

Man!festogAMES

# The Independent Developer Shall Rise Again!

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## **“Moore’s Wall” and the Decline of the 3<sup>rd</sup> Party Developer**

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- Spiraling hardware capabilities  
= competitive pressure to take  
advantage of them  
= spiraling budgets
- What Raph Koster calls “Moore’s Wall”
- \$5m now minimum buy-in for  
commercial release games
  - 15 years ago: \$200,000



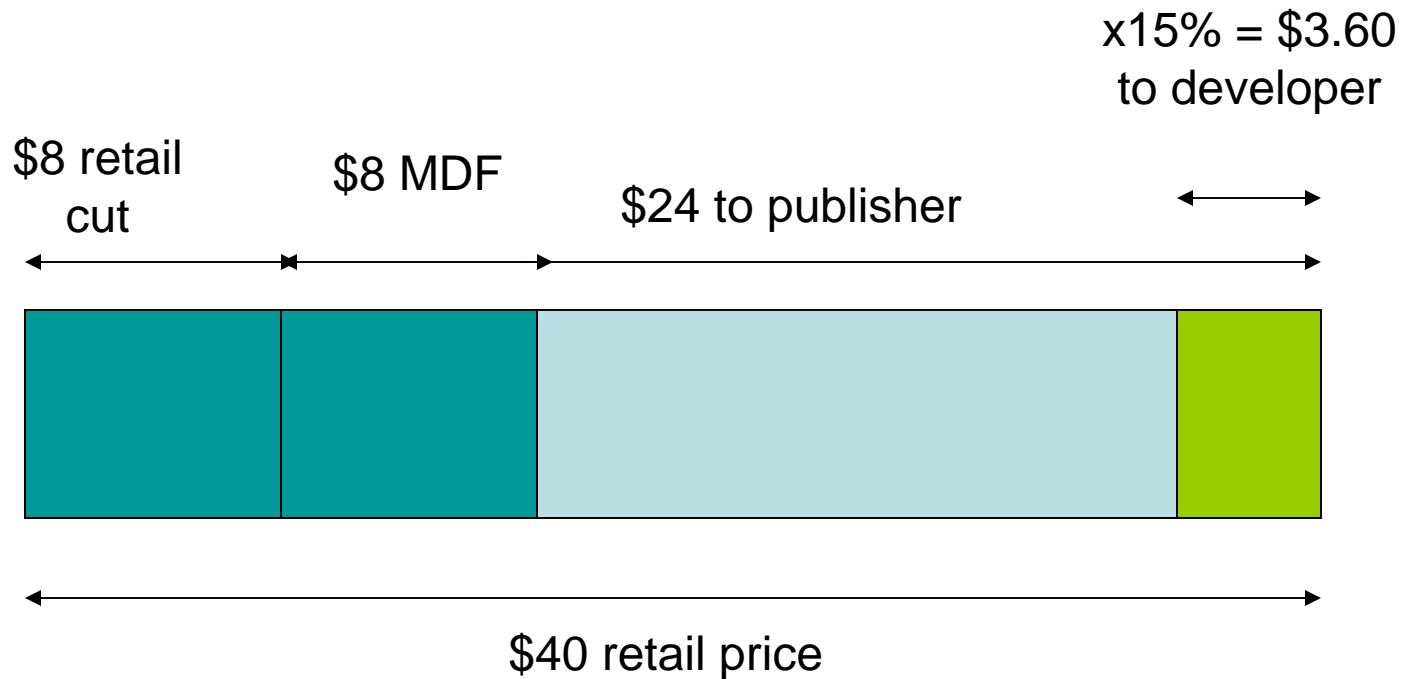
## Moore's Wall (con't)

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- Publishers remain main source of development funding
- Typically ~15% royalties, recoupable, after retail discount & MDF (market development funding, a/k/a channel graft)



# Conventional Business Model



## Why Developers are Screwed

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- \$3.60/game dev needs ~1.4m unit sales to recoup advance (very rare)
- Publisher breaks even at ~400,000 unit sales (assuming another \$5m on marketing)
- Once upon a time, a hit game made the dev lot of money.
  - Vanishingly small chance today



## Result: The End of the Independent Developer

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- Staying independent = unprofitable treadmill
  - Have to land next development deal or die
  - No upside
- Selling out only logical path
  - Assured access to dev funding
  - Only way for founders to cash out



## Or Is It?

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- “The Internet Changes Everything”
- Major impact on industries from music to telephony
- We sell bits. Why put them in a box when the net is designed to transmit bits?
- But so far the impact on the game industry is marginal.



1993

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“All told, 15m shareware copies of *Doom* were downloaded across the world...  
Doom was a watershed event...  
Because it changed the way videogames circulate and reproduce.”

-- JC Herz, *Joystick Nation*



## Doom was an Aberration

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- It *didn't* change the way games are distributed, because
  - CD-ROMs came along, apps bloated by an order of magnitude
  - Internet users were stuck with dialup
  - Hours-long downloads for apps of any size.
  - The shareware model ruled for about 6 minutes.



## Web 1.0 (circa 2000)

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- Free Internet play bolted on to RTS and FPS games
- MMOs adopt hybrid model (retail distribution of apps, but play solely online, with subscription)
- Ad-supported play of classic card & board games attract tens of millions of monthly uniques (unprofitably)



## Web 2.0 (today)

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- We're back in 1993, in terms of app size/bandwidth ratio
- A success like id's is again feasible
- The market is about to be disrupted
- *Cui bono?*
  - Consumers: greater choice, lower costs
  - (Some) creators: instant fame, but hard to make a buck



## Casual Game Market

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- \$0 to \$600m (US domestic only) between 2000 and 2006
- 60 min demo, \$20 purchase price
- Mostly match-3 and word games
- Portal distribution
- \$250-500k budgets
- Middle-aged women



# Casual Game Economics ~~2003~~ 2008



~~\$250k~~ budget = ~~~32k~~ unit sales for breakeven  
**\$500k** **125k**



## Not a Panacea

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- But a sign post showing the potential.
- It's possible to create whole new game markets on the Net.
- But as usual, the game industry has learned the wrong lessons:



## Casual Games: Lesson 1

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Everyone, even a demographic like middle-aged women who historically are NOT major purchasers of games ~~Middle-aged women~~ will buy games on the Internet if they're designed to appeal to ~~them~~.

cater to their interests



## Casual Games: Lesson 2

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at the right level of difficulty

Online, games need to be ~~dirt simple~~ to  
appeal to the ~~casual game market~~

intended audience



## Casual Games: Lesson 3

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A \$20 price point with a 60 minute limited demo is a ~~great~~ way to monetize online gameplay ~~lousy~~

...only 1.2% of downloaders convert to purchase...



# Casual Games: Lesson 5

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are one way

~~You need~~ deals with portals<sup>↑</sup> to achieve a large enough audience to generate enough ~~sales~~ for profitability

transactions



## Casual Games: Lesson 6

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The success of Xbox Live Arcade shows that ~~casual games~~ work on consoles ~~too!~~ hardcore

What, you call Geometry Wars a Casual game? Crap. It's a shmup, A genre for geeks if ever there was one. !

## “Free” MMOs

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- The logic of the conventional MMO market:
  - 8-figure budgets
  - Monthly subscriptions
  - Multi-year development times
  - Enormous technical complexity



## “Free” MMOs

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- The logic of light-weight MMOs:
  - 6 or 7 figure budgets (initially)
  - Free to play, upsell with status items (clothing, leaderboards, furniture, etc.)
  - Far shorter development times
  - Modest technical complexity
  - 10-20% of your audience will pay



## Example: Runescape

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- Browser-playable, traditional fantasy MMO
- 9m active players
  - Of which 1m pay \$5/month for premium services
  - Plus advertising revenue
- Player acquisition largely by word of mouth



## Example: Club Penguin

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- Flash minigames aimed at kids held together with a virtual world metaphor
- Free to play
  - \$6/month premium membership for status items



## Club Penguin (con't)

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- Key distribution arrangement with Miniclips
  - #1 free game site on the Internet, >40m monthly uniques
  - Receives 50% of lifetime revenue from users who join CP via Miniclips
- Sold to Disney for *\$350m*
  - Are you really sure you want another console deal?



## Webkinz

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- Plush toys with codes that allow you to “adopt” the critter as a Tamagotchi-like pet in an online virtual world
- Clearly inspired by Neopets
- Free to play online
- \$45m in retail sales (06)



## Social Networking Games

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- Games built on APIs provided by social networks
  - Facebook today
  - OpenSocial tomorrow
- The *average* Facebook game has >2.5m installed users
  - Multiplayer ones see 11% of them active each day



## Social Networking Games

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- Social networks *designed* for virality
  - Minimal marketing/distribution costs
- Turn-based, web pages
  - Straightforward (and cheap) web development
- So far, advertising-supported
- Opportunity not only here but as promotional for deeper game off the network



## Social Networking Games

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- Scrabulous: 500,000 daily users
  - But being sued by Hasbro
- Already seeing VC interest:
  - Conduit Labs (\$5.5m Series A)
  - Zynga (\$10m Series A)



## Micropayments

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- Common in “free” MMOs, of course
- A way to monetize gameplay short of the \$20 purchase
- High proportion of casual gamers run up against the 60 minute limit



# Micropayments

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- DoubleTrump
  - 60 minutes free, pay 1 cent/minute thereafter
  - After 2000 minutes, you own the game outright
  - Playonarcade.com as tech demo



# Micropayments

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- Wild Tangent
  - “Token” model – 1 token allows unlimited play until you quit from the application
  - 25 cents/token
  - Or watch ads to get tokens
  - Advertisers can “sponsor” play of games
  - Credit toward purchase



# Micropayments

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- These are models built for casual games
  - But expect to see “free” web games start to use micropayments
  - E.g., first 12 levels free, another 12 for \$3



## Ad-Supported Web Games

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- Contract development for sites like Nickelodeon, Adult Swim
  - Not just crap any more – some of the Adult Swim stuff is actually good
- Rev share with portals like Miniclips, Kongregate.com
  - Kongregate VC-funded startup to encourage this



## Ad-supported Web Games

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- Problem is that per-user revenues are small
  - Hit games can get millions of plays
  - But figure a few cents per play
  - Possible to support a small team, but not a path to riches
  - Does micropayment upsell change the picture?



## Second-Tier Genres...

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- Conventional retail channel not friendly to games that have no chance of selling 1m units
- Yet there are genres that have passionate fans but not enough
  - Computer wargames
  - Graphic adventures
  - 4X
  - Etc.



## ...Migrate Online

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- Now sold primarily as online downloads
  - Often with a retail SKU – but the bulk of sales online
- Matrix Games
  - Computer wargames
- Stardock
  - 4X (Galactic Civilizations)



## Secondary Genres (con't)

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- Can sell in excess of 100,000 units
  - Galactic Civilizations
  - Gary Grigsby's World at War
- Retailer disintermediation
  - Real (if modest) profitability
- Opportunity for aggregation
  - Slitherine's "Play History"



## Serious Games

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- Yes, there can be serious money here
- Forterra
  - Spin-off from There.com
  - Virtual worlds as training environments for military, medical, transportation customers
  - Second Life may get the press, but *this* is where to look for actual success



# Serious Games

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- Peacemaker
  - Began as a student project at Carnegie Mellon
  - Modest VC investment, grants from non-profits
  - Major press attention
  - 100,000 copies distributed in Israel & Palestine by the Peres Center for Peace



## Re-Mission

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- Funded by Hope Lab, a medical non-profit
- Rather high budget FPS (shoot the cancer)
- Clinically shown that players are better about taking their meds



## Serious Games

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- Increasing amounts of money available from government, non-profits
- Most developers in the space have no clue
- Clear opportunity for those who focus on it
- Mostly contract work – little to no upside...
  - But psychic rewards, surely



## “Indie Games”

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- Ill-defined, but usually means casual game-like business model, but not casual games
  - Some indie developers have supported themselves for years at a modest level (ApeZone, Spiderweb, Niels Bauer)



## Increasing Attention

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- Both print and online media increasingly willing to cover indie games
- High-volume sites like Fileplanet feature indie game demos
- Steam first really successful distribution channels (can generate sales of tens of thousands)



## Indie Games (con't)

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- Still a small market by comparison to, say, casual games
- But why should middle-aged women have all the fun?
- Critical factor: establishing the “indie is good” meme in the minds of gamers
- Relentless PR critical
  - The lesson of Uplink



## Indie Games (con't)

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- IGF
- Possibility of upsell to XBLA, Nintendo Virtual Console, etc.
- “Blue ocean” – don’t try to compete with big budget titles
- Bandwidth problem
- Some “casual” channels open (e.g., Oberon)
  - But sucky margins



## Ten Years from Now...

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- The retail channel will be minor
- Console titles will be sold via download
  - The hardware manufacturers will be the key gatekeepers
- PC gaming, broadly defined, will see an enormous resurgence, all online
- There will be vast diversity in successful game styles



## Ten Years from Now...

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- There will still be multi-million unit hits...
- But a “midlist” of games that sell far fewer numbers, *profitably*, will exist
- Application sale will be only one of many successful business models
- Conventional wisdom will have reversed – major publishers are dinosaurs



# The Independent Developer Shall Rise Again

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- Take the creativity you bring to development – and apply it to business models and distribution strategy
- Get off the treadmill
- The future's so bright you gotta wear shades

