rather than necessarily focusing on creativity (Tschang 2007). Although this approach has maintained its influence in the industry, firms had to create space and resources for creativity to prosper, either incremental or disruptive. For publishers, the preference is mostly incremental innovations however they tend to diversify their game portfolio by approaching independent development studios. Those independent studios might choose either two paths, a completely fresh start, new intellectual property or working on the established intellectual property of major studios. In Table 1, the evolution of the work of three studios in US is shown.

Item	Action Games	RPG (Role-playing Games)	Strategy Games
Origin of the firm	part of the publisher's internal development team	spin-off of another studio	spin-off of publisher's internal studio
First Product	worked with the IP (Intellectual Property) of a third party(incremental)	sequel to a popular and well-known game(incremental)	Firm's IP
Second Product	worked directly with the publisher, the product was a sequel	Firm's IP	worked on a sequel of a publisher's game(incremental)
Third Product	worked on a IP which belonged to the publisher(incremental)	Firm's IP	-
Fourth Product	started working on its own IP(disruptive)	sequel to second product(incremental)	-

Table 1 Evolution of balancing rationalization vs. creativity in three video game companies (Tschang 2007)

This is a good example of how newly established firms in video game industry take different approaches based on their experiences and connection with major studios and publishers, choosing incremental or disruptive innovations to establish themselves in the market.

2.1.3 Game Genres

It is beneficial to give a brief description of video game genres. According to one research, video games can be divided into ten groups on the basis of their genres (Lee et al. 1997):

- Actions: Games in which the focus is on a series of actions to complete certain quests.
- Action/Adventure: A world has been created for the gamer to explore and gain certain objects through performing various actions.
- Driving/Racing: Games that are designed based on different vehicles and typically there are races to complete and prizes to win.
- Fighting: Games in which the player takes the role of a character and engages in fights and combats.
- Puzzle: Those games which focus on finding solutions for different puzzles that are featured throughout the game.
- RPG: Role-playing games focus on the gradual development of the character throughout the game.
- Shooter: Games that focus on shooting and destroying objects and opponents.
- Simulation: Those games which are aimed at creating real world experiences in the game environment.
- Sports: Games that focus on creating the game experience of a certain sport.
- Strategy: Player's decisions have the main influence on the final result.

With the expansion of WWW (World Wide Web) and its services, the online game genre has become a significant segment of the game market. One of the most important genres is MMOG which stands for massively multiplayer online games. Massively in this case refers to the high number of people that are playing the game reaching to millions of players. Multiplayer explains the fact that players are playing the game at them same time and online factor reveals the dependency of these games on Internet. In these games, there are many choices available for the gamer which can be observed as soon as the game starts. Character creation process gives user many options for the player to select including sex, skills, class and race of the character. There is also the possibility to select different fights and wars to engage in. Making progress in MMOG's can include hundreds of quest and challenges that the player can select to gain and resolve (Barnett & Coulson 2010).

2.2 Value Chain in video game industry

2.2.1 New Media

In this part, a new approach to value chain model is mentioned. It includes more detailed explanation of the decision makers in industry, major players, products and communication channels. Like any other industry, the dynamics, interactions and relationships between suppliers and customers are changing. In an industry that the number of disruptive and incremental technologies are so many, the pace of these changes are faster. In order to have a better understanding of these changes, the term "new media" and its characteristics should be explained. New media are different forms of digital content such as websites and other information platforms in which the users and consumers engage in a dynamic interactions and behaviours that have long lasting effects (Hennig-Thurau et al. 2010).

New media is digital, meaning that the marginal costs for reproducing it is almost zero and the audience can be reach directly with middle parties and gatekeepers. Consumers contribute to all parts of the value chain, the participation might be in the form of testing, submitting reviews and even cooperating in the content creation process. Consumers in new media are visible through their presence on forums, blogs and through the mobile operators' location detection of the users. This feature enables the suppliers to offer customized content based on the geographic location of the user. The other feature is the real time availability of the new media which means media can be accessed as it is being produced. The content is accessible in different platforms and times and finally the important effects of the networks which allows the consumers to interact and communicate with each other, share the content. This feature has been the breakthrough behind the vast expansion of online gaming mostly in the form of MMOG's such as World of Warcraft (Hennig-Thurau et al. 2010).

In order to initiate the topic of value chain and value creation, one fundamental concept must be discussed. Customer value is based on reaching a certain goal, to analyse and illustrate the value that firms create for their customers and in later phases linking it with other marketing concepts. Two main approaches for customer value are company perspective and customer perspective(Graf & Maas 2014). Various approaches have been taken to define customer value, here two approaches from two different scholars are mentioned. Perceived value is the customer's total evaluation of the benefits of a product or service based on how much the customer has given and taken in return (Zeithaml 1988). Customer value is how the product is perceived in the market in relation to the price of

the product or how customers think of the product comparing it to the one of the competitors(Gale 1994).

2.2.2 Value Creation

As it was explained in previous sections, customer and supplier relationship are dynamic and they start from the moment that user engages in with the product and service start contributing throughout the whole value chain. Since customers are very important in terms of having continuous effect, part of the value that is created here comes from user's side or in another words what the player contributes to the game. To crystalize the concept, added value of a player = value created when all players play – value created when all but the certain player are present in the game (Brandenburger & Stuart 1996).

There are strategies that companies can adopt to outperform the competitors and establish a good relationship with their customers (Kleinstein 2005). One is to differentiate themselves in the market by producing a unique product or service or establishing a successful brand that lasts in long term. For instance, Capcom™ has been a very good example of a firm which has been able to establish genres and brands in video games and it has been place as number one company in the best video game companies of all times (Knight 2009). Another approach is to establish relationships with customers which can be done through some sort of loyalty programs, creating offers and discounts, special events, free to play option, etc. Finally, the enterprise can start the modification from within by cutting costs and exploiting the resources in a more constructive and economical manner. It is evident that the firm should always invest necessary resources to develop new products with good quality and improve the customer experience of the existing ones.

2.2.3 Retail value chain in video game industry

The value chain in video game industry consist of developers, publishers, console manufacturers, distributors and retailers (Lê et al. 2010).

- **Developers** design and produce the Game.
- **Publishers** support developers in terms of funding and supervision for the design process. Marketing tasks as well as managing relationships with distributors and console manufactures is part of their responsibilities.
- Hardware is made by **console manufacturers** such Sony™ PlayStation™. For each game that is sold for their console they receive royalty fee.
- **Distributors**
- **Retailers**

This model is illustrated in the following form as it can be seen in Figure 3. Video game production is a very complex, time and money consuming process. It consists of five stages: 1. Development 2. Publishing 3. Manufacturing 4. Distribution 5. Retail (Williams 2002).

Figure 3 Retail vertical value chain (Williams 2002)

In the development stage, games are created and programmed. It can happen in three methods, first the developer is an internal section of the publisher. This is what major players in the industry usually do such as Nintendo™ which owns its developing studios. Despite having the capability to develop their own titles, major publisher can't meet the demand to produce enough game titles, hence they sign contracts with second party developers to create new titles for their platform. The last type is third party developers, firms that are not in a contract with the publisher but still develop games for the platform (Williams 2002).

Development stage has four phases: 1. Tool building in which the main 3D engine of the game is created plus the scripting language. 2. Assembly stage which attains the completion of game features and designing of different levels, the outcome of this phase is a game that can be played and is ready for design level. 3. Levels is about creating all the levels in the game which is also called alpha release. 4. Review is playing all the game and doing the necessary tests to make sure that all the components function properly, the outcome of this stage is called gold master. After completion of these four phases, three releases of game come in order, alpha release is when all the features of the game have been included and integrated but the debugging process has not been completed. Beta stage handles all the bugs and new features are not added except for resolving major problems. Now the game is ready to release and no new feature is added (Laird 2005).

The first playable game in the development stage also referred to as prototype which takes two to three months or more to build, depending on the complexity of the game. It might be the case that the process needs to be redone and the first built prototype is not good enough (Claypool & Lindeman 2008). Revenue generation for the developers mainly comes from royalty fees from the publisher, publishers keep some royalty fee to be paid later in case of product return and pricing policies by retailers. However, both parties are open to share the risks because of very high development costs of the game. The development time can range from half a year to even three years (Williams 2002).

According to Williams (2002), after the development of the game is done its publisher's time to oversight of the product and market it. Publisher usually holds the intellectual property rights of the game. Manufacturing process is part of the licensing when the developers are creating console games, all three major console manufacturers have strict rules and policies to prevent the illegal copying of the games. Publisher are typically large international companies with numerous employees. They are responsible for marketing, product management, financing the development and creation of the game and planning pricing strategies. Publishing industry has seven characteristics which can result in having successful business models and on the other hand make the profit generation difficult. 1. Low barriers of entry which is the result of publishing from one's desktop 2. Lack of niche publishers in the market 3. Absence of business models due to the high number of the outlets available for a product 4. Existence of open market meaning that everyone can publish 5. A large number of players that have made the industry successful 6. Availability of technology to all 7. Global access to the end product (O'Reilly 1995).

Distribution performs that task of storing the physical products and also makes efforts aiming at the sales of the game, acting as a connector between the developer and publisher from one side and the retailer from the other side (Williams 2002). Distribution is a low margin business, some companies have taken control of their own distribution but in order to cover the costs, they are doing the distribution work for other companies because their economy of scale is not enough for this purpose, a good example in this case is Activision™ (Williams 2002). In next chapter new approaches in distribution which have been enabled by internet, will be elaborated.

Retail is the stage when the product is offered to the end consumer. Main characteristics of this stage are high shelf prices which gives an edge to the retailers over distributors and publishers, high concentration is another feature due to the rise in the number of mega stores. In US market there are not independent stores in contrast to many European countries that independent retailers have a strong presence in the market (Williams 2002).

In Figure 4, the retail model that was mentioned before, is elaborated in more details. It includes the platforms, contents, traditional and modern media, systems that influence the game market and how different channels of communications have been added to the value chain.
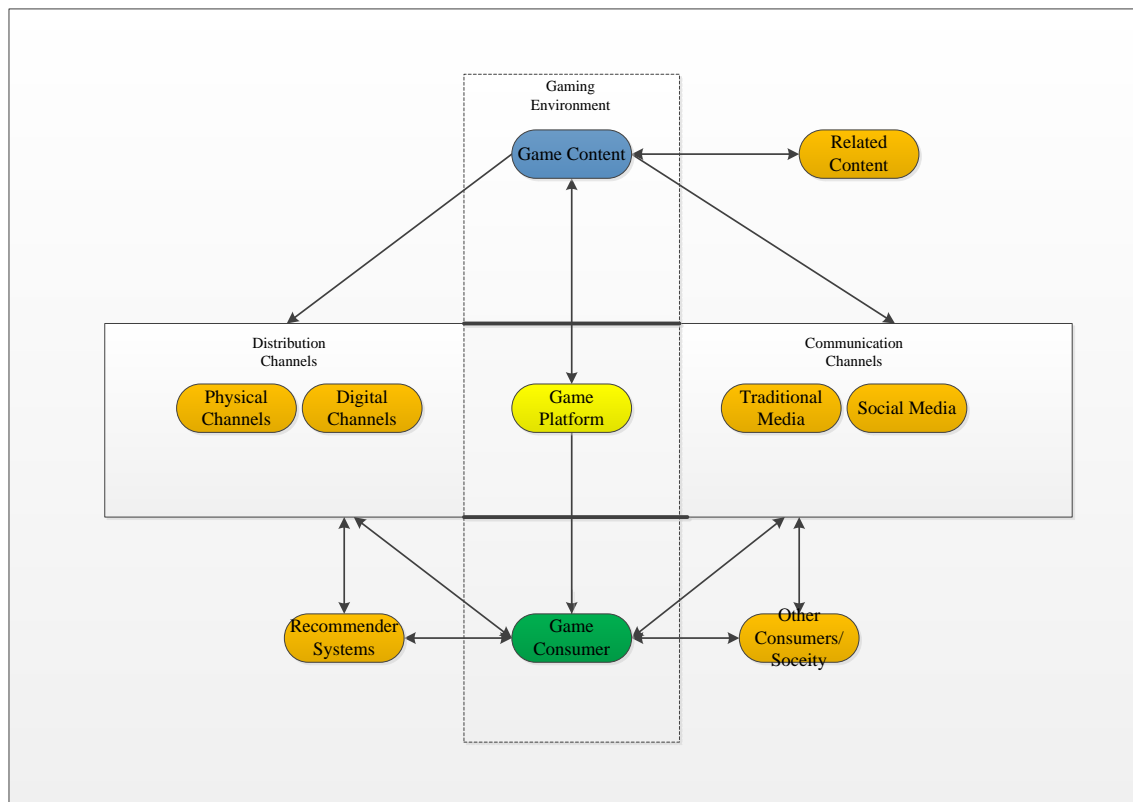
Figure 4 Conceptual Framework for value creating in video game industry, adopted and re-produced (Marchand & Hennig-Thurau 2013)

- Platform and contents refers to the dependency of the video games on the hardware platform that they are designed for. Each generation of the consoles have witnessed considerable upgrades which has enabled the device to run high quality graphic games.
- Game characteristics and content are the experience qualities. For this reason, customers find the decision making process not that straightforward in regards to what they want to spend their money on.
- Economics of games has two important factors affecting it, 1. Oligopolistic competition and 2. Indirect network between end consumers from one side and platform and content providers form the other side. For the online games, direct network effects and advertising are also influential among the previously mentioned

factors (Liu 2010). Oligopolistic competition means that few large players dominate the console market and major games are also being developed by a couple of big players. Two-sided market which is the case in markets with indirect network effect (Rochet, Jean-Charles 2003). For instance, Microsoft™ which in this case is a hardware manufacturer generates profits in two ways, 1. Selling console to consumers which is the market and also selling licenses to game developers which is market 2. A gaming platform which has been able to attract more customers is more appealing to game producers and vice versa (Gretz 2010).

- Consumers or in this case players demographics have experienced dramatic change since the first generations of consoles to this day. In the beginning it was mostly appealing to children and male teenagers, later young men were attracted to gaming followed by female gamers and finally in recent years families. According to a report by The Economist, average age of the players in US is 37 years old and 42% of the gamers are women (The Economist 2011). One reason that why games are appealing in general are the high level of engagement of emotional reactions that they create as well as their ability to empower and create fantasises (Hirschman 1982).

- Communication and branding strategies for games are divided into two groups: 1. Traditional media and 2. Social media. In general the idea is that in order to compensate the heavy capital and non-capital investment in the making of the consoles and games, producers need to create a sense of anticipation. In the first approach, heavy advertisement campaign is launched before, during and after the release of the games. In the latter one, two things can be observed, first is the ability to reach a large group of customers immediately with news and updates in each stage of the release (Hennig-Thurau, Thorsten, Victor Henning 2007). Secondly, the integration that has happened in a way that some games have become a social network like "The Ville". Branding is the essential part of the communication strategies for games. Sequels have been the most successful in terms of sales (ESA 2012). Although there are some similarities between game and movie sequels, one of the important differences is that in movie sequels the power of the stars and celebrities continues to be present but in the case of games there is not an equal substitute (Cox 2013).

- Distribution also comes in two forms, physical and digital. The trend is towards digital distribution, during the period of two years starting from 2009, physical distribution decreased from 80% to 69% (ESA 2012). Digital distribution has two benefits, more profit margin is acquired because retailers are not in the picture and also producers can have a more direct relationships with customers. Other reason for moving towards digital distribution is to decrease the resale market where gamers have become amateur game retailers in online stores (Hennig-Thurau,

Thorsten, Victor Henning 2007). Another drive behind this trend might be the ability to go for new pricing models like setting flat rates. In this approach, console games come with a group of services that can be rented on a weekly/monthly basis.

- According to a survey in United Kingdom, 57% of the game developers mentioned piracy as a problem for their business (Dredge 2013). Studies show that two main motives can be mentioned for illegal file sharing: 1. Different benefits caused by certain behaviour patterns and 2. Specific network factors which mean that the user has access to large group of similar files (Becker et al. 2006). However because of the protection mechanisms, consoles games are less vulnerable to the act of piracy.

- Related content refers to the fact that cross industry relations enable games to create value for other sectors as well as various segments in media industry. The examples can range from publishing, making movies and even to applications outside the media industry. For instance, Angry Birds earned huge amount of money from merchandising the related goods and it could be compared to digital games revenue (Ante 2012).

- Supporting technologies are the set of new technologies that have enabled easier workflow for the producers and better experience for the players. For example Sega™ has applied a technology in order to make sure that the games reach testers quickly and in a more secure way (Weekly 2012).

- Other consumers have the influence on a person's decision and the perceived value that is received by them.

2.2.4 Value chain for mobile game industry

In mobile platform, there are some factors which differentiate the value chain from the one in regular retail chain. In Figure 5, mobile value chain has been illustrated.
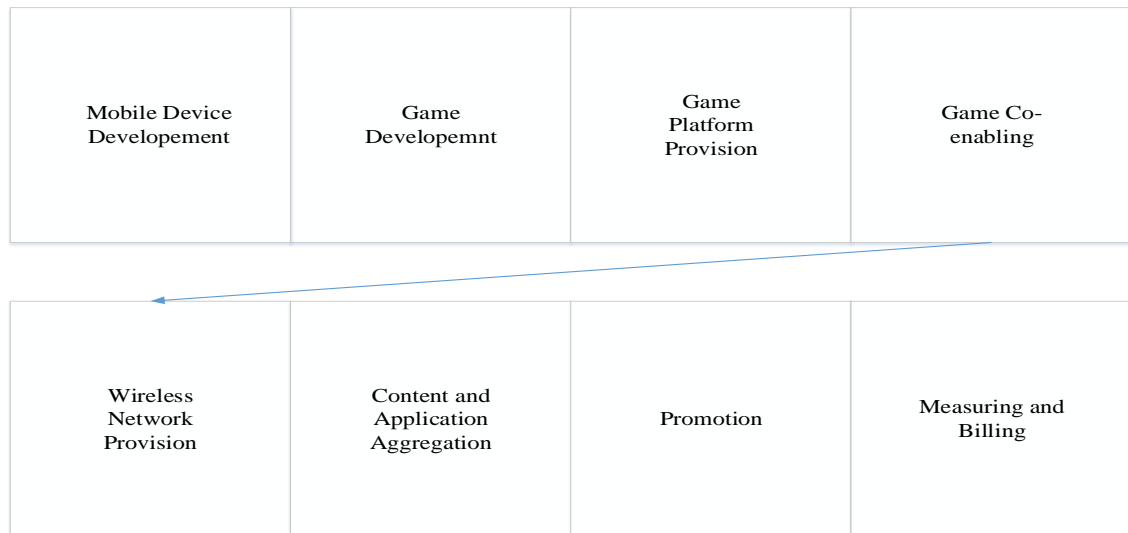
Figure 5 Mobile video game value chain (Macinnes et al. 2002)

Hardware platforms here are designed and developed by device developers. They are at the beginning of the value chain and are sold mostly in retail. Games are developed by major or small gaming studios. Game publishers have the task of promotions and distribution of the products developed by gaming studios. Online games are made available by certain websites that aggregate the contents like Yahoo™. Game platform providers try to integrate wireless games from different developers. Game co-enablers are those services that facilitate the online gaming experience such as location, payment and transaction services. Wireless networks are the mobile operators that provide the data services and internet availability for the consumers and companies (Macinnes et al. 2002).

In this chapter, current status of the video game business was discussed, different types of value chains and their factors were elaborated. Industry and market trends were discussed to give a better picture of the current status and future trends. In next chapter, an important concept which is very relevant in gaming industry will be discussed. Small and medium sized businesses have contributed a lot to the development of expansion of the video game industry.

3. SME (MARKETING & BUSINESS MODELS)

Small and medium sized businesses are defined by their size. According to the European commission, there are certain criteria for classifying a business as SME (Bonn 2005).

- The number of employees should not exceed 250
- The turnover and balance sheet should not exceed 50 and 43 million Euros respectively.
- The percentage of ownership by other enterprises should not be more than 25%

However in many enterprises the links have not been completely implemented, as a result the following points are checked:

- When legal unit is part of an enterprise
- When an enterprise is controlled by another one

One of the important elements for every SME to poses, is its competitive advantage. A firm has sustainable competitive advantage when it can create value for its customers through a strategy which is not used by its current and potential competitors simultaneously and the other firms don't have the ability to imitate and duplicate that strategy (Barney 1991). According to one study which included 14 cases studies, a model was developed to analyse the SME's competitive advantage, this model expresses that every SME should have three capabilities to achieve the desired competitive advantage (Rangone 1999).

First is innovation capability, this is essential to develop new products, services and processes. This also enables the firm to gain remarkable technological and managerial performance. Second feature is production capability which refers to the firm's ability to produce the product and make it accessible to the customer efficiently in terms of cost, quality and lead time. Finally the third one is market management capability which describes the firm's ability to market and sell its products adequately. There is the possibility that the firm focuses on one or more of those three capabilities, there are two scenarios that can happen: 1. Companies can focus on just one strategy, for instance if a firm's core competence is its development team, then focus would be on that part instead of designing an online portal for offering its game, that task is outsourced to major portal. 2. Firms focus on all three capabilities to achieve competitive advantage.

3.1 Performance variables

There are certain variables that are influential for the performance of a SME, the framework that is shown here in Figure 6, has analysed the variables based on the relationships to the company: internally and externally. Internal variables mainly refer to the entrepreneur and the related elements which are numerous and their share on the performance is higher. However it should be noted that the internal elements are shown here in a framework created by external ones. They have the potential to have a strong influence on the entrepreneurial activities. One variable which is in interaction with both internal and external elements, has a very strong effect on entrepreneurial activities. Internal stakeholders in this case are managers, employees, etc. and external stakeholders are suppliers, customers, banks, etc. it should be noted that the entrepreneur has a really important role in controlling the level of influence of those elements.
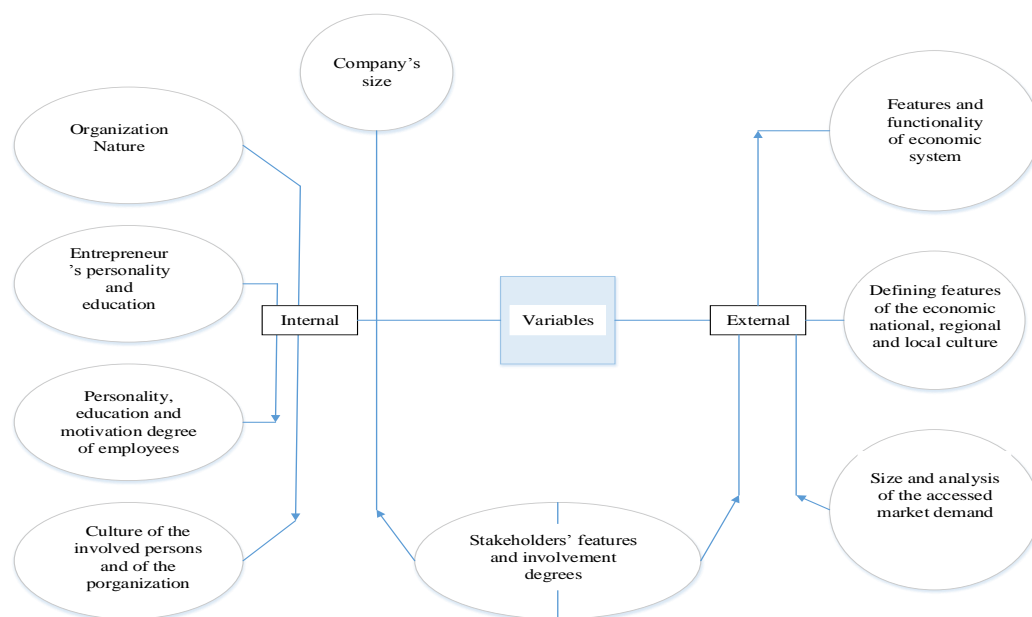
Figure 6 variables that are influential on entrepreneurial activities (Nicolescu 2009)

There are other important factors that form the SMEs, the organizational features. These features are shown in Figure 7 and then will be explained in more details after that.
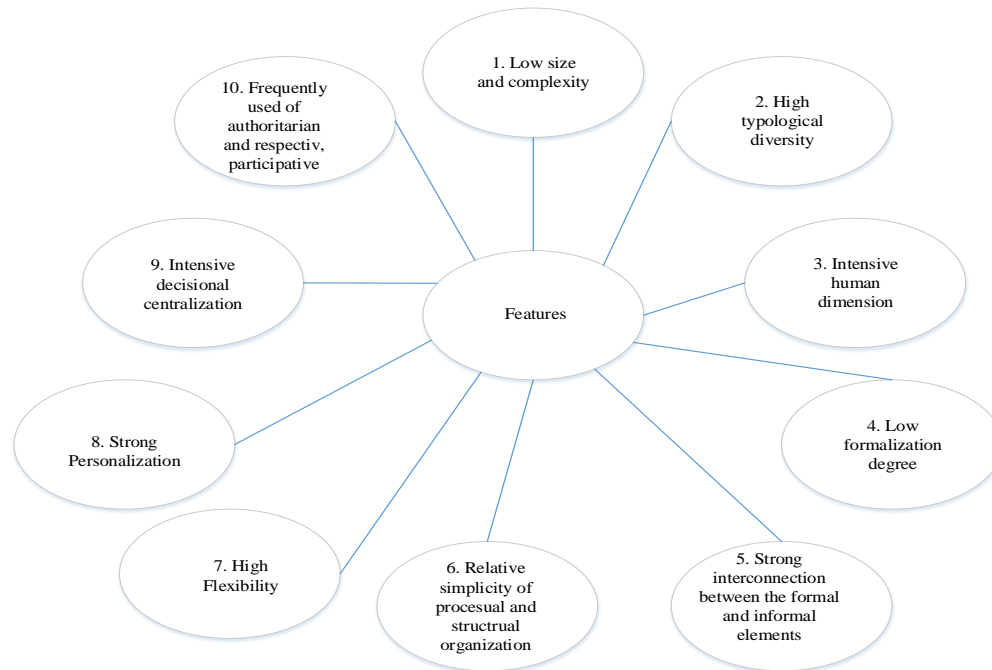
Figure 7 Organizational features of SMEs (Nicolescu 2009)

1. Low size and complexity refers to the point that first, the organization system is small/medium and secondly the complexity is low for both small and medium size enterprises respectively. Complexity itself is derived from some factors including small number of positions and employees, lack of separate sections within the organization, low level of control and low level of hierarchy.

2. High typological diversity means that SME's are active in different fields of business in various parts of a country. This also means that a different organizational systems define the vast diversity. These systems can be divided based on size (micro, small, medium), type of activity (commercial, industrial, etc.), how different parts of the company have been distributed (concentrated, mix), specialization and also the type of ownership (family, non-family).

3. Intensive human size means that in the company's organizational system, the relationships, both between the employees and between the employee and entrepreneur is very high.

4. The level of formalization or documenting the details of different sections of the enterprise for the control of the company has direct relationship to the size of that enterprise. As the size of the company becomes larger, the higher level of formalization is needed.

5. The next feature is the combination of the previous two points. Because of the high intensity of relationships in the enterprise and not so formal the nature of the enterprise, strong connection exists between informal and formal elements. As the
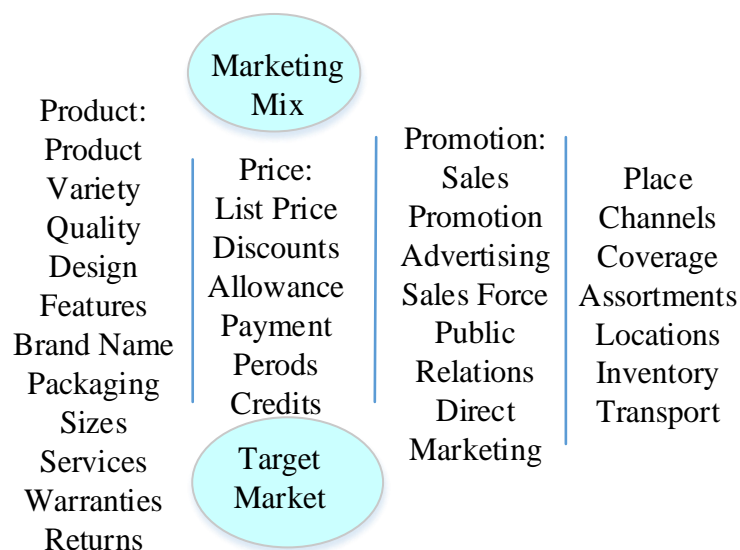
size of the company increases, the influence of the informal elements decreases and of the formal ones increases.

6. It reflects the low level of working processes, activities that are needed for a simple organizational system. Again it should be mentioned that as the size of the company changes, this simplicity is being substituted with higher level of complexity.

7. Flexibility is a result of the three characteristics:

   - Resources are limited and the number of activities are small
   - Faster adaptation to the changes happening in the market related to the sales of product and services
   - Finally the entrepreneurial definition of the company which results in evolution of the decision making in managerial level corresponding to the situation of the market

8. The entrepreneur's characteristics like their vision, level of education and knowledge play an important role in the decision making of the company. As a result, the company's characteristics such as size, technology, etc. are influenced by the founder. In this context, the relationship between the size of the company and the influence of the founder is reverse. As the company size becomes bigger, the influence of the founder is reduced.

9. Most decisions are made by the founder since the establishment of the enterprise because they are the only one responsible at the managerial level. However, as the complexity rises with the increases in the size of the enterprise, decision making might become decentralized.

10. It basically describes the method in the managerial systems in which the power is at the hand of the manager instead of participation of the others in this process.

3.2 What is marketing?

Many definitions have been offered for marketing from different scholars. One of the most famous definitions has been given by Philip Kotler. According to him, marketing can be analyzed from two perspectives, social and managerial. The first point of view illustrates marketing as a process in a society by which different individuals and groups are able to gain what they demand and need through the exchange of products and services which have value, this process is done freely. The latter definition explains marketing as the "art of selling product" (Kotler 2000). The other definition offered by American Marketing Association defines managerial marketing as the process of executing the notion, pricing, promotion and distribution of products, services and ideas to create transfers that ultimately enables the individuals and organizations to reach their goals. This process is continuous and is repeated, this enables the organization to adopt to the internal and external changes that arise challenges and provide opportunities (AMA 1995).

Marketing uses various methods to plan and implement a comprehensive marketing plan for the potential customers, those methods and tools are referred to as marketing mix. Marketing mix is the combination of marketing variables that the enterprise uses to achieve their desirable level of sales in the target market. McCarthy and Lauterborn have defined the four Ps and four Cs respectively, the Ps are the tools used in marketing mix and Cs represent the customer's side. Four Ps are product, price, place and promotion (McCarthy 1999).four Cs are customer solution, customer cost, convenience and communication (Lauterborn 1990). In Figure 8, marketing mix and the sub-elements of each section is illustrated.

Marketing
Mix

Product:
Product
Variety
Quality
Design
Features
Brand Name
Packaging
Sizes
Services
Warranties
Returns

Price:
List Price
Discounts
Allowance
Payment
Perods
Credits

Target
Market

Promotion:
Sales
Promotion
Advertising
Sales Force
Public
Relations
Direct
Marketing

Place
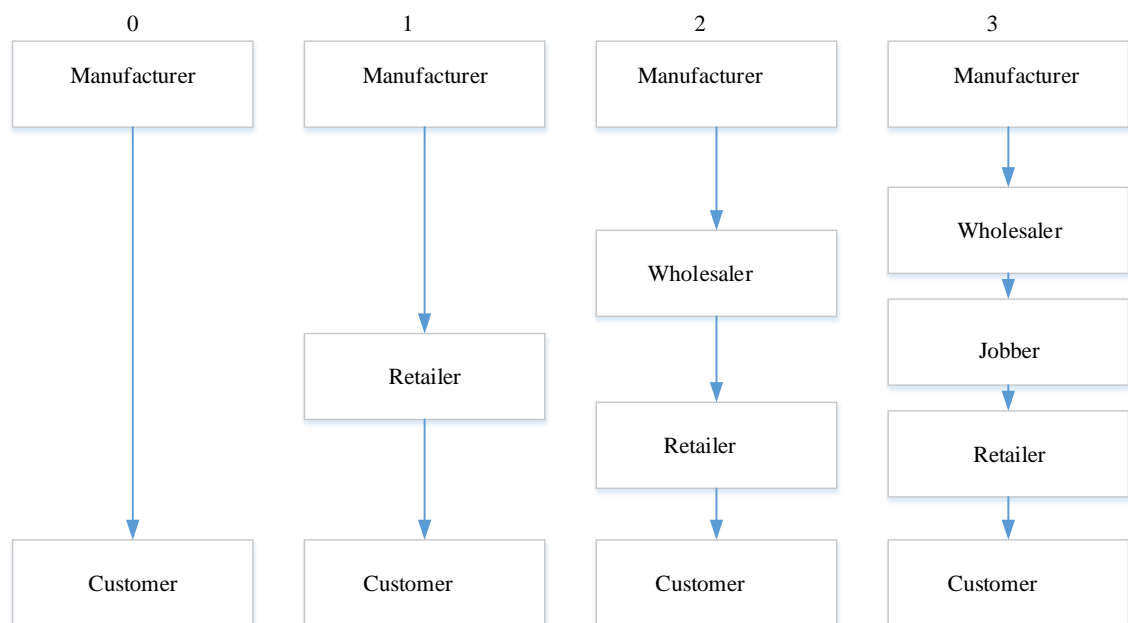Channels
Coverage
Assortments
Locations
Inventory
Transport

Figure 8 Marketing Mix (Kotler 2000)

3.3 Consumer marketing vs. Industrial marketing

Consumer marketing and industrial marketing focus on different types of customers, first one focuses on B2C (business to customer) relationships and the latter one aims at B2B (business to business) environments. Both approaches use marketing channels to interact to their customers and establish the necessary relationships. Marketing channels are divided into four groups based the level. Zero level channels that are also called direct marketing are those channels that the manufacturer sells the products directly to the customers. These channels range from door-to-door selling to Internet selling. If there is one intermediary, then the channel is called one-level. If the channel has two or three intermediaries, then they are called two-level and three-level channels respectively (Kotler 2000).

In Figure 9 and Figure 10, the differences between consumer and industrial marketing are illustrated. In both approaches, different channels might be used. As it can be observed, in the case direct marketing there is no difference between these two. As the levels increase, different intermediaries handle specific tasks needed for that type of channel. Numbers represent the marketing channel level in both two figures.

Figure 9 Consumer Marketing, Marketing channels (Kotler 2000)

Jobber is a small-scale wholesaler or intermediary (Investopedia 2014). It should be noted that channels can be backward, meaning that the flow is reverse. This flow is for recycling, returning products because they are obsolete or trashing.
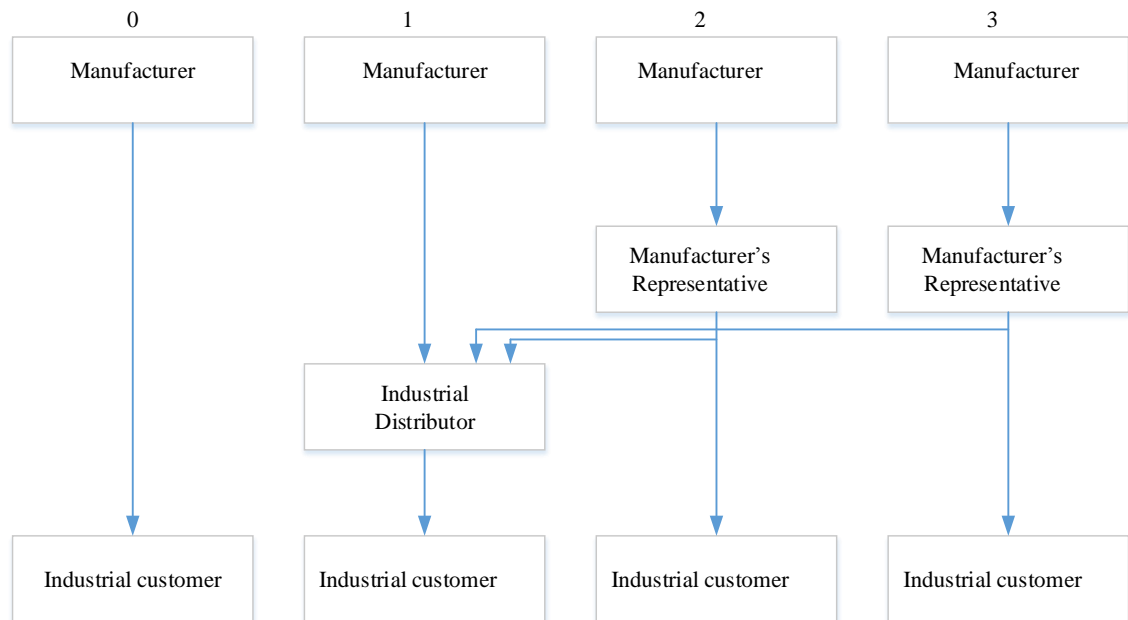
Figure 10 Consumer Marketing, Marketing channels (Kotler 2000)

The main function of the marketing channel is delivery of the products and services to the customers. Hence, the enterprise or the marketer must discover what are the needs and demands of its customers. Five main results can be achieved from a marketing channel (Bucklin 1972):

- Lot size: It is the number of units of the product that a customer can buy through a channel. For instance, a game distributor might want to buy a large lot size while a gamer wants to buy a lot size of one.
- Waiting time: It is the average time that customers should wait to receive the product, obviously fast delivery channels are preferred by customers.
- Spatial convenience: It means how the marketing channel facilitates the purchase process for customers, for instance when a game developer offers its games in major retailer.
- Product variety: It basically means if a company has many products in its collection. If there are more products, customers can find what they want more easily.
- Service backup: Those additional services offered by the marketing channel, for instance delivery, installations, maintenance and repairs. Enterprises can attract customers if they offer numerous additional services. In the case of a game developing studios, if obsolete products are replaced by the functioning products in a good time span through a marketing channel, then a greater customer satisfaction can be achieved.

3.4 Marketing Factors in Video Game Industry

There are various factors that contribute to a successful marketing process of a video game. Before discussing them, two concepts should be clearly distinguished. Marketing strategy and marketing plan, first one refers to the overall long-term of what the firm wants to achieve and latter one is the detailed explanation on how the firm wants to implement the chosen strategy. if the publisher is going to take responsibility for publishing the game then majority of the decisions and strategies are implemented by them otherwise marketing strategy should explain the following elements (GameSparks 2014):

- GaaP vs. GaaS: GaaP stands for generally accepted accounting procedures which help the companies prepare financial statements according to a set of standards and Gaas stands for generally accepted auditing standards which enable the auditing firms to audit in a transparent way (Olivia 2011). Since the game is published by the firm itself, it should be offered as a service and launched as soon as the feasibility is proved. At the same time the firm should offer new releases and strengthen its brand through acquiring loyal customers.

- Business models: This is one of the most important factors that has significant effect on the success of the marketing process. There are many business models, some of the very important ones are discussed in next section. The key point here is the precise and early selection of a proper business model because if it is postponed to later stages, it is most likely not going to function properly.

- Target audience: The firm should have a clear vision about for whom the game is designed, it facilitates the deign process and marketing channels. If the target audience is not analyzed at the beginning, it decreases the probability of launching a successful game.

- Platforms: It clarifies that for which platforms the game is designed, it can be for a single platform or it can be designed for more than one. PC, mobile devices, consoles are example of the platforms. Here again the choice has a direct effect on the potential marketing channels, for instance mobile games are marketed and offered through online stores of major mobile platforms.

- Geography: It answers the question of where the game is launched. Which country/countries have been targeted? Is the trial process going to start in a specific place? Some firms design the product targeting a specific market specially in the launch process.

- Budget: All the marketing strategies should be designed and implemented based on the available budget. There should be a mechanism for how the money is spent as well as when the spending should stop.

- Marketing channels: As it was mentioned before, there are various marketing channels, console games exploit events, review channels and other public relation means. For firms that publish the game themselves, there is restriction on spending and limitations in budget. As a result, online platforms like web and social media play a key role in the marketing process. If the company has launched games in the past, those existing customers are the most efficient marketing channel.
- Measurement: Companies should establish the necessary systems for measurement and reporting, two goals are achieved through this system, first there is a record on how the budget has been used and the returns of different marketing channel would be clear for future investment.

There are a set of marketing rules that every gaming company should follow in the complex and competitive market (Batchelor 2013). 1. The firm must be present everywhere: Nowadays promotions are not just about conventional methods such as magazines and shops. The main focus is to engage the users, since they are present in different platforms. As a result, the firms should try to expand to different platforms and create an integrated system for advertising. 2. Online ads are more active: Online advertising has evolved dramatically, from ads or banners on websites to videos, blogs and promotional campaigns on different types of social media. 3. Consider content marketing: It is a relatively new strategy which aims at creating original content to promote the game, these contents attract users if designed and implemented properly. 4. Research your audience: Firms must and can gather valuable data about their audience online from different channels, Social media is a very important channel to collect data about user traits and interests. 5. Spreading the word: Consumers can act as another marketing channels. Reviews, ratings and ideas that are expressed in forums and social media are playing a major role in spreading the news about the firm and its products. 6-Plan your strategy: Strategies should be designed and customized for different game launches. 7. Long-term vs. short-term: It refers to the fact that, the time-line and duration of marketing campaigns depend on the company and the game. If it is a major game studio with a famous title, the campaign starts months before the release but if it is a small studio or less-known game, the marketing starts shortly before the launch time. 8. Strive to stand out: Today publishers try to outperform their rivals not only in the game industry but they compete with music and movie titles. 9. Never forget the basics: Although gaming industry is a high-tech industry, the basics of the marketing stay the same. Understanding the product and market and trying to formulate an effective combination of them. 10. Build your social skills: Social media has provided an extraordinary opportunity for promotion, however it should be used by its rules not to annoy the customers. 11. Money matters: It refers to the simple but important factor, budgeting precisely. 12. It is beneficial for the firm to exploit the knowledge and skills of external marketing agencies.

When the alpha version of the game is released, the company can do a type of marketing which is called late stage marketing. There are a couple of options available in this stage (DellaFave 2014).

- AlphaFunding: Medium-sized online distributors offer this service. It allows the users to play an incomplete version of the game and observe its evolution. Users also can contribute financially to the game. In the case, the firm needs to offer a good quality game to attract users.
- Steam Greenlight: This platform was a difficult one in terms of accepting the game. It has become easier however the challenge is to make the game stand out between the masses. The main reason that makes the companies chose this site for publishing their games is the high number of users that visit this website.
- Press Releases: This marketing move is only effective if the game has managed to establish a considerable amount of followers. If the marketing campaign has acted properly, this move would have be very effective.
- Other channels: In case the company has a strong presence on platforms like Twitch, Steam or communities, this is the time to exploit the opportunity.

Another decisive factor in the marketing process of video games is pricing. There are three sets of factors and recommendations for pricing a video game (PixelProspector 2014). First is to make the comparison with similar games, the sample elements of comparison can be games from the same genre, games with matching or similar quality and games for the targeted platform. Second factors are the feedbacks by users, testers and developers. They can express what the right price is and whether they like the certain price announced by the firm. In order to gain a desirable outcome from this method, three conditions should be met. People should like the genre, answers should be honest and the number of feedbacks should be large. Finally third groups of factors focus on how the pricing looks and its effect on the customer. For example 9.99 $ vs 10 $ or offering prices with low difference for different offerings, 9.99 for the game, 12.99 for the game plus a poster, 15.99 for the previous offer plus the soundtrack. Some firms price the game a bit higher when they expect a higher sales on Steam platform.

It is necessary to mention that the trend in the video game industry is to decrease the prices. Prices of the console games have been decreased and mobile games are offered for free or for a very low price. Game developers are already under a huge pressure because of the significant costs they incur in creating video games, the need to maintain the high standards and meet the fan's expectations. This trend has made online business models more important for the industry, lowering the costs and providing options for pricing (Steinberg 2011).

3.5 Revenue Share In the Marketing Process

The revenue from the sales of the game is shared between the developer and the publisher. In Figure 11, the model for the revenue share has been shown.
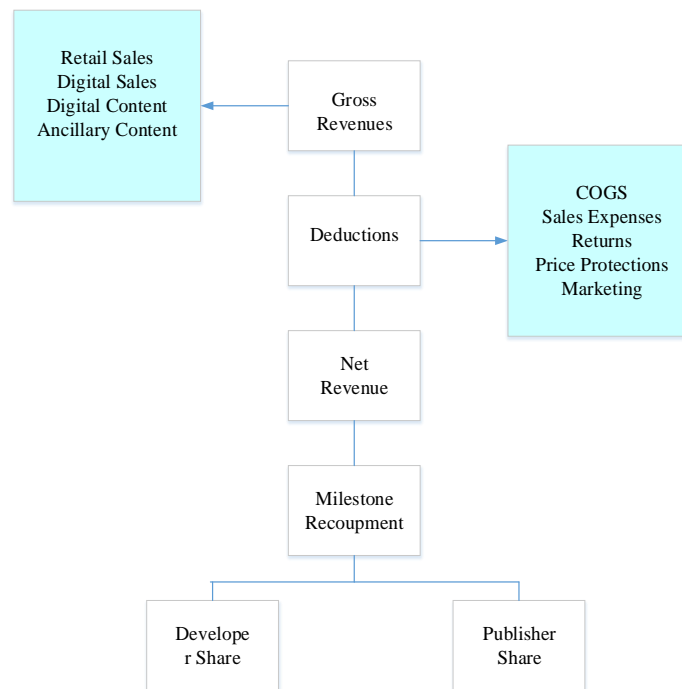
Figure 11 Revenue share model (Boyd 2012)

Gross revenue consists of different elements. Retail sales has experienced a considerable decrease in the past couple of years but still has a big share of the total revenue, for instance in 2013 more 150 million units were sold in retail market(Entertainment Software Association 2014). Digital content and digital sales are the revenues generated by online channels, either selling the game on web store or offering digital content for a fee. Ancillary product or services or those ones that are not credit rating services, examples for these types are economic trends, pricing analysis and distribution services (Moody's Investor Service 2012).

In order to calculate the revenue, the costs should be deducted from the gross revenue which gives net revenue. COGS stands for cost of goods sold is the total cost for manufacturing the product during one accounting period and includes direct material, direct labor and overheads (HighTechHigh 2014). Sales expenses are the costs company incurs in the sales process, it can include many parameters like sales team and representatives, travels and presentations. Returns are those products that are sent back to the firm because of different errors and malfunctions. Price protection is the fund or line of credit that is

given to a retailer by a publisher to decrease the wholesale price. Marketing activities were explained in previous section. Distribution of the money between developer and supplier as well as each party's share depends on the following factors:

- The amount of money that the developer has invested in to develop and create the game.
- Different services that have been provided by the publisher
- Financial cost that the publisher has incurred to facilitate some processes and operations such as marketing, licensing fees and distribution costs.
- If the developer has agreed to pay part of the distribution costs to the supplier
- Third party interest in distributing the game
- Bargaining power between publisher and developer

The process of negotiation is that both parties, publisher and developer discuss and negotiate how much they can dedicate to the deduction costs. Deduction stage works in the order that first publisher would be authorized to deduct the expenses that previously had been agreed on from gross revenue and afterward it can take its fee from the net revenue.

3.6 Business models

A business model provides the data and necessary factors on how a business creates value for its customers and hence generates profits for itself. Revenues, costs and profits are investigated in a business model. In Figure 12, the elements of the business model has been illustrated. A business model consists of financial and organizational structure of a business (Rosenbloom, H. Chesbrough 2002).
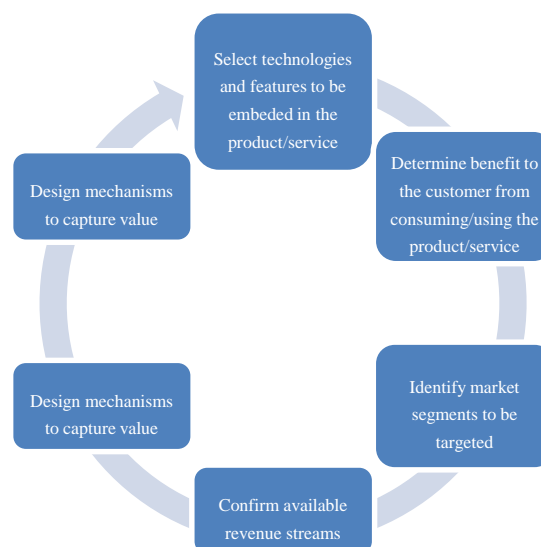
Figure 12 Business model elements (Teece 2010)

There are some important points related to business model implication, first is that business model should be accompanied by a proper business strategy. The reason for that is to maintain the competitive advantage. The goal here is to make the business model difficult to imitate and hence maintaining the revenue stream. Secondly, a business can implement more than one business model in order to create the desired customer value. Developing new product and services should accompany a business model to increase the rate of success. The flexibility and learning ability is necessary for the success of a business and business model (Teece 2010).

3.6.1 Specific Strategies for SME's Business Models

For SME's, there are five strategies referred to as sophistication strategies, they facilitate the customization process of business models for SME's (Kesting & Günzel-Jensen 2015).

- Exploiting the potential applications of the product: It aims at selling the products to the third parties for their unused potentials. This strategy focuses on finding new customers rather than developing new product and services. For instance, a game company that uses sensor technology for game development, has the possibility to use them for simulation projects in other applications.
- The firm analyses who is benefiting from their products and services and in the next step, they try to generate revenue from them. This strategy focuses on introducing new stakeholders that potentially are valuable for the firm. Same as the previous strategy, no new product or service is introduced here. Google™ used this strategy for its AdWords™.
- This strategy focuses on introducing a new product or service, creating a new stakeholder and supplying a new customer need at the same time. The example is the data is that is acquired by travel search engines from their customers.
- The fourth strategy's goal is to sell new product and services to the existing customers. The main requirement for this strategy is that customers and their demands should exist. This strategy focuses on creating new products and services as well as creating a new customer demand, however a new stakeholder is not introduced. The example here are the services that airlines offer to their customers such as hotel reservation.
- The last strategy focuses on involving the users and the crowd. This can be very beneficial for online businesses, for instance travelling and tour service providers, don't need to hire people to go somewhere and test a hotel. Instead of that, they

use social media to become aware of the users' ideas. In this case a new product or service is not introduced and there is no need to create a new customer demand.

3.7 The importance of business models in marketing

For every business, the mixture of business models and strategies are vital. Business models describe how the different parts of a business fit together and strategies provide the answer for the competition as a very critical component for the survival of the enterprise (Magretta 2002). The specific strategies were discussed in previous section and the study continues with more detailed description of business models in the context of video game. Hence, it is necessary to illustrate the reasons behind this approach. There are five reasons why business models are important even in the context of providing competitive advantage for a firm (Chesbrough 2006).

- Defining value proposition for which is the act of creating value for customers by the firm's products and services
- Identifying market segments, potential users, the purpose of the product and services
- Defining the elements of the value chain that firm requires to develop and distribute its product and services and establish the complementary assets that are needed to back the firm's position in the value chain.
- Illustrating the firm's position in the value chain network by connecting all the stakeholders: suppliers, customers and potential competitors.
- Creating a competitive strategy which enables the firm to continue being innovative in order to outperform its rivals.

If these reasons are compared to the marketing factors that were mentioned before, it can be understood that business model is a distinguishable factor. It is part of the marketing and concurrently it is a key determinant for how the other factors are formed. It covers the target market, the platform and financial implications. Although strategies should be developed to keep the firm's competitive advantage, business model can contribute to the company's innovation if designed and implemented properly. Business models determines the marketing and advertisement channels, these channels engage different stakeholders in the value chain. As a result, in this study the most applied business models for video games are discussed to provide a context-based analysis. This enables the better understanding of different platforms, company sizes, advantages, disadvantages and alternatives for firms, to make them successful in generating revenue and enabling them to grow according to a logical model.

3.8 Classic Business Models

The video game industry has seen a dramatic change in business models going from sell-
ing a game once to offering service-based products and solutions such as virtual goods,
value-added services and strategies mainly based on advertising (Toivonen, S. and
Sotamaa 2010). Below different business models are investigated (Lee 2013):

3.8.1 Packaged Games

Packaged game software sales is the oldest business strategy for selling games which has
been used the most. Despite all the digitalization in the industry it is the most popular one
among gamers. As it can be seen in Figure 10, 45% of the PC and Mac users still have
the preference to buy the packaged software and only 25% of them prefer to download
the game (Hybrid 2011).
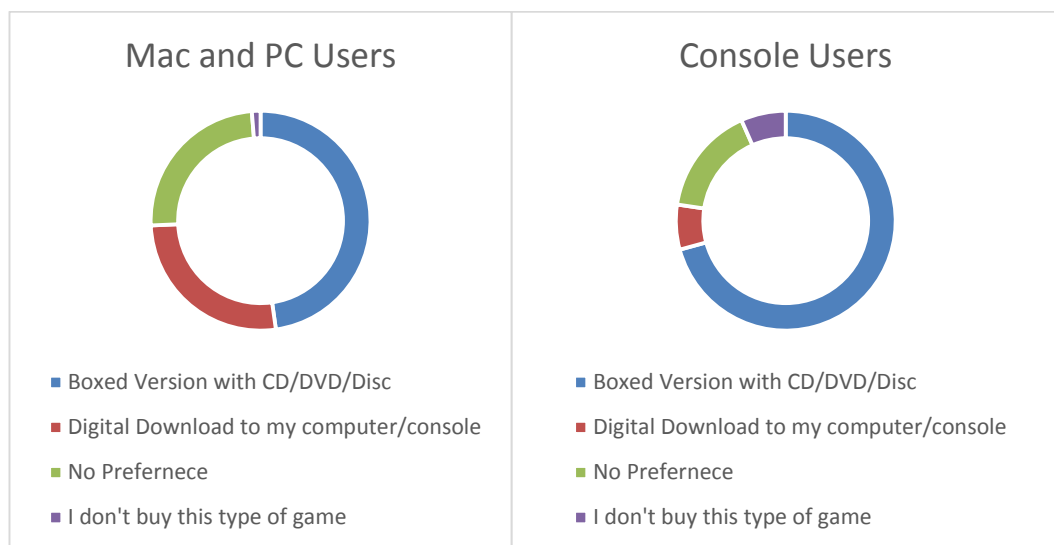
**Figure 13 Preferences of PC and Mac users (Left) and Console users (Right) (Hybrid
2011)**

The difference of benefits in physical and digital products can give a better overview
about the customer preferences. The benefits that play important role in the decision mak-
ing process of a customer should be analysed. There are three levels of a product that
influence the decision making process (Gierveld 2002).

- Core product represents the main benefits of the product.
- Actual product is the form a product with the set of characteristics that can be
  perceived by the customer.
- Augmented product provides the customer with additional advantages.

The core product here is the videogame experience which is realized by the user, actual product is the physical component of the product which is disc plus the accompanying materials related to guiding the user. Augmented product in this case, includes method of delivery, warranty and return policy. When compared to the digitally distributed games, the core product is the same but the actual and augmented products that are not present in the case of digital distribution. Considering that the digital version does not equal to the physical distribution in terms of type of the products, it should offer other values to customer, for instance immediate access and the lack of need for physical storage (Kibbe 2012).

3.9 Online Business Models

3.9.1 Subscription

It can be argued that the online model is one of the most successful business models on Internet. It mainly targets genres like MMORPG or massively multiplayer online role playing games. In such a games player selects a character and interacts with others (Wu et al. 2013).

This model dates back to 1984 and after the initial success, competition increased rapidly and the prices started to decline. Prices were decreased from 12$ per hour to 10 and 6 respectively by different vendors and later the hourly subscription changed to monthly subscription. First great success of the industry with the new approach was accomplished in 1997, the *Ultima Online* platform was launched by *Origin System*. The company was a subsidiary of Electronic Arts and was able to attract 100/000 subscribers within two months of lunch. Later MMO genre exploited this opportunity very well with the famous example of *World of Warcraft* in 2004 which the developing company reached 500/000 subscribers to the end of the year (Dreunen 2011). For this model there are some advantages and disadvantages (Chen, Andrew, James, Daniel, Koster 2012):

- A revenue stream that is predictable and regular
- Higher ACLV or average customer lifetime value which is the main metric for this business model and refers to the how long a customer remains with the business considering the charges that should be paid on a time base like a monthly fee. For instance, if the subscription time is 12 months and monthly fee is $20 then ACLV would be $240.
- The customer is likely to be more loyal to the business as more options are provided other than just purchase.
- More possibilities for selling other product and/or services to the customer

There are also some drawbacks here, since customers are paying online, company should provide security measures for protecting the customer rights. These include the order situation and the money that has been transacted from the customer's account plus the credit card information, this expenses can increase dramatically. In addition to that, the chances of frauds are higher here. This model has two sub-models, 1- frequent subscription model in which the customers subscribe the product and services at least once quarterly and 2- infrequent subscription in which customers are charged once each six months or in longer periods.

For an efficient implementation, the following points should be taken into consideration. The company must move towards the automation of the operation for cost saving and more efficient process. Customers should be provided with a clear and proper description of the purchase details and cancellation policies. Finally, the payment options should be limited and ideally being minimized in order to decrease the simultaneous billing (Chen, Andrew, James, Daniel, Koster 2012).

Considering the dramatic differences of online model with physical distribution it would be suitable to evaluate the changes in value creation process for customer. Publishers have the power center in video game value chains because of their intermediary position. They might go for integration and purchase the game developing studios to increase their influence. One thing to notice here as the transition from physical to digital takes place, the value chain also experience alterations. In online model some roles have become obsolete and a gradual convergence between distributor and retailer in the value chain has occurred. These changes have affected the relationships between the actors in the value chain and also have had their influence on the number of players in the chain. (Prato & Paul 2011).

3.9.2 Free to Play

In early days, online games used to implement the model based on monthly charges from users. The trend of free to play games started from Japan when the online games experienced a growth from 32% to 60% between September 2005 and October 2006 (Nojima 2007). It then spread to other countries and proved its profitability, for example GREE and DeNA in Japan, Nexon and NC soft in Korea and TenCents in China (Wu et al. 2013).

In a report by Park Associates, the features of these business model have been explained. The main characteristics of these games is that users are able to play the game for free but if they need some items or if they want to have an enhanced gaming experience they should pay. The main advantage of the model is that subscription fees and retail costs are

removed from picture. The segment of the gamers that have the preference for casual games are more attracted to free to play games. The other benefit is allowing the users to spend based on their budget so it does not stop them from playing the main game features (Macchiarella 2011).

There are sub-models of the free-to-play model including Virtual item sales, Premium upgrades/subscriptions, In-game advertising, Virtual property, Auctions/Trading and Events (Crook 2007).

- Virtual item sales refers to items that enable the gamers in different ways, some give the gamer an advantage while some others allow the gamer to advance through the games faster. They are offered in two forms of currencies, one that is offered in the game play and the other in real world.
- Premium upgrades/subscription is to offer parts of the game for free and gamers need to pay to access the additional content by upgrading to an exclusive account or paying a fee on a monthly basis.
- In-game advertising is divided into in-game and around-game advertisement. First one is also referred to as "environmental ads" or "immersive ads" and latter one is simply those types of advertisements that are offered with the video game either traditionally or digitally. Environmental ads are scenes with branded products but player does not have any interaction with the ad whereas in immersive ads, the player is motivated to interact (Bureau 2010). However there challenges facing this business model, Operational efficiencies are those problems related mainly to the standardization of the ad components.

- Virtual land is offering land, properties for sales and lease in virtual world. The successful example is leasing lands from $5 to 195$ monthly (Crook 2007).
- Some games charge users for allowing them to participate in auctions and buy-outs. They set the conditions that the item can be purchased so if it reaches to zero, gamers need to buy. Other games provide some additional tournaments and if users want to participate they need to pay (Christiansen 2010).

As it was explained above, two forms of advertisings are in-game and around-game. Since these two types are very important and are used by many companies, in Table 2 different types of these two groups are going to be mentioned.

Advertising Format	Description
Advergames	custom made games developed to promote a product or service
Dynamic In-game	Advertising elements within a game that can be changed based on time and location.
Inter-level Ads	Digital ads which are shown during the stops and breaks in the game
Game Skinning	Sponsoring display units in the game or integrating a brand in the game
Post-Game	Those types of advertisements which are shown after the game is completed.
Pre-Game	Those types of advertisements which are shown before the game starts.
Product placement	Integrate brand messaging and awareness, Sponsoring a product or service within a game.
Sponsorships	The firms which advertises in the game, owns 100% of share-of-voice in and around the game
Static-In-game	Advertising elements for a game that are not changed once they are designed.

Table 2 (Interactive Advertising Bureau 2007)

The process of selecting the effective form of advertisement requires study and analysis and it depends on the game type and also the resources that company can invest in this process.

3.9.3 Virtual Goods

Virtual goods in video games are the items and functions within the video game that increase the chances of the player for success. These items should be paid to be unlocked. Depending on their application, virtual goods can be categorized as functional virtual goods, decorative virtual goods, virtual goods for communication and ad-free gaming virtual goods. (Linnemeijer 2013). For the advantages of this business model, new game experience and enhanced gaming joy can be mentioned. These benefits are the main factors that motivate gamers to pay for them. In this case especially young people are more eager to pay for having a more desirable game experience. Likewise there are individuals who think it's not fair that game companies sell virtual goods to the customers. There are two sets of mechanisms that are used to create demand for virtual goods: 1. creating different segments of users and then make the virtual goods unique by differentiating them.

2. Creating demand and incentives for buying virtual goods (Hamari & Lehdonvirta 2010).

First group includes the following mechanisms:

1. Stratified content: different segments are created, this enables the differentiation process. Both segmentation and differentiation are aimed at the rules and game environment and ultimately the incentive for repeated purchase is created.
2. There are items in the game that are restricted for access based on the user status. Differentiation is a key element here as well but the incentive is created based on the fact that item goes obsolete.
3. From time to time a quest, level or any other type of game content is challenging for the user to solve or pass. Here the option exists to facilitate the process for the gamer.
4. Multidimensional gameplay focuses on gameplay by differentiating and creating additional settings for virtual goods.
5. Avatar types empower the user to select and customize their avatar based on their favourite elements and preferences.

Second group of mechanisms:

1. Item degradation refers to those items that have been designed in a way that they go obsolete during time or because of usage.
2. Inconvenient gameplay elements make the gaming experience less pleasant at least from an expert gamer's point of view. The enhancements range from virtual goods to user interface upgrade. These virtual goods assist the user to create shortcuts or gain special powers and as a result of that, gamers can have a better experience. Focus here is on the rules and game environment.
3. Virtual currencies are used in different transactions, this creates psychological advantage as well as various pricing possibilities.
4. Inventory mechanisms enable the user to acquire new places to increase the space in inventory for the acquired and purchased items.
5. Holiday season, special days like Halloween, user's birthday are example of special occasions that can be exploited by the game company to for selling virtual goods with customized offers.
6. Artificial scarcity is a rather controversial method in marketing, it creates the illusion that an item is sold out where as in reality it is still available. For example, in MMO's some items have been designed in a way that are difficult to secure in the course of gameplay.

7. New content or alternatives to the existing content create the motivation for the user to purchase the necessary virtual goods in order to experience the new and from the user's point of view, exciting content.

This model is becoming more important for the social games as well. These games earn money from in-game advertising but virtual goods are far more appealing options. For instance, one big social game company earns only five percent of its profit from advertising (Lynley 2011).

3.9.4 Freemium

Freemium model is popular in companies which offer online services and it is mentioned as one of the characteristics of Web 2.0. In this model a basic version of the product or service is given for free and then users must pay in order to access the premium product. The idea is that eventually users can be persuaded to pay for the premium version of the product (McGrath 2010).

There are some important elements that make the freemium model interesting and suitable for attracting customers. First is the value of free user, why can free users be beneficial for the business? A study has been done that shows that free user has more value than just becoming a paid user (Gupta & Mela 2008). The other point is that in this model, the user expectation is lower where as in paid services customers expect the service to fully work. In freemium, it can be addressed by establishing forums and communities, where the company can respond to the inquiries (Reime 2011). The company can benefit from the community of free users in product development, this can be done by giving them different versions of the product for test and asking for feedback. According to Anderson, Freemium model can be divided into four sub-models (Anderson 2009).

1. Time limited which is similar to trial version of the product, in this model the risk of a user being stuck in the free product is lower but on the other hand can decrease the probability of testing the product since the user knows the full feature product is premium.
2. Feature limited in which the basic version is free and the full feature product is premium. This model is good for attracting new users and when they pay for it, they already have some experience with the product. However, if the free version has many features then the customer might stick with it.
3. Seat limited model is when the free model has some limit in capacity, volume, e.g. this model is easy to implement but the user might satisfy its needs with the free version.

4. Customer type limited model which works based on the ability of the customers to pay, for instance groups like students are given the privilege of a good discount. Here controlling which customer is truly eligible to be in that status is difficult.

Considering the importance and role of the online gaming, Different analytics are important for the company from different reasons, mainly how the firm acquires the customers. A model which consists of four steps, is discussed here (Social Times 2011). These steps are: 1. User acquisition 2. User retention 3. Monetization and 4. User leaves

User acquisition is the process of acquiring customers through the marketing campaign which eventually goes viral. User retention includes the game experience and is vital in receiving customer feedback and reactions. In this step, the company can observe whether they have targeted the right demographics or not. The other important feature of this step is the analysis of the level that users have been engaged with the game. Monetization is the process of revenue generation for the firm, this has direct relation to the selected business model/models. Eventually there comes a time that customer stops using the product and the firm has the possibility to regain them if only innovative products and services become accessible.

After users install the product, there are four important metrics that should be taken into consideration.

- Weekly retention rate: analyzes the percentage of the users that have been acquired in the first week. It also covers week to week retention rate.
- Demographics: illustrates the age, location and gender of the players.
- Conversion & Monetization: calculates the number of users who are paying and with what rates.
- Actions: it explains what are the key game features and actions that users are interested in.

3.9.5 Real Money Auction House

This models is also referred to "real-money market place" and RMAH is used as the abbreviation. In this model, gamers trade the item that they have collected and acquired during the game using real money and give a fee to the company for each transaction. The most prominent example of this type is the famous game, "Diablo" (Prax 2013). Diablo is a role playing game in which users collect precious items during the fights and game play and in this way player's avatar is upgraded. Since progress in the game requires various weapons and powers, players need to continue the game play to gain more weapons and powers. These items can be traded in the auction house which uses real currencies and players can search the items based on the properties and prices. (Prax 2013). Since this type of business model is mainly used in MMOPGs, it would be interesting to know the different needs of players in these environments. Yee has introduced a model for player's motivation which has three main components, achievement, social and immersion (Yee 2005). The main components have other components associated with them which have been acquired through interviews with the players. The motivations of the players and their perceptions about real money trade in virtual world are shown in Tables 3 and 4 respectively.

Achievement	Social	Immersion
Advancement Progress, power, status	Socializing Chat, offering help, finding friends	Discovery Exploration, finding hidden things
Mechanics Numbers, optimization	Relationship Personal, find and give support	Role playing
Competition Challenge, provocation, domination	Teamwork Cooperation, group achievements	Customization Appearances, accessories, style

Table 3 Players motivation (Yee 2005)

Table 2 outlines users' ideas of real money trade (RMT) in each of the components and sub-components has been described.

Achievement	Social	Immersion
Violation of the hierarchy that needs to be completed.	RMT allows users to express through buying	Giving option on to experience different content
It makes easy to gain assets.	RMT allows those people who have less time in real life to communicate.	Gives the option to fulfil the fantasy in the virtual world
It is cheating if it enables competitive advantage.	A goal for a teamwork	Enabling the player to have the assets which is compatible to his taste.
		RMT causes the problem of the real life to come to virtual life.

Table 4 Ten different user perception on RMT (Lehdonvirta 2005)

As it can be seen from the tables, the user's motivations and point of views are diverse. Virtual worlds are a combination of social, economic, cultural and political systems. These systems form civilisations in which people, forms of artificial intelligence and information systems join and interact. In all of the game environments that include virtual words, some form of division of labour exists. It means that there are defined roles for each member and all members are required to collaborate and trade with each other. This way, a different and interactive game experience for users is created.

3.10 Business models for mobile games

In this section four business models for mobile video games are discussed. These models are illustrated in Figure 14. Solid lines are the indicator of strong relationships and dotted lines represent the weak relationships (Macinnes et al. 2002). WNP and GP stand for wireless network provider and game provider respectively. There has been many changes in different aspects of these models over the years as a result of technology advancements.
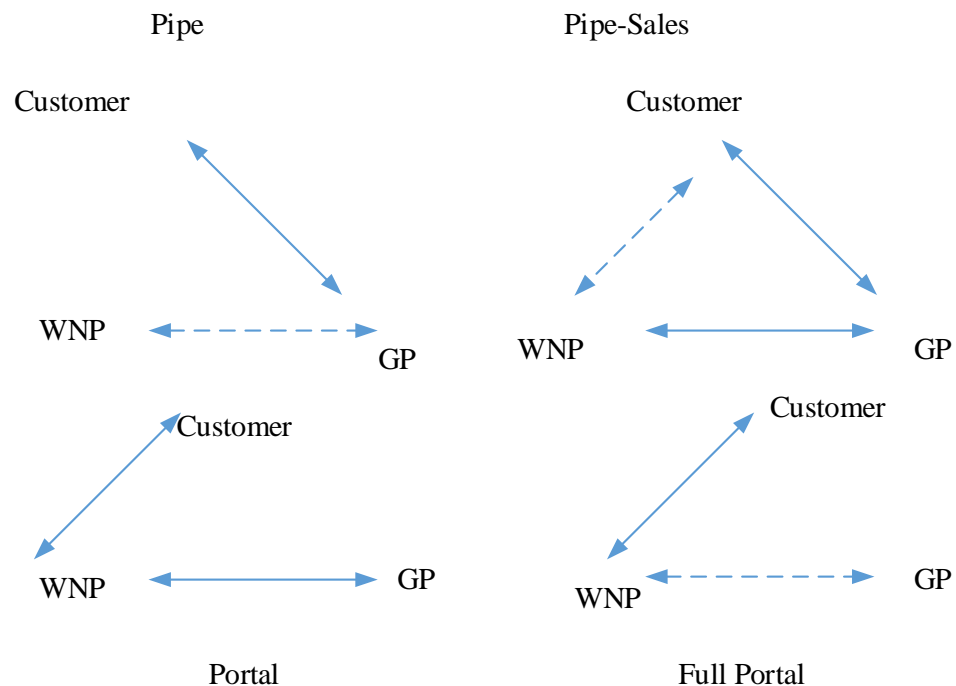
Figure 14 Business models for mobile content (Macinnes et al. 2002)

- Pipe model is based on a strong connection between the game provider and the customer, wireless network provider does not need to invest substantial amount of money. They only provide a platform for games to be reached to the final customer. The wireless network provider does not need to participate as a partner and takes responsibility for marketing, as a result this model is easier to manage. On the other hand, WNP loses control to a great extent here and if the game turns out to be a success story, GP would acquire the biggest share of the profit.
- Pipe-sales is different from pipe model in terms of its direct relationship with GP and the connection with the customer. Game provider and network provider have non-exclusive business relationships and the billing process is done directly with the customer instead of a wholesale agreement.

- Portal model represents a strong connection between WNP with the GP and the customers. Product is delivered through a portal and is promoted by both parties. The payments are handled by the WNP and the direct revenue from the customers is shared with the GP. There are better opportunities to generate revenue and the customer relationship can be managed more efficiently.
- Full portal model is the opposite of pipe model which gives the WNP control over branding and managing customer relationships. The revenue is received from the customers directly and for the model to succeed, no partnership is required.

It is necessary to mention that there are business models that have been designed for more advanced networks like 3G and 4G. Three business models that have been suggested for 3G networks are discussed here. In Figure 15 these three models are illustrated based on the roles of the different parties. NO, CA and CP stand for network operator, content aggregator and content provider respectively. Content aggregator offers services from one or more content providers, content providers offer services and applications that value-added transport services (UMTS 2002).

Network Operator Centric Business Model	CA/M-Portal Centric Business Model	Content Provider Centric Business Model
NO CA	CA	CA CP
Billing&collection Provider	Billing&collection Provider	Billing&collection Provider
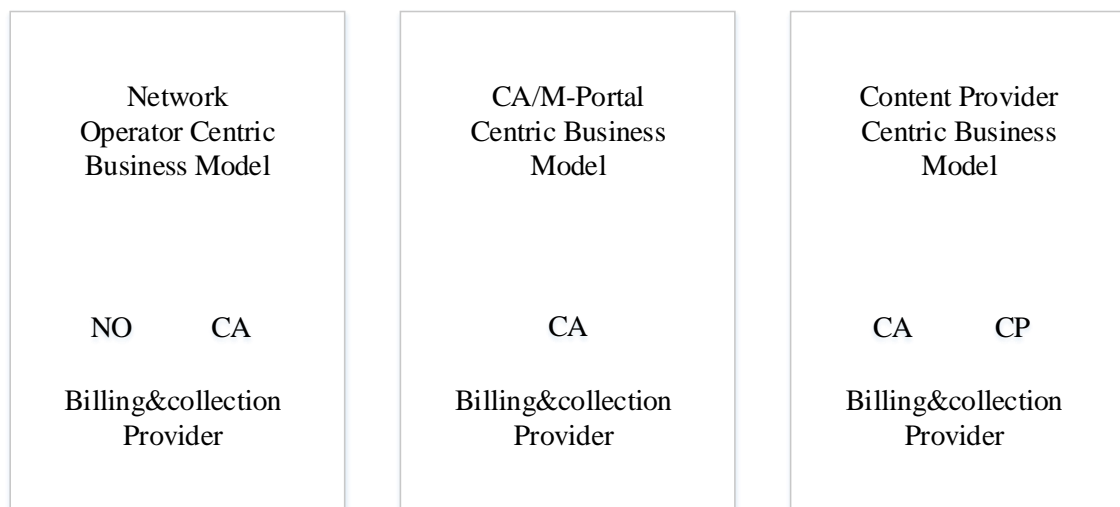
Figure 15 Different roles dependent on the business model (UMTS 2002)

- Network operator centric business model is based on a network operator that has already been established in the communication industry. As a result the billing and customer service tools are part of the existing infrastructure. In this model, the relationship between the customer and network operator is direct. The content is bought from the content provider as wholesale and the operator manages the role of content aggregator.
- Content Aggregator / m-portal Centric Service Provider model revolves around an organization with a brand that has already been established, such a firm builds the portal and handles billing and collections infrastructure. The firm might be a

newcomer in the field of communication or it has made the transition from the internet market.

- Content Provider Centric Service Provider is a firm which has started as content distributor or content creator. The focus is on the content and to capitalize on their core competence, a portal has been created for the content distribution.

For a more clear understanding comparison between key characteristics of all of the three models has been done, the results are shown in Table 3. The comparison has been done based on the following factors: 1. Offered services 2. How services are offered 3. Price criteria 4. Billing handler and 5. Network operator revenue model. For the last two models, billing hander changes to "how content provider gains its revenues".

Factors	Network operator centric	Content Aggregator / m-portal	Content Provider Centric Service
1	multimedia messaging service, location-based services	customized information and entertainment content	Internet access for mobile devices
2	Subscription	subscription, ad-hoc	value-based services that are not in the control of network operator
3	Network operator	Content Aggregator	Bank, financial institution, bank cards
4	Network operator	Subscription, advertising	value-based transaction charges
5	volume, data, subscription, advertisements	data, volume, subscription	volume, data, subscription

Table 3 Business models for 3G networks (UMTS 2002)

It should be mentioned that with the constant technology breakthroughs, there are going to be possible changes in these models. However, the fundamentals of customer value would be the key points to model and implement the newly developed models.

3.11 Case example

In previous sections, the popular business models that are used in game industry were introduced and now in the last section of this chapter a real example is illustrated. It shows what measures the company has taken in order to implement a successful model. The company is NORDEUS and there would be explanation for each element. (Špikić et al. 2013). The game is called "Top Eleven" in which the gamer acts as a manager of the team and participates in different leagues. It allows the gamers to play it for free and they can pay in small transaction for virtual goods to enhance their experience.

- Market segment here is a niche market which includes sport fans between the ages of 15-35 that are especially interested in football. Because of the age group, it covers almost 95% of the players in the world.
- Value proposition here focuses on optimum functionality and various features that has differentiated the game in the market. Users can play on various handheld devices, an Internet connection is required. On PC, there is no need to have the game locally installed on the machine where as in mobile devices the game needs to be downloaded.
- Channels are indirect that either belong to the company and or pass through the partners including Apple, Google and Facebook. The company also has used the power of football celebrities for the image of the brand, Jose Mourinho has signed the contract to act as the face of the Top Eleven (Grubb 2013).
- Customer relationship empathizes on an efficient way of communication with the customers on a daily basis. This ability comes from the language skills in the team in which more than 30 different languages are spoken. For elite users who pay for the virtual goods and other company services, one person is assigned to handle the inquiries and requests. There also extensive guidelines on how to play game and a strong Facebook fan page.
- Revenue comes from two main sources, first users pay for the items and virtual goods with different applications. Secondly, there are in-game advertisements that different companies including Nike have advertised there.
- Key resources consist of the hardware and software platforms that the company runs the game using them and also human resources who play a very vital role.
- Key activities in the company is referred to as the design and production of a game that is delivered to users through indirect channels.
- Key partners of the company are Google, Apple and Facebook. Facebook specially has played a very important role in the expansion and popularity of the game.

4. EMPRICAL COMPANY CASE & FINNISH VIDEO GAME MARKET

In this chapter, a company case is analyzed. Since the firm has been selected from Finland, the necessity for analyzing the Finnish video game market becomes visible. Finnish video game market is important in terms of growth, companies, revenue generation and number of employees and even geographical distribution across the country. Based on the report that was published in 2013, that year marked the third consecutive year that the industry experienced a continuous growth. 180 companies which develop games mostly for mobile platforms, however there are games for other platforms as well. The interesting thing about the market is the strong and visible presence of start-ups and SME's, more than half of the companies have been established in recent years and their contribution has been paramount to the growth of the industry. The main base of the companies is the capital region but the expansion of different studios in different regions is happening with a fast pace (Neogames 2013). The development trend has continued in 2014, the number of companies has reach 200 and the number of people who work in the industry are 2400 which is 200 more compared to the previous year (Tekes 2014).

As in the case of previous chapter, here is also the market is being analyzed first and then business models regarding the case company will be elaborated. In this chapter, video game SME's in the context of Finland plus the new business models and distribution channels will be discussed. The company that has been selected for the empirical research is Apex Games™, which is developing a game for PC with innovative methods in design and business ideas. This case perfectly fits into the category of this study, a SME video game company who is trying to market its product with an innovative business model.

4.1 Market analysis

For analyzing the market, the statistics and reasons which reveal the success of video game industry in Finland are discussed. This is important from both the perspectives of customers and suppliers. It shows how companies have been able to create the value for their customers with their innovations and also the opportunities that the environment has created for them. Industry's turn-over in between 2009-2013 has been shown in Figure 16. This is an obvious indicator of the brilliant achievements the companies have had in terms of generating revenues.
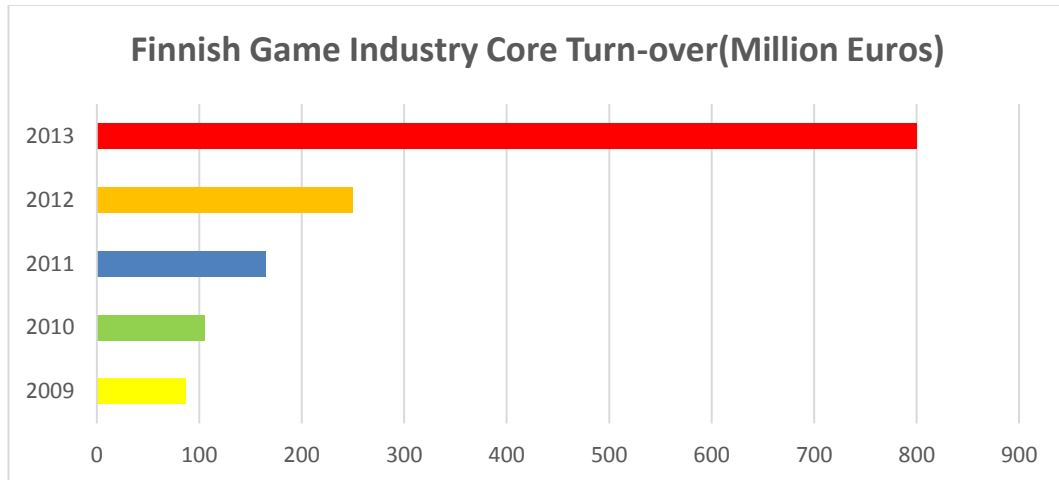
Figure 16 Game industry turn-over in Finland, reproduced and adopted (Neogames 2013)

 As it can be seen, the earned turn-over has become triple in the course of one year. But this growth is not only limited to domestic market, Finland has surpassed global video game market in terms of having a faster growth pace (Neogames 2013). This can be understood from a ratio called CAGR (compound annual growth rate) which gives the annual return in the course of a known time frame, this ratio is 39.6% in this case (Stu 2004). There are eight regional hot spots that have scattered across the country, ranging from the capital to small cities. In Figure 17 the total value of game industry in Finland can be observed, it shows all the business sections. Core turn-over that was mentioned in the chart previously plus investments, merchandise & licensing and merges and acquisitions.
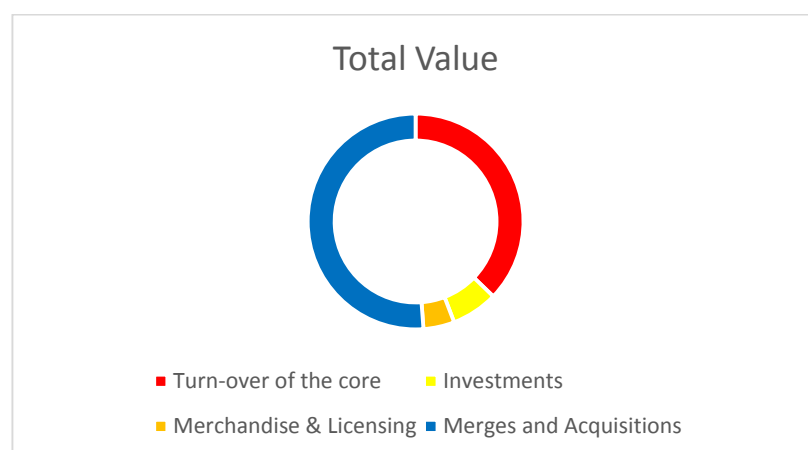
Figure 17 Total value of Finnish game industry (Neogames 2013).

As it was mentioned before, majority of the video games in Finland are the ones which have been designed for mobile platform, they are the most successful games in markets

internationally as well. Here the possible reasons for their success based on the facts, numbers and trends are investigated. One of the backbones of digital streaming and multimedia are fast and reliable network communications, an area in which Finland has a very strong position. Customers have wide access to high speed mobile and broad-band networks across the country. For instance, in 2015 it is expected that 24% of the subscribers make a transition to 4G networks which provides an amazingly suitable platform for multimedia streaming. Also in a survey from customers, 61% of them have expressed their uncertainty about paying for 4G services and only 15% have told they are unwilling to do so (Suortti & Salmijärvi 2014). The popularity of smart phones is very high, more than 56% of Finns, have smart phones which shows a 14% increase compared the year before. This increase has happened in all age groups. Tablets are also becoming more popular (Suortti & Salmijärvi 2014). It seems that game developers have exploited this opportunity since in 2013, mobile games have had the biggest share of sales, more than $37 million(Nordic Game Sales 2013).

In the Table 4 the most successful mobile video game companies will be mentioned with the investments in the firm and merges & acquisitions that they have been engaged in.

Company	Specialty	Amount	Year
Supercell	mobile	$ 1.5 billion	2013
Small Giant Games	mobile	$ 0.8 million	2013
Grand Cru	mobile	$ 11 million	2013
Beiz	mobile	$ 1 million	2013
Ovelin	mobile	$ 1.4 million	2013
Rovio	mobile	$ 42 million	2013
Grey Area	mobile	$ 1.9 million	2013

Table 4 Investment, mergers and acquisition of video game companies mainly active in mobile platform in Finland (Neogames 2013).

In order to have a better understanding of the video game industry in Finland, it is necessary to look at all the stakeholders and business sections which contribute to its growth. In Figure 18 this has been illustrated (Korhonen 2012).
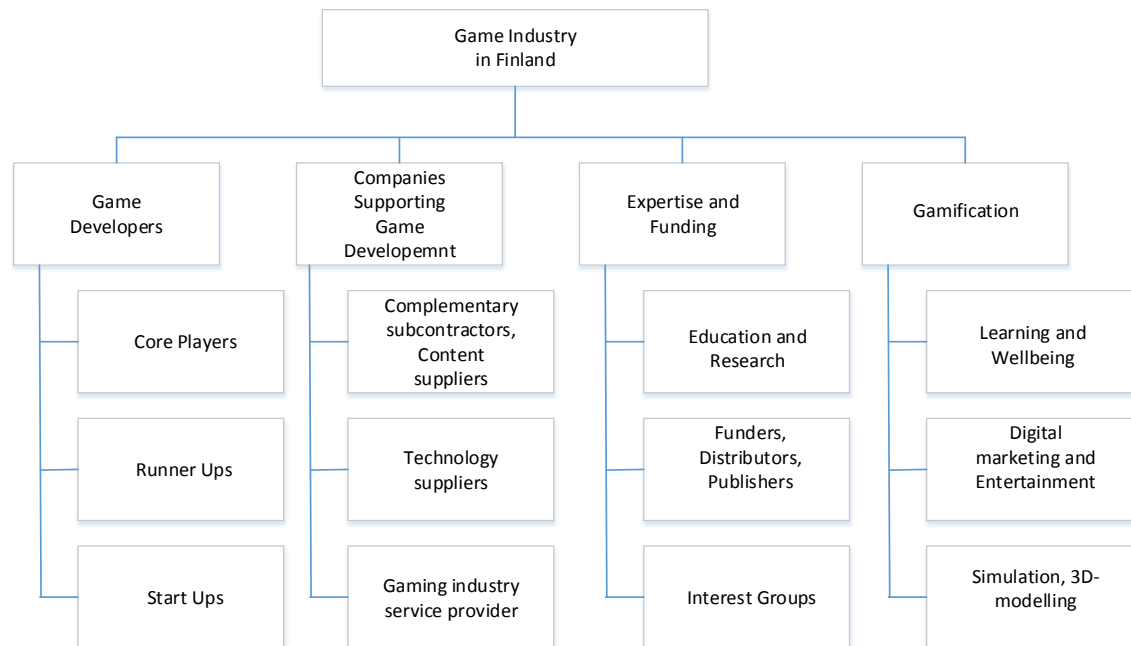
Figure 18 Finnish video game industry (Korhonen 2012)

Game developers are responsible for creating and making the games, they can be divided into three groups. 1. Core players are those studios which already have at least one game present in market, are established and their annual turn-over is 1 million €. There are a few of them at the moment. These enterprises have engaged in projects with research institutes and different SME's. They also participate in projects in international scale with some countries like Japan and USA which have the experience, knowledge and know-how of the game industry. One important aspect of these firms is their approach on identifying new business models and strengthening their operational functions. 2. The second category is runner-ups, these companies have already a product on the market. The aim of the project for these firms is helping them reach international markets which includes appropriate business plan, international market presence and having a competitive advantage over rivals. 3. Start-ups which are on the verge on entering the markets. For this group of companies, proper business planning is crucial. Total analysis of potential customers and competitors is a key factor which helps the company establish its position in the market.

Companies that support the game development process play a major and direct role in providing the hardware and additional software tools needed by the game developers. One group are companies who are providing the needed content for game developers, this can range from storylines, codes, 3D graphics or etc. Technology suppliers enable the game development process by providing the necessary tools such as code writing and debugging tools, graphic design software and the related hardware. Hardware is used for rendering the heavy graphics, simulation and obviously the platform for the software to run. Service providers are those companies which provide special services that those services are crucial for the success of the business and value creation for customers, for instance companies which facilitate the access of online games with strong hardware and software infrastructure, payment portals which enable the online financial transactions, verification services for location and identity confirmation, call centers for player support (GSA 2012).

The third part of the Finnish game industry are those research and educational institutions which provide the companies and their prospect and current employees with the necessary knowledge to become successful in their quest. There are 10 different educational institutes (technical and applied sciences universities, institutions) which offer different programs and courses related to video game industry and business (Neogames 2013). It is evident that there is dire need to provide the businesses which want to start in this costly industry with sufficient funds so their presence in the market becomes successful. Tekes provides the companies with different options, These services are not limited to funding, providing companies with expertise, global business networks, foreign investment are others services provided by Tekes. The amount of funding varies from tens of thousands to one million euro (Tekes 2014). Publishers handle the marketing process and distributors reach the product to the end consumers. Like any industry, there are interest groups or stakeholders and interest groups. For instance in the case online gaming there are three groups of stakeholders(GSA 2012). 1. Regulators are responsible for policy making (governments, agencies, judiciaries). 2. Operators are manufacturers, service providers, test laboratories.3. This group includes family members, consumer protection organization and problem gambling entities.

For the case of Finnish game industry stakeholders are divided into two main groups. First group are creators and producers and the second one are publishers and distributors. These two groups consist of different organization, research institutes and various firms.

- Creators and producers include the following sub-sections. 1. The Finnish game developer association, 2. NEOGAMES, Finnish national center for game business research and education in a co-operation with the technology center, HERMIA. 3. Game developers and game service providers.

- Publishers and distributors either are the members of Finnish games and multimedia association (FIGMA) or non-member firms which execute the duties related to sales and distribution.

Gamification is referred to as the design of game elements and then applying them to real world characteristics in order to create a user experienced video game world (Visch et al. 2013) or in other words inspirations that mass market software take from games (Deterding et al. 2011). In Table some examples of gamification in different business can be seen.

Core service	Enhanced service	Gamified service
LinkedIn profile	Progress bar which shows how much of personal info has been filled.	The service increases the perceived value of filling the details.
Café	Having a competition in Foursqaure	Creating a competition for the customers to visit the café on frequent basis.
Dry cleaner	Stamp card, one stamp for a visit	The service increases the perceived value of coming to the dry cleaning again.
Gym	Heya Heya	Setting goals for the customers and monitor that.

Table 5 Examples of gamification in different businesses (Huotari & Hamari 2011)

These opportunities in Finnish game industry are being used in health care industry, digital marketing, entertainment, simulations and 3D modeling (Korhonen 2012). One specific example is "Games for Health" is a new field that emphasizes on well-being and health. The expected outcome of this program is that citizens get enough motivation to take care of their health and be responsible for it. One pioneer in this field is Kuopio Innovation Ltd, the company brings a combination of experience and different knowhow's to the table (Arpola & Holopainen 2014). The main method which is used is Game Jam, make a video game in a short amount of time, for instance two days (Game Jam 2015). Although the time is short and the process can't be completed but the experience and enjoyment of creating a game is something that participants get from these events. In different game jams, the themes are different, previous ones have been: games with health benefits, use of bio signals in games and nutrition (Arpola & Holopainen 2014).

Another field to exploit from gamification is education, in Finland a great deal of work has been put into this and different solutions have been offered. Here some of these solutions are going to be mentioned (Tekes 2013). 1. Designing educational games, one that has been built with the focus of teaching mathematics. The demand for electronic and remote learning is increasing and 400 million kids have access to the needed technology for this learning platform. 2. Classical music is another field that has been benefited from this approach, a game for elementary school kids to learn classical music. 3. Location based learning provides a proper platform for schools to teach different subjects in a more interactive way and outside the boundaries of a classroom. Museums, cultural centers and even cities are other entities that can benefit from location based learning. 4. The possibility of designing home works in the format of a game, creates more motivation and makes the process of doing the home work more exciting for students. 5. Cloud computing is another aspect that has been considered in educational gamification process, providing an interface for different teaching materials, games and different tools. 6. Mobile social learning enables students to experience an interactive learning experience, add their own contribution while they walk the city. 7. One of the aspects of modern technology is that children engage in physical activity less than before, so a game with the help of sound and light helps kids to go through a different and interactive process as they proceed through the game.

8. To assist the students speak the language they are learning better, a game has been designed that makes the process more interactive by creating real situations and the possibility to connect to other students around the globe. 9. The next project's goal is to help the student acquire problem solving skills through digital story telling. 10. The need for a venue-based lab has resulted in creating cross-knowledge portal for research, education and development. This system has been place of in the department of teacher education at university of Helsinki. 11. For evaluation and validation of educational games and facilitating their entrance to potential markets, a system has been designed which helps the game companies have multidimensional feedbacks. 12. Appreciating the employees and people who contribute either through voluntarily work or in their organizations, a digital system has been designed which promotes people in a cloud-based environment. 13. Another solution is a tool for online guitar learning which works on different platforms and enables the users to learn playing the instruments in designed divided benchmarks. 14. Smart classroom enables the teachers to make a transition from traditional to modern teaching methods. Examples of these modern methods are virtual classroom, online teaching materials and other tools.

4.2 Company Case – Apex Games

A case study report should have five characteristics (Robson 2002):

1. Mentioning what was the study about
2. Transmitting a clear message of the studied case
3. Providing the reader with the information about the way the study was done and by whom
4. Providing basic data in a way that the reader can see the outcomes logical
5. Expressing the researcher's conclusions and mentioning them in the context

The company case is analyzed based on the reporting format mentioned above, the first two items are covered in introduction and the other three are discussed in the marketing and business model section. However in the course of each step, other necessary and relevant frameworks and information are mentioned. First the study is explained in the context by providing information about the company and motives behind the development of the game, followed by what the study wants to achieve. After this, the process of the interview and the questions are explained. Then key findings with focus on marketing and the business model is mentioned. Finally, researcher's perspectives and suggestions are mentioned along with the news and updates from the company after the interview.

## 4.2.1 Introduction (Story & Technology)

The company was established by people who used to work in Nokia™ and later made the transition to game industry. The firm is categorized as a SME and it has benefited from different supporting systems. For example through a program called Manse Games projects, some of company staffs have been sent to San Francisco to participate in an event. In addition to that, companies have benefited from educational lectures as well as getting connections with publishers. The company's funding comes from three resources: 1. External funding 2. Company's resources 3. Small side projects. The game is called "Demon Core" which is a first person shooter game and in the first phase it is developed for PC and Mac platforms. The idea of the game initiated at the time that was 100 years anniversary of Tunguska in Russia. What happened in 1908, was an explosion caused by an object from the space hitting the ground. Many people at that time had different and strange ideas about the event. The story of the game happens in the exact location in Siberia, a research lab which tries to simulate that explosion in order to produce clean energy. Researchers from different countries are working in this lab. Problem starts when Russian nationalist rebels attack the lab and take over it. First part of the game is survival and second part includes the player being involved in prevention of the attack. The game play elements range from combat scenes with different guns to using traps for the survival.

The firm has selected PC platform instead of the mainstream mobile oriented market in Finland because of two reasons, first the whole development team has worked in mobile industry and they wanted a fresh start and secondly the competition is tough in mobile games in Finland. Although it is in contrast to the rule that the firm should be present everywhere but this is a start-up company and the budget is restricted. The game has been developed using the "Unreal Development Kit" version 3, latest state-of –the –art technologies in hardware and software have been used in the development of the game. One of the interesting features that this game possess, is the 6-degree-of freedom head tracking technology which brings the exact player's 3D movements into game environment. This technology enables real-time simulation of the movements, where a small move by the player is shown with a precise reaction in the game. Since this technology applies Microsoft Kinect and NaturalPoint® Track IR, mouse, keyboard are replaced by the hands to give the most realistic game experience to the user. There is a multi-layer artificial intelligence that has been integrated to the game, this model simulates the player's behavior in three levels (Apexgames 2014):

- Team level: This aims at separating the allies and enemy soldiers. The third group are militia soldiers that are formed by civilians, whether they join the players or fight against them, depends on the situation.
- Squad level: In this level, squad's objectives and co-operation are simulated. These include, breaking away from the fighting positions, giving intense fire and performing maneuvers. In this level, performance of one member of the squad influences the success of the whole team, hence the level of the player's experience is a significant factor.
- Individual level: In this level, behavior of a single soldier is simulated. Soldiers have the ability to enter the fight with who they want and they can consider who has the higher risk of threat and danger.

4.2.2 Marketing Channels

For analysing the marketing process of the company, the marketing mix, customer and industrial marketing channels are used. The company sells the product to a customer with an intermediary in the between, as a result the marketing channel is one-level. On the other hand, the enterprise is doing both customer marketing and industrial marketing, the first one aims the gamers and the latter one focus on Steam Greenlight. In Figure 19, the marketing processes are illustrated.
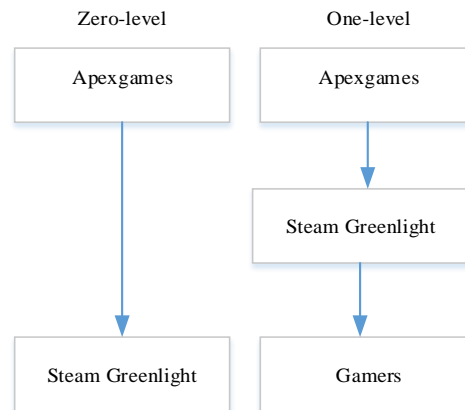
Figure 19 Left: Industrial Marketing Channel, Right: Consumer Marketing Channel

The outputs of the marketing channels are the following. Lot size for both consumers and industrial customers are limitless, it is a digital media and they can buy as many copies as they need. Waiting time depends on the Internet connection of the user. Considering that many people who play online games or download games online are more likely to have access to high speed internet, waiting time is not that significant. Spatial convenience has been secured by Steam Greenlight, an established online retailer accessible by an Internet connection. There is one game as the product, no plan has been fixed for developing new games until this moment. Service backups are handled by both the firm and the online retailer depending which party is directly or indirectly engaged with a certain situation.

4.2.3 Marketing Mix

The next step is to discuss the marketing mix for the firm.

- Product: The firm's main business is video games development, however they are diversifying into simulation and motion capture and recently a separate studio has been dedicated for that. One game has been developed by the firm with focus on high quality graphics. This game enjoys very good graphics and strong story line and the company has managed to do all the development internally (Level design, game design and graphics) with the exception of one sound part. Game is offered online so no physical packaging has been decided. Services and warranties are handled through the online mediator, Steam Greenlight.
- Price: In regards to the pricing policy, Apexgames plans to listen to the consumers and get their feedback on the pricing range. The price has not been fixed, however the company has an idea for it, 15-20$ and 16-20€ are the price ranges for North

American and European markets respectively. In addition to that, they have asked for consultation from other experts and professionals to eventually make the best decision. As far as the revenue share concerns, generally 30% of the sales revenue belongs to Steam Greenlight. But it can differ from case to case and there is no agreement between the company and the publisher yet. In the case of steam, financial statements and payments are done on a monthly basis and taxes are removed before calculating royalty fees.

- Promotion: Steam has dedicated website for its community. In this section, companies can provide content to be used for marketing, which is referred to as content marketing. Apexgames has created videos which show the gameplay in different levels of the games, videos have created to have with the focus on functionality and are uploaded in YouTube to provide broader access. In addition to the videos, there are three more sections in the community section of the game, 1. Discussions 2. Announcements 3.Comments. "Discussions" contains the topics created by users, this enables the users to ask their questions and send their feedbacks to the company. In addition to that, this provides a virtual meeting platform for users that eventually helps promoting the game. "Announcements" section acts as a news platform and notifies the user about the latest news related to the game. These news can range from release date to events, technical updates or any other happenings related to the game or the company. "Comments" section is about the views and reviews that current players and potential buyers have provided based on their level of engagement.

- Place: There is also a page dedicated to the company in the Steam site which provides a lot of technical and promotional information. Description have been kept short to send the marketing messages and at the same time, key points are highlighted, such as differentiating features of the game. Screenshots, artworks, videos, workshop items, merchandise, collections, guides and greenlights are the main tabs in this page. The first four tabs are informational and promotional. Later when the company establishes itself in the market, there is the possibility to generate more revenue from selling different merchandise and accessories. In this case the platform is available and there is no need for separate investment. The last three tabs show information and have the possibility to generate revenue for the firm, for instance special collections of the game with complimentary items can be sold and promoted in this section.

4.2.4 Business model and Strategy Planning

It is important to mention that the firm has followed two strategies that were mentioned in chapter 3, first and third sophistication strategy.

- According to the first strategy, company should find unused applications for their products and services, Simulation and motion capture business is what the firm has selected to uncover more potentials.
- Fifth strategy focuses on involving the users and the crowd. The firm wants to execute this strategy by releasing beta version of the game. It is the playable version of the game with a discount and later the final version with the higher price, this way an incentive is created for users to buy a game with a lower price and later can acquire the final version. Another objective for offering the beta version, is to get inputs and ideas from the gamers and the firm has plans to reward the users with mentioning their names somewhere in the game. Finally, in regards to pricing, the firm wants to engage the users to have a better perspective about price ranges for different geographic locations.

The company's business model is online and it has reached an agreement with an established and reputable game portal for launching its game. The website is called steam and it has the capability to host and offer services for different genres of games. At the initial launch, the game is going to be available for download and then is playable on a PC which has the requirements. However if the company wishes to modify the game so users can engage in a dynamic environment battling each other, then the service provides the necessary requirements to make that transition. The target market that the company has considered is mainly North America, not the local Finnish market. In Figure 20, the business model of the company is illustrated.
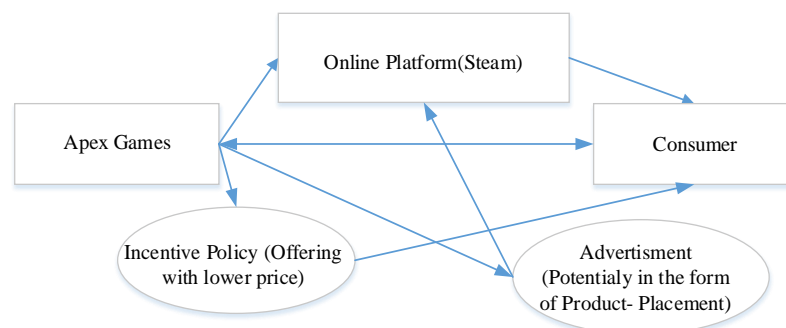
Figure 20 Company Business Model, Drawn based on the information from the interview

4.3 Marketing Plan

Steam has been selected as the market space and online retailer for offering the game. As it was said in the interview, the main goal of the company is to put the game in Steam's featured list to almost guarantee the sales. Different marketing channels and factors can be implemented for this process to have the desirable outcomes. For crystalizing the marketing plan, the firm's marketing campaign is discussed in three different phases, pre-launch, launch time and post-launch.

4.3.1 Pre-Launch

There are a couple of different approaches that company can take in this stage:

- Social media and online communities can act as the main communication and advertising channels. It is advisable that the firm opens a Twitter account for promoting the game, this can be an efficient communication channel to interact with customers. The link of the account can be advertised in the Facebook page and company's page in Steam. Announcements, updates, tips of the day, news pieces can be some example of the Twitter feed content.
- For better presence, the firm can notify its followers in different platforms of social media about its official accounts in gaming forums, this way active users recognize the presence and casual gamers might get the motivation to check the content on forums and interact with the firm.
- Events are expensive occasions if the company wants to have a stand or officially participate. However, digital advertisements can act as the indirect presence of the firm in those events and exhibitions. For instance, a short videos that are similar to Vine and Instagram, 6 and 15 seconds respectively. This creates anticipation and curiosity.
- Setting a digital counter when the release time is close. For example the company can start this process 15 days prior to the release time. The number of days should not be too long or too short, the first situation ruins the excitement and the second scenario is less likely to produce enough whisper.
- The link with between the industrial customer (Steam) and the consumers must be managed and established during this phase, this can be done in all the activities. For instance, Apexgames can notify the users about Steam and its services in Twitter. This motivates the users to investigate the portal and become more aware of the option it offers to them.

4.3.2 Launch Time

This phase has some similarities with the previous one as well as differences. The activities here should take place fast and they must transmit the messages to the customers fast to increase the sales. The focus is to direct the pre-launch marketing efforts towards generating revenue.

- In this phase, there would be a group of users that purchase the game first, either they have done their research or taking a risk. It does not matter what the motives are, it is necessary that the firm exploits the significant potential of this group. For instance, they can be encouraged to write their tweets with a certain hashtags, the tweets can be about various subjects including gameplay experiences, different tactics, favorite graphic scene, etc. This is more influential since it comes from users not the company and it is seen by wide range of audience. Ultimately, it would boost the sales and the cycle continues.

- Different offerings, bundles, price policies, discounts should be existed to give incentives to users. However it should be noted that the number of pricing packages and offerings should not be high. Since the main target market is North America, company can create a special offer for the users from that area. For instance, a bundle containing the game plus an additional content can be one option. The additional content can create a link to United Sates, for possible sequels if it is applicable.

- Assuming that sales would reach an acceptable level, the firm might think of participating in an event or sponsoring one. To exemplify, Apexgames can create a tournament to draw a crowd. The tournament can include players playing a level and whoever finishes the game faster than others, receives a reward, it can be in the form of discount in buying the game.

- Apexgames can ask the players to write their ideas on the game features that they perceive as unique or interesting and publish it in social media with a predefined hashtag. This way, other potential buyers can make the comparison to other games available in market.

- Nowadays, some games developed in Finland have been turned into household names. When the sales increase, the firm can use the Finnish success factor as part of the marketing, stating the game as another successful title from Finland. For instance, if experts from a well-known gaming website try the game, it is the possibility that they write about it and mentioned the Finnish factor.

4.3.3 Post-Launch

In this phase, more strategic planning should be taken into consideration. Long-term plans, competitive advantage and even future game titles are part of the marketing campaign. In this phase, the firm aims at increasing the sales, however innovative marketing strategies should be added to the marketing campaign.

- Company can negotiate with external marketing agents, the ones which have the experience of marketing Finnish games in American market. This depends on the game becoming a hit and should be approached in later stages.
- Additional bonus content can be developed for this stage, this refreshes the marketing environment surrounding the game.
- Hints and ideas can be posted on company's communication platforms to create curiosity from users' side. This enables the company to see the new trends, for example Apexgames can find out whether to go for the sequels or not or if users are interested in the sequels, what new features and capabilities they would like to see in the game.
- Different forms of advertisement options can be considered in this phase. According to the interview and researcher's findings, product placement ads are for the games that are successful in the market. These ads can be placed in the additional content, sequels of Demon Core or future titles. One strategy that has been suggested by the researcher is static-in-game advertisement. The advantage of this method is mainly the simplicity in the design and implementation as well as lower costs compared to dynamic ads. There is a concept related to game advertising which is referred to as impression quality. It depends on a set of parameters that should be analyzed for a game environment (Iab 2009).
  1. Minimum ad size: Size of the ad must be must be 1.5% of the screen size.
  2. Lighting: The factor which makes the ads visible in the game environment.
  3. Maximum ad angle related to game screen: This angle must be 55 degrees and below.
  4. Occlusion determination: This refers to those times that part or the whole ad is blocked from user's sight. Measurement mechanisms are needed to report these instances.
  5. Non-human activity: Mechanisms and reporting systems should be in place to distinguish human and robot activities. These systems are necessary for filtration of non-human activities.
  6. Internal traffic: Those impressions that are the result of the employees of the in-game ad measurement system should be removed from the reports.

4.3.4 Follow-Up

The researcher contacted the company officials after the interview. This was done because of two main reasons:

- Possible updates about the firms and the video game: The company is in the final stages of completing the game and plans to launch it in near future. In the meantime, they are working strongly on their side business (simulation and motion capture) and the firm has good potential to become another success story in the gaming from Finland. No major update or change was reported from the company about the development and release of the game, business model and marketing methods remained intact. However, the firm continue its presence in different events for promotional activities, for instance Finnish video game awards has been one of the major events they have attended.
- Getting feedback from the company about the suggested marketing plan: The marketing plan received a very good feedback from Apexgames. The company mentioned the plan full of good ideas. Company manager said that they already had thought about some of the options which were in the report, in addition to that they found some "novel" ideas in the plan. Finally, what the firm mentioned what they would consider to add to the current plan. The updates and feedback of the company to the marketing plan can be found in appendix B.

Based on the suggested plan and the result of the follow-up interview, the marketing framework for the firm can be summarized in Figure 21. Here the main parameters in different parameters are shown.
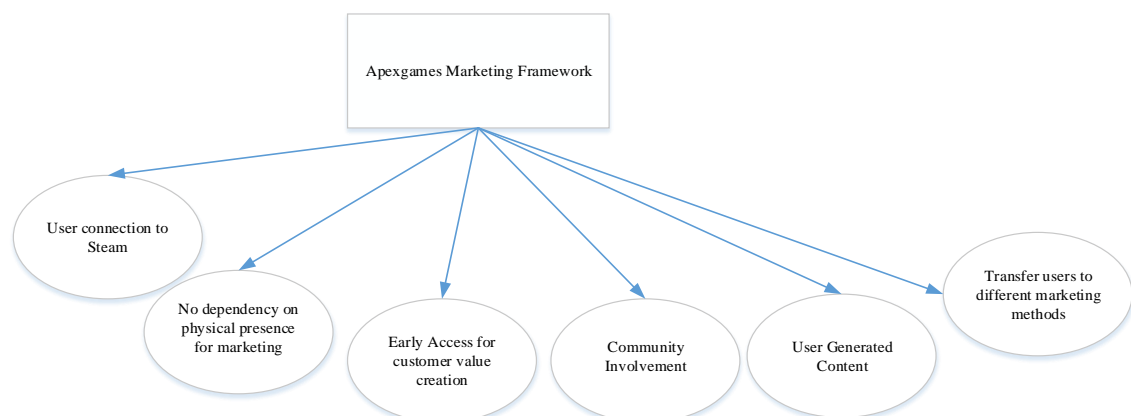
Figure 21 Apexgames Marketing framework and its parameters, drawn based on the researcher's suggestions and company's feedback.

The first three parameters have been explained in the marketing plan by researcher and also were highlighted by the firm. However the second three parameters were mentioned by the company as potential addition to the marketing plan.

- Community involvement and user generated content: The community can contribute in various ways. For instance, after the game is launched, users can be asked to post clips of their personal game experience in YouTube. This will be real-time marketing from users' side, since other viewers get to see the game environment and hear the ideas of a fellow game player. Favorite clips can be selected by the users, over time active users can get recognition in forums and communities. Ultimately, the optimum goal would be establishing a link between broadcasting platforms and communities, where users try to strengthen their position in either of the platforms by a stronger presence and more valuable contribution.

- Switch between marketing methods: This can be done by linking the users to different platform from company's main website. Website acts as the main platform, links to Facebook, YouTube, Twitter, Instagram, community and forum websites, Steam and active user's channels can be placed there. Feeds of Twitter can be put in the website to create the dynamic environment. This enables all the platforms to create traffic for each other and to provide recognition for Apexgames in all possible communication channels.

5. CONCLUSION

The final chapter of the thesis is dedicated to the summary of the results and the conclusion of the research by responding to the research questions respectively. First, video game in digital business accompanied with the overview of the industry is discussed from the aspects. It is being followed by explaining the SME and the related factors. Various business models which are being used in the marketing of the video games are elaborated. In the final chapter, video game business and its related elements are discussed in the context of Finland and the chapter is finished by presenting a case company related to the study.

5.1 Video game business

The first research question that the thesis aims to answer in chapter 2 was:

What changes has happened in the video game market?

The expansion and access of Internet worldwide has resulted in creating new portals for the businesses. One of these revolutionary technologies is Internet, according to a survey the percentage of the Americans with Internet access has increased from 67-83% between the periods of 2000-2013. At the same time, the access to broadband Internet has experienced a dramatic growth reaching to 83% (Jeffrey I. Cole, Michael Suman, Phoebe Schramm, Liuning Zhou, Andromeda Salvador 2013).

Different value chain models have been evolved through time on the basis of the new developments and needs of the industry. The value chain in video game industry consist of developers, publishers, console manufacturers, distributors and retailers (Lê et al. 2010). Developers design and produce the Game. Publishers support developers in terms of funding and supervision for the design process. Marketing tasks as well as managing relationships with distributors and console manufactures is part of their responsibilities. Hardware is made by console manufacturers such PlayStation. For each game that is sold for their console they receive royalty fee. Distributors and Retailers have the job to send the product to the final consumer.

New media is digital meaning that the marginal costs for reproducing it almost zero and the audience can be reach directly with middle parties and gatekeepers. Consumers contribute to all parts of the value chain, the participation might be in the form of testing, reviews and even cooperation in the content creation process. Consumers in new media

are visible through their presence on forums, blogs and through the mobile operators' location detection of the users. This feature enables the suppliers to offer customized content based on the geographic location of the user. The other feature is the real time availability of the new media which means media can be accessed as it is being produced. The content is accessible in different platforms and times and finally the important effects of the networks which allows the consumers to interact and communicate with each other, share the content. This feature has been the breakthrough behind the vast expansion of online gaming mostly in the form of MMOG's such as World of Warcraft (Hennig-Thurau et al. 2010).

5.2 SME

The second research question which was elaborated in chapter 3 was:

> *What is SME? What are the business models used for marketing the products in the context of game companies?*

Small and medium sized businesses are defined by their size. According to the European commission, there ae certain criteria for classifying a business as SME (Bonn 2005).

- The number of employees should not exceed 250
- The turnover and balance sheet should not exceed 50 and 43 million Euros respectively.
- Also the percentage of ownership by other enterprises should not be more than 25%

A business model provides the data and necessary factors on how a business create value for its customers and hence generates profits for itself. Revenues, costs and profits are investigated in a business model. In Figure 3, the elements of the business model has been illustrated. A business model consists of financial and organizational structure of a business (Rosenbloom, H. Chesbrough 2002). There are some important points related to business model implication, first is that business model should be accompanied by a proper business strategy. The reason for that is to maintain the competitive advantage. The goal here is to make the business model difficult to imitate and hence maintaining the revenue stream. Secondly, a business can implement more than one business model in order to create the desired customer value. Developing new product and services should accompany a business model to increase the rate of success. The flexibility and learning ability is necessary for the success of a business and business model (Teece 2010).

Various business models for games were discussed in that chapter, summary of them is mentioned here.

Packaged game software sales is the oldest business strategy for selling games which has been used the most. Despite all the digitalization in the industry it is the most popular one among gamers.

Subscription: For this model there are some advantages and disadvantages (Chen, Andrew, James, Daniel, Koster 2012): A revenue stream that is predictable and regular Higher ACLV or average customer lifetime value which is the main metric for this business model and refers to the how long a customer remains with the business considering the charges that should be paid on a time base like a monthly fee. For instance, if the subscription time is 12 months and monthly fee is $20 then ACLV would be $240. The customer is likely to be more loyal to the business as more options are provided other than just purchase. More possibilities for selling other product and/or services to the customer.

Free to play: In a report by Park Associates, the features of these business model have been explained. The main characteristics of these games is that users are able to play the game for free but if they need some items or they want to have an upgraded gaming experience they should pay. The main advantage of the model is that subscription fees and retail costs are removed from picture. The segment of the gamers that have the preference for casual games are more attracted to free to play games. The other benefit is allowing the users to spend based on their budget so it does not stop them from playing the main game features (Macchiarella 2011).

Virtual goods: Virtual goods in video game is referred to the items and functions within the video game that increase the chances of the player for success and are paid features. Depending on their application, virtual goods can be categorized as functional virtual goods, decorative virtual goods, virtual goods for communication and ad-free gaming virtual goods. (Linnemeijer 2013).

Freemium: Freemium model is popular in companies which offer online services and it is mentioned as one of the characteristics of Web 2.0. In this model a basic version of the product or service is given for free and then for the premium product and the idea is that eventually users can be persuaded to pay for the premium version of the product (McGrath 2010).

This models is also referred to "real-money market place" and RMAH is used as the abbreviation. In this model, gamers trade the item that they have collected and acquired during the game using real money and give a fee to the company for each transaction.

The most prominent example of this type is the famous game, "Diablo" (Prax 2013). Diablo is a role playing game in which users collect precious items during the fights and game play and in this way player's avatar is upgraded. Since progress in the game requires various weapons and powers, players need to continue the game play to gain more weapons and powers. These items can be traded in the auction house which uses real currencies and players can search the items based on the properties and prices. (Prax 2013).

5.3 Finnish context and the case study

In chapters three and four, the following question are discussed respectively.

> *RQ 3: What is the situation of the game industry in Finland?*

Finnish video game market is important in terms of growth, companies, revenue generation and number of employees and even geographical distribution across the country. Based on the report that was published in 2013, that year marked the third consecutive year that the industry had experienced a continuous growth. 180 companies which develop games mostly for mobile platforms, however there are games for other platforms as well. The interesting thing about the market is the strong and visible presence of start-ups and SME's, more than half of the companies have been established in recent years and their contribution has been paramount to the growth of the industry. The main base of the companies is the capital region but the expansion of different studios in different regions is happening with a fast pace(Neogames 2013). The development trend has continued in 2014, the number of companies has reach 200 and the number of people who work in the industry are 2400 which is 200 more compared to the previous year(Tekes 2014).

But this growth is not only limited to domestic market, Finland has surpassed global video game market in terms of having a faster growth pace(Neogames 2013). This can be understood from a ratio called CAGR (compound annual growth rate) which gives the annual return in the course of a known time frame which is 39.6% in this case(Stu 2004). There are eight regional hot spots that have scattered across the country, ranging from the capital to small cities. In Figure the total value of game industry in Finland can be observed, it shows all the business sections. Core turn-over that was mentioned in the chart previously plus investments, merchandise & licensing and merges and acquisitions.

Finally the case study showed an example of the marketing strategies and the business models that have been adopted by the firms.

> *RQ 4: what kind of business model and distribution strategy has been adopted by video game SME's?*

The company's business model is online and it has reached an agreement with an established and reputable game portal for launching its game. The website is called steam and it has the capability to host and offer services for different genres of games. At the initial launch, the game is going to be available for download and then is playable on a PC which has the requirements. However if the company wishes to modify the game so users can engage in a dynamic environment battling each other, then the service provides the necessary requirements to make that transition. For the marketing part company plans to release beta version which is playable version of the game with a discount and later the final version with the higher price, this way an incentive is created for users to buy a game with a lower price and later can acquire the final version. Another objective for offering the beta version, is to get inputs and ideas from the gamers and the firm has plans to reward the users with mentioning their names somewhere in the game. The target market that the company has considered is mainly North America, not the local Finnish market. In Figure the business model of the company has been illustrated. Later in this section, different marketing activities will be illustrated, both the ones that have already been planned by the company and those that have been suggested by the researcher.

Advertising is the main activity for both promotion of the game as well as generating revenue from it. One approach which has been considered by the firm, is product placement. As it was explained in chapter 2, product placement is sponsoring a product or service or integrating a brand into the game. As this strategy has the potential to be a good source of revenue for the company, however based on the interview, the game should be established in the market as a hit in order to attract companies to invest in advertising. One other approach by the company is advertising the game in other games which have already been established. One strategy that has been suggested by the researcher is static-in-game advertisement. The advantage of this method is mainly the simplicity in the design and implementation as well as lower costs compared to dynamic ads.

5.4 Limitations and Quality of the Study

The weaknesses point of this study include the fact it is the work of a single student, the presence of wide range of topics that form the study and small sample of case studies. On the other hand, it analyzes the topic extensively and tries to analyze different topics from a business point of view to make it more practical. Marketing and business models, are discussed thoroughly with visible examples and explanations. The comprehensive study gives important knowledge about business models and marketing in video game industry.

5.5 Recommendation for Future Research

For further research, the study of more creative and cost effective business models for SME's is suggested. The budget constraints and high risk nature of the SME's creates the need for more research to create more success stories and to prevent the start-ups from failure.

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APPENDIX A: MAIN INTERVIEW

Interviewer: Please give us brief information about yourself, work experience and the company.

Company Manager: I used to work in Nokia for many years and I left my job to start my own business. The rest of the team are also ex Nokia employees with different expertise in programming, animation and game design.

Interviewer: Please tell us how you got the idea to start developing the game? What features make it special?

Company Manager: When we started the game, it was not clear for us that we are going to develop a first person shooter game. We found out about the Tunguska, it was a huge explosion that happened over a century ago in Siberia, Russia. There were a lot of urban legends about the incident at that time, we used this as the idea for the game in modern time. The story is that people are trying to simulate the incident in a state-of-the-art lab in the exact location. They want to find out what happened there and use the results to create clean energy. Nationalist rebels in Russia are not happy to share the knowledge with the world, so they come and try to take over the lab. The lab turns into a war zone, the pattern of the game changes from survival of the gamer character to preventing the incident.

Interviewer: Has the design been carried out by company internally or some parts have been outsourced to other firms?

Company manager: It is completely our work, there is just some sound work that has been done by others. Level design, game design and graphics have been completed internally.

Interviewer: Considering that your company is a SME, is there some sort of cooperation and business network between game developing SME's of Finland and in particular Tampere? Do they share their knowledge, resources and expertise?

Company manager: Yes, in the beginning when we started the company, a network called Manse Games started to work. Its job was to create a network of Tampere's game developing studios. The project was a success, they enabled us to go to the game developing conference in San Francisco. A couple of companies from Tampere attended the conference, the facilities that they provided included subsided prices for the trip. Other activities that were carried out by Manse Games included lectures and bringing major game publishers to Tampere to create a business networks with the studios. This project lasted two years and later it was replaced by other plans and projects. Major one is IGDA (international game developers association) Finland, the Tampere branch has meetings approximately every two months.

Interviewer: Do the major studios attend these meetings or the participants are mostly from small and medium sized enterprises?

Company manager: In Helsinki gatherings, studios are usually present but in Tampere SME's are the main attendants.

Interviewer: Are there direct or indirect connections between the SME's and the incumbents? For instance, major studios can benefit from SME's creative ideas and in return financial aid and expertise can be offered to them?

Company manager: I can't say an example for our company but it is very common that major studios buy smaller ones, for instance the intellectual property of a mobile game that belongs to a major studio might have been originated from a small studio.

Interviewer: During the course of this research, I came across the information related to funding programs offered for game studios, to what extent these programs have been successful? And has your company benefited from these plans?

Company manager: 50% of the investment has been financed though these programs and the other half comes from company's founder's money, loans, revenue generation from small projects. For instance, simulation projects, we have started another company for this purpose.

Interviewer: Let's make the transition to the business side, what are your preferences and plans for company's marketing process and business models?

Company Manager: Our business model is pretty basic, the game is going to be launched through an online platform. It is going to be sold in Steam and we already have a Greenlight so we have kind of a virtual shelf. However we are considering the early access which is the beta version of the game. Enthusiasts can pay and get their hands on the game, it is not the finished game, something like a crowdfunding. They also will give us input for the game and it might be some rewards like putting their name in the support section.

Interviewer: So you are establishing a customer loyalty type of program, giving incentives to attract customers?

Company Manager: Basically the early access game is much cheaper than the final version but people who buy the early access will get the final version of the game as well, so in a sense it is rewarding for customer loyalty.

Interviewer: Do you have some specific plans for marketing other than Steam?

Company Manager: Well, Steam is already pretty established, it is well-known. It is the most well-known market place for PC games. For us online platform is just for the delivery of the game. So we don't need anything other than the platform for users to be able to download the game. The transactions are done by Steam. If our game would be an online multiplayer game, then we would be able to use the Steam website's architecture but for us is little bit simpler.

Interviewer: As your business model is online, what other marketing activities have you considered for the promotion of the game? For examples different forms of advertising.

Company Manager: We have not thought about it that much, we know that traditional advertising is not for us. We are not going for TV or magazine ads. We might be able to benefit from social network advertising and we already have done a little in that area in certain events to get the visibility for certain thing that we had in the past. But for the actual marketing of the game, I am not sure. Steam has a featured list like App store, if a game is placed there it is almost a guarantee that the game will sell. So if we somehow

get there, it will solve all the marketing problems. So we need to make a strategy to reach that goal.

Interviewer: What is your price point? How do you share the revenue with your publisher?

Company Manager: The price would be something between 15-20 $ for American market and 16-20 € for the European market. 30% of the revenue goes to Steam and the rest to the companies as a general rule, however the exact percentage has not been fixed for our case.

Interviewer: During the course of this study I came across different ads in games and I have brought you an article focusing on them. These ads can aim at branding, sponsorships, product placement, etc. It can help the marketing process as well as generating revenue for your company. Have you thought about these options?

Company Manager: Yes we discussed this in the company that maybe we could go for product placement ads. But for product placement you need to demonstrate that your game is going to be a hit. So for such a newcomer like us, it is going to be a little difficult. I don't know if we can buy some screen space form other games, maybe that could be beneficial.

Interviewer: What about static ads? They are less complicated design and integrate.

Company Manager: I think technically speaking it is very easy to implement but I don't know how to approach this. Maybe you can tell me how it works. Maybe there is a company which does this, handles the relations. Interviewer: My suggestion would be focusing on media related businesses instead of big brands, I will tell you in more details in a report which I will send to you.

Interviewer: Where is your target market? Have you customized your game for a specific geographic region?

Company Manager: Our target market is North America and Europe or Finland is not our target market. Our game story happens in Russia and it has correlation to the conflicts

that exist now between Russia and Western world, I would assume we could sell it in Russia as well. I consider our graphics and environment very well to represent the Russian architecture and modern style. But as I said, our main target market is North America.

Interviewer: What are your long-term plans and strategies for the company? Going for new titles or sequels for this game?

Company Manager: We have already written the sequels but we have not made the decision if that is the path we want to take. When we first started to implement the game we had a rough scripts of three parts story, they are complete now. But if we never make a sequel, it is still a complete game, the design allows us to decide. Since there are a lot of things going on like animation and motion capture business, we don't know when we continue or if we continue after the release of the first one. At the moment the mindset is that it would be interesting to do a sequel. Our strategy is that we have one main project and several small projects, right now we are nearing the end of the first main project and at the same time we are doing many small projects. Motion capture that started as a small project it has turned into big project now. Consulting, modeling, 3D modeling for different kinds of clients are other projects.

Interviewer: What are the businesses of your clients? Are they game studios or they come to you from different sectors?

Company Manager: These companies are from entertainment industry as well as traditional industries, they are not really game companies, Mostly media entertainment sector.

Interviewer: Have you received any reviews from websites, magazines?

Company Manager: We have not received reviews but we have been in the news. It is a funny story, we wrote that one of the people has been working in university of Kemerova, Russia. In some way they found out about it and we gained many Facebook followers from that region. We did small interviews with local news station. In Finland as well they wrote about us and we sent few letters to different news agencies to show that we are here and we are working, to build up the hype for the release of the game.

Interviewer: Thanks for the time you dedicated, Is There something you want to add?

Company Manager: I think more or less everything has been covered, thank you.

APPENDIX B: FOLLOW UP INTERVIEW

Interviewer: What do you think about the suggested marketing plan?

Company Manager: It has a good overall number of ideas, of which some are same that we already had, but there are also many novel ideas. Most of these ideas have definite potential for implementation.

Interviewer: Does the plan include innovative solutions and suggestions? Please give example.

Company Manager: Connecting the users to Steam through all communication seems important. Building a network that touches all communication methods and moves users from one piece of marketing to another is interesting, but must be difficult to implement. Product placement ads post-launch are something that we need to think about. There must be some potential in marketing extras, sequels or other content within the game itself.

Interviewer: What parts of the marketing plan are more efficient and fit in the context of your company?

Company Manager: Methods that don't involve physical presence are efficient. But even within these methods, we need to be careful which to concentrate on, because of limitations of resources. User involvement (getting the community to talk about the game) is also efficient.

Interviewer: What aspects of the plan are important for Apexgames in terms of creating customer value?

Company Manager: For customer value, clear communication is important. I would imagine that a beta program or Steam Early Access participation are good for improving quality, generating visibility and being a part of the gaming community. Also bundles, pricing policy and discounts are of value.

Interviewer: What factors and parameters you would like to add to the suggested framework?

Company Manager: Community involvement, user generated content and methods to transfer users between from one marketing method to another.