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The Microtransaction Business Model: a Study on Modern Videogame Monetization and the Economic Sustainability of Microtransactions

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Master in Management

Supervisor:

Professor Nuno Alexandre Guerreiro Pedro, Invited Professor, ISCTE-IUL Business School, Department of Marketing, Operations and General Management

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Resumo

Atualmente, a lucratividade da indústria dos videojogos está a atingir os seus maiores valores. O sistema tradicional de venda de videojogos por cópias físicas em lojas de eletrónica está progressivamente a cair em desuso devido ao crescimento exponencial de negócio digital através da internet, onde permite o processo de compra ocorrer diretamente nos dispositivos pessoais dos consumidores. A maioria da receita gerada por companhias de videojogos provém de compras digitais dentro dos videojogos. Estas compras denominadas de microtransações, oferecem conteúdo adicional para um videojogo por um valor monetário. O tópico de microtransações gera interesse por parte de consumidores, produtores, académicos e legisladores, de tal modo que resultou numa reestruturação completa das estratégias de negócio utilizadas na indústria. Este este estudo visa documentar os impactos do modelo de negócio das microtransações nos vários aspetos relacionados com os *stakeholders* e com os mercados de videojogos.

Palavras-chave

Video Jogos; Microtransações; Games-as-a-service; Software-as-a-service; Pay-to-win;

JEL Classification System

M16 International Business Administration

D4 Market Structure, Pricing, and Design

Abstract

Currently, the profitability of the videogame industry is at an all-time high. The traditional system of selling physical copies of videogames in electronic stores is progressively falling out of practice, as the internet and mobile trends have exponentially transferred business to direct digital access on personal devices. The majority of revenue being generated by videogame publishers come from digital in-game purchases, known as microtransactions, which offer in-game content in exchange for a monetary fee. The subject of microtransactions have generated significant interest from consumers, developers, academics and legislators resulting in a complete remodeling of the business strategies used in the videogame industry. This study aims to document the impacts of the microtransaction business model on the various aspects and stakeholders of videogame production and videogame consumer markets.

Key words

Video Games; Microtransactions; Games-as-a-service; Software-as-a-service; Pay-to-win; Mobile Games;

JEL Classification System

M16 International Business Administration

D4 Market Structure, Pricing, and Design

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1. The Case Study

1.1 Introduction

The subject of this study is chronologically recent, and fairly discrete in the eyes of the majority of the public. However, the impact on the global economy and the revenue generated by the videogame business is not discrete. In the research findings of Tomic (2019) the recent changes in the videogame industry for companies and consumers, has resulted in a massive growth of the market, due mostly to new monetization methods, new production organization, new cost structures, new consumer preferences and expectations.

The chosen approach to perform this study is a pedagogical case study, due to the relevant case of Activision Blizzard, a market leader in its industry, responsible for some of the most popular franchises available in the market today and whose majority of revenue is generated by the microtransaction business model (Activision Blizzard, 2020). With a history of strategic planning, dedicated leaders with careful decision making and very talented workers with creative projects, the company has managed to grow exponentially since 1991 from an independent videogame software studio to a conglomerate of multiple companies that contribute to every step of videogame production, large enough to be listed in the NASDAQ.

Along with the documentation of the case of Activision Blizzard, the subjects approached in this study are the economic impacts of the microtransaction business model on the videogame industry, and how this impacted the position of all stakeholders involved in the industry, from a buyer and seller standpoint.

In short, this industry was traditionally built around production cycles of development and sales, in a time where products were mostly physically distributed and revenues were measured by number of units sold (Tomic, 2019). According to Zendle et al (2020) the overproduction of videogames with underlying large costs on

marketing campaigns, warehousing and distribution, licensing and legal contracts created the need for a change in the industry that was set in motion by the emergence of the internet and the digital globalized economy. The microtransaction model first came to be by the hand of independent developers, also known as indie studios, who lacked the funding to participate in the traditional costly production process and therefore turned to the internet to directly distribute their videogames for a lower price or even for free and subsequently charge consumers for new and updated content for their games.

The business model is supported by the access to the base product (usually through direct download from the user's computer), with the obligatory or optional charge of additional features to the videogame (Palmeira, 2020). These additional features could be merely cosmetic (dance moves, appearances for game characters) or they could even provide a tactical advantage to the gameplay, for example, in the case of collectable card games, purchasable card packs provide a larger collection of cards to use in the the game, providing an lead over players who did not purchase the additional content, resulting in a tangible advantage from money spent in the game (Evers et al, 2015).

The first part of this project provides the reader with a theoretical overview of the subjects, going over the microtransaction business model from an economic and design standpoint, as well as its multiple variants and designs, secondly, the case study context provides a deep analysis of the current state of the videogame industry from a developer and consumer perspectives, followed by an extensive theoretical and practical overview of the practical case of Activision Blizzard, Inc and ending with the presentation of a survey and its findings, performed for the enrichment of this research. Following the case study context, this paper provides multiple key propositions to utilize the knowledge acquired, and their ideal resolution supported by the literature review, where the

main research findings are consolidated to serve the purpose of this pedagogical case study.

1.1.1 Motivation

I chose to write my thesis on the microtransaction model because I'm a very active consumer of the videogame industry as are most my friends. It is not only a personal hobby and interest of mine but as a consumer I have spent a considerable amount on these products and services. As a business student, I have an interest on the business and financial performance of the companies that develop these products, to understand the business strategies they use to reach consumers like me and evaluate their viability.

Additionally, try to reach a conclusion towards the sustainability of the microtransaction (MTX) business model and try to understand if this model is an atypical phenomenon most likely to pass as a trend in the industry's history, or if this business model will change the industry for the years to come, changing the way a product is developed, so that it will never be as simple as picking up a CD from a store, but an entire complex effort from the developers to the players that will keep revenue flowing long after the game has been developed, with minimal costs to keep profiting from that same finished product.

1.1.2 Research Problematic

The main reason why the videogame industry and the economic sustainability MTX business model is a worthy subject of study is because of the impact it has on the global entertainment industry and the exposure it has brought to the videogame development business.

The amount of revenue that the gaming industry reached in 2018 was 139$Billion dollars, which rivals the industries of the most mainstream entertainment like film, music and sports combined (Minhaj, 2019). Due to that fact, there are now programs and regulations to handle the gaming entertainment more seriously and

escalate it to heights of international tournaments, credibility for professional gamers to be treated as traditional athletes with significant sponsorships and even athletic scholarships (Minhaj, 2019).

Evers et al (2015) documented that in 2007, during the period introduction of the microtransaction model to the videogame industry, there was an estimated profit of 2.1 billion USD made solemnly from the transactions of additional features to games for real money. While this videogame entertainment may seem like a niche business for a small demographic of the population, in reality, its impact on the world economy is large enough for multiple companies to be listed on the NASDAQ and generate revenues that surpass mainstream medias (Hasan Minhaj, 2019).

To add to the relevancy of this topic, Tomic (2019), in his work to document the economic model of microtransactions listed a number of matters that have impact beyond videogames, such as the legal implications of uncapped and unregulated transactions and the effects that some types of microtransactions can have on the minds of children due to parallelisms with gambling behaviours. Although these matters are not the focus of this study, they’re worth mentioning at this moment.

1.2 Case Study Context

This chapter aims to provide a broad theoretical analysis of the inner workings of the videogame industry, to support the adequate analysis of the practical case of this study. Beginning with a brief historic contextualization of the industry that aids to understand how the current strategies involving the MTX model came into common practice, this chapter also attempts to provide a theoretical definition of the subjects, as there are no officially recognized terminologies.

Following the theoretical contextualization, there is a deep analysis regarding the production standpoint of the videogame

industry and its consumer market, oriented towards the role of consumer preferences and expectations in product development. Finally, using the consolidated research findings acquired thus far, there is an extensive overview of the practical case of Activision Blizzard and a connection to how the topics of this study impact the operations and results of the company.

1.2.1 The Problem

For a long time, videogames used to be a niche market with a simple product, usually targeted at kids and teenagers, which would be purchased directly by them or gifted through relatives. Up until the 21st century, the targeted demographic would save some money, go to the shopping mall or videogame store to pick up a disk-type storage or a CD-ROM where the game would come in, plug it in to their home gaming system and play alone or with friends, entirely through wire-based connections and offline.

With the digital evolution and the reinvention of products and services by the internet, videogames and multiplayer gaming experiences eventually no longer required a physical connection, neither the physical copy of the game or the physical presence of players in the same room. The whole process transcended to the only requirement to accessing videogames and playing with friends, was an active internet connection.

Videogame developers had to adapt to the change imposed to their business, they no longer had to plan around a one-time sale of a complete game, but instead to make their projects available through the internet, possibly making the available content updated regularly, and find a way to still make a profit.

Nowadays, the monetization of videogames has spread beyond the sale of a complete game to a variation of different monetization models like subscription-based access, digital copies and different microtransaction designs. Some of the most profitable videogame developers currently offer their products without ever having the

requirement for the player to spend any money on the game, yet through microtransactions, developers are now making more revenue than any other time in the videogame industry.

The objective of this study is to understand how the microtransaction (MTX) business model came to revolutionize videogame monetization, particularly, the causes behind this emerging monetization system in the videogame industry, while enquiring about its economic and financial sustainability, with a real world application of a leading videogame company, Activision Blizzard, to gain a better understanding of business strategy planning and monetization practices in this industry.

1.2.2 The business model

The microtransaction business model, is not easily defined in a short sentence. In general, a microtransaction is anything you pay extra in a video game, after the initial purchase. The value received for the purchases lie in unlocking specific features or content, that were previously inaccessible (Gusmão et al, 2019). They have no limit to the monetary fee charged, but they're commonly designed around small values at a time.

The sold content could be merely cosmetic (change the appearance of elements in the game), it can unlock additional content, add videogame currency or even provide a tactical advantage to the gameplay (Palmeira, 2020).

This business model is part of the innovation of the videogame industry as it is known today. Establishing a new option for the digital purchase of virtual goods, from within the game for small payments at a time, is revolutionizing the way videogame developers organize monetization and revenue income in their projects (King & Delfabbro, 2018).

1.2.3 The emergence of microtransactions

The most relevant starting point for the MTX business model was in 2006, when Microsoft added the purchase option in the “Xbox Live” premium service for their console platform.

Stepping into uncharted territory, Microsoft ventured first into the application of the MTX business model with their products. The appeal was to extend flexibility to consumers for their purchasing options in their videogames, therefore appealing to a larger variety of preferences rather than risking alienating consumers into an obligation of purchasing pre-determined downloadable content (DLC), or having them disregard the purchase entirely due to higher prices that some consumers were willing to pay for the selected items in the offer.

The immediate response didn’t alarm developers with negative feedback from consumers, which caused competitors to follow in Microsoft’s example. After some time however, controversy started to arise as there was division in the gaming community, naturally, as some consumers adhered to the MTX concept as an extension of options for their purchases and others took it as a manifestation of avarice from companies and had the perspective that the developers were now charging real money for access to virtual items that were once included in a fully developed game.

The year 2014 is when the MTX business model became a normal practice of monetization in the industry with the emergence and rising popularity of mobile games. These products are mostly free to access the base game yet they are astoundingly profitable through optional purchases for additional content.

A few years later, the free-to-play game Fortnite, launched in 2017 by Epic Games, became one of the most relevant game titles in history and has defined microtransactions as the most profitable business model to date in the videogame industry. In 2018, the game made a staggering 2.4 billion USD in microtransactions alone, strictly with cosmetic in-game items (Tomic, 2017).

In recent years, videogame developers have been shifting towards a business strategy based on supplying multiple limited offers of content at a time for smaller prices (Tomic, 2017). There is now a clear orientation in the industry to make the base of the game more accessible or even free, in exchange for a larger profit potential with subsequent sales on any smaller additional or optional content.

1.3 Market Analysis

1.3.1 Market Analysis: Industry history

Videogame history is fairly recent and short, it's most relevant starting point happened in the 1970's with arcade games mostly made by Atari, specifically "Pong", a simple game that was sold as a unit already included in a console that the user would plug into their home television set, grossing over 1 million USD in its first year, "Pong" dominated the market for the better part of a decade.

In the mid-1980's, profits began to decline due to market saturation of unauthorized games (illegally made games for a producer's console) until 1985 when two new Japanese players entered the American video game market: Nintendo and Sega. Each with their own revolutionary home gaming system, Nintendo's NES (Nintendo Entertainment System) went on to become one of the most successful gaming consoles in history, by 1990 it had sold 19 million units and was held in more than a third of American and Japanese households. Its overwhelming success at the time can be attributed to Nintendo's superior game quality and enticing characters along with a vast expenditure on advertising and game development. In 1992, Nintendo had an 80% market share on the video game market in the US, and by that time both Sega and Nintendo had more than one game system for sale, although Sega was the market leader in 1994 and 1995 due to a much larger offer of games and a more powerful gaming console than Nintendo's, the Sega Genesis.

In May 1995, Sony entered the video game market, becoming a very relevant player, as it remains to this day. It started by

introducing the 32-bit Playstation. At this point, Sony already had an extremely large presence in the electronics market, and therefore the launch of their gaming system was highly anticipated, to the point that it rivaled Sega's 32-bit system: the Sega Saturn. Sega however had the advantage of having years of presence and reputation in the video game market, while Sony only had the distribution network most fitted for consumer electronics and not entertainment or the "toy" industry.

In order to gain an advantage over its competitors, Sony recruited experienced executives in the entertainment business and made exclusivity deals with the most popular video game developers at the time like Electronic Art, to only produce titles for Playstation during the first six months after its launch. By the end of 1996, Sony had more than 50 game titles and 2.9 million Playstation units sold in the U.S., while Sega continuously lost track of their momentum mostly due to limited supply and small distribution capacity, having sold only 1.2 million Saturn units.

In 1996, Nintendo also made a big dent in the industry's top success stories, with their highly anticipated 64-bit game system: the Nintendo 64. That console was extremely well received by the consumer and Nintendo's loyal clients, having sold out within weeks of their release. The Nintendo 64 became to be known as one of the company's greatest projects and became a best seller for the following years, until the next leap in technological requirements for game systems. Sony's Playstation however had already gained dominance over the market, and, with a combination of a great product that was intuitive for both consumers and game software developers, an advantageous marketing strategy and Sony's considerable available resources, it made Playstation the symbol of home video gaming systems and from then on it positioned Sony as a top contender in the video game industry.

In 1999, Sega made its last console, the 128-bit Dreamcast. The first 128-bit gaming system to appear in the market, which gave Sega

a good year of success with 5 million units sold by the end of 2000, even though they were occupying the lowest market share in their history of 12% due to harsh competition from Sony and Nintendo. However, that success would quickly become extinguished by the launch of the 128-bit Playstation 2 from Sony in 2000, the console was such a success that it overtook sales from Sega to the point of coming close to bankruptcy, which led to Sega announcing in 2001 that it would cease to produce consoles and become a game-developer for other consoles. On the opening sales weekend in 2000, Playstation 2 sold one million units, ten times the amount of Playstation units sold on its opening sales weekend.

Then came Sony's competitors in the following months of 2001, with Nintendo's 128-bit system, the GameCube. This one, however, did not present such a threat to Sony, due to the lack of backwards compatibility (unable to run games from the previous system, the Nintendo 64) which the Playstation 2 did. That system was also targeted at younger audience than Playstation which limited the game development potential for the system.

The real competitor for Sony's Playstation 2 would be Microsoft's Xbox. An equally powerful system made by a revered company for personal computers and software, with the only lackluster being the lack of an installed game offer and availability that Sony already had with PS1 and PS2 tittles at the time of launch.

To cover the disadvantages Microsoft found at launch, they used their existing distribution network for software to penetrate the video game market with the Xbox, and in efforts to build a brand image that could compete with the highly regarded Playstation, Microsoft budgeted 500 million USD to market the Xbox, their largest marketing campaign to date. However, their most relevant disadvantage was the lack of an iconic exclusive video game that would boost console sales (like Nintendo's "Super Mario"), in efforts to surpass this issue, Microsoft maximized their existing resources on game development (at the time Microsoft led the market

on PC games) as well as pursue deals with third-party game developers.

By the end of 2002 it was clear that Sony had managed to win this battle, estimating a global sale of 7 million units of Microsoft's Xbox and Nintendo's GameCube, while the Playstation 2 had a staggering 40 million units sold worldwide in under 3 years in the market, with the bestselling videogame in 2001 and 2002 "Grand Theft Auto" being a Playstation exclusive tittle (Schilling, 2003).

In 2003 took place one of the biggest leaps into today's state of the video game industry. The company Valve made the first digitally based console for personal computers, the Steam Engine. This digital distribution platform allowed users to download, store and play video games, fully equipped with a social interface and an entire functioning store to purchase digital copies of videogames. It's still operating today and used by the majority of PC players (Tomic, 2017).

In 2005 Microsoft ventured with another relevant leap in the industry: Online play subscriptions. With their release of the Xbox 360 (the successor of the Xbox), they also released an entire monthly subscription-based service, the "Xbox Live" that would allow the user access to play games with multiple people via the internet with enticing events like competitions, playing with their friends, and an achievement collection system.

This project proved to be a success, so much so that in 2010 Sony developed its own premium online service, the "Playstation Plus" with competitive features like a free game title every month and larger discounts in its game store for the subscribers of this service.

It was clear that the trend in the video game industry was the shift to online gameplay and digital interface. In 2008, the game developer Blizzard reached 10 million subscribers on its online subscription-based game World of Warcraft, making it the most

popular Massively Multiplayer Online (MMO) game ever made to date.

In 2009, another giant leap happened in the video game industry when millions of people who never would've considered playing videogames now found themselves with a video game console in their pockets all the time. With smartphones and social interactive platforms like Facebook, there was an emergence of simple and social games like Farmville and Angry Birds, which appealed to a larger demographic than the classic console users. These games would consist of simple challenges that would be saved online and made possible to interact with friends who also played the game, appealing to people through a competitive or a cooperative gameplay.

In 2014 is really when microtransactions became a respected business model in the industry, becoming profitable as well as popular with the rise of "free-to-play" games. Mobile game titles like CrossFire, Clash of Clans, and World of Tanks are all entirely free downloadable games but have achieved sales that surmount to hundreds of millions of dollars just in small payments for in-game items and premium features (Marr et al, 2015).

"In gaming terminology, games that are basically given for free are known as free-to-play games or freemium games, and all purchases that are subsequently performed are called microtransactions." – Tomic (2017)

Records show that the first time microtransactions gained visibility was in 2006, when all purchasable extra content for games came in the form of a large bundle or a DLC package (Clement, 2021). Microsoft thought of the idea as a feature to be added in the Xbox Live premium service, as a way for players to avoid spending a larger amount of money on a bundle of items they didn't want, and instead give them the choice to buy the items directly for a smaller fee.

So, in efforts to showcase the business model to third party publishers and to test the market's response, Microsoft made a small group of purchasable cosmetic items available in their digital store. The response showed no major controversy and overall satisfaction from consumers, which caused Bethesda (a third-party publisher responsible for successful titles like "The Elder Scrolls" series) to try Microsoft's idea.

In April 2006, Bethesda released the first added downloadable content for its game "Oblivion", nicknamed the "Horse Armor Pack", which consisted of a two USD purchase that would allow players to alter the appearance of the armor for their in-game horse (Williams, 2017). This move by Bethesda became infamous because it caused a great deal of controversy, it was the first transition to the microtransaction business model, on a game and player base that has operated for years prior on a single purchase for a full game type sale.

Even though the players loved the game and were fully invested in it (they had already spent 60 USD on the digital copy of the game) they were outraged at the price they had two pay for such a simple in-game item. In the end, there was a lot of controversy in the videogame community, some players were really excited about the flexibility of the purchase and others were offended at the fact they had to pay real money for an in-game item when usually they're awarded after an accomplishment is achieved through skilful gameplay. With these (almost) expected results, since there is always an anticipated amount of controversy and dissatisfaction from the players, Bethesda continued its microtransaction business venture and went on to release a few more downloadable contents for Oblivion like the "Horse Armor" cosmetics, which also rose controversy and discontent from a portion of the fans, but in the end, Bethesda made a much larger profit on top of the usual sale of their game (Williams, 2017).

The Horse Armor fiasco is a great example of an ethical issue regarding microtransactions towards a loyal player base, while in perspective, 2 USD may not seem that relevant but it can seem haunting to a consumer of a service in which for years he was allowed to enjoy for the one time purchase of a standard value throughout the years, and suddenly the providers are offering smaller content but holding it, keeping it available only through purchases with real life currency.

Today one could take that business decision from Bethesda on a different game, and it would seem perfectly appropriate, for instance, Epic Games' Fortnite offers the access to the game completely free yet it charges for the access for most cosmetic items, which means people will gladly pay ten dollars for a game character, five dollars for a costume or three dollars for an emote (Clement, 2021). The difference being players knew what to expect from that game because it had those offers since the beginning, the context was generally different, Fortnite came with free access and optional cosmetic purchases while Bethesda has had the Elder Scrolls series with the same prices and full game purchase since 1994 (Williams, 2017), the reaction and open-mindedness from the two player bases simply would not be the same, even though the "Horse Armor" today seems normal and inexpensive in comparison.

During the 80's and 90's, the dominant business model in the video game industry was the whole sale of a game console and game titles. Developers would work around a release date and the marketing department would advertise the game primarily before the release, while customers would pay the full price upfront in order to obtain a physical copy of the game. During the last ten years, the industry has been shifting towards a new business model, based on releasing smaller portions of the content at a time for a smaller price and multiple transactions (Tomic, 2017).

At the time, securing profit in the video game business meant assuring the largest possible number of game copies were sold as

fast as possible while the game was still considered a novelty. That sale was meant for the consumer to pay full price for the physical copy of the game so that he could install it in his personal gaming system and own the copy, thus ending the transaction.

At the time this business model was adequate, however with the natural evolution of the industry, there was a saturation of the market with overproduction of video games, as well as new game formats that enabled online multiplayer experiences, often free-to-play. Developers started to offer partial content sales instead of the one-time full game purchase, which kept the players “on the hook” and secured interest and novelty on the games (Tomic, 2017).

1.3.2 Market Analysis: The videogame industry

It is also important to review the current status of the videogame development industry, to better understand the topic and acquire a wider perspective.

From an economic standpoint, the gaming industry, as of 2018 is a 139$Billion USD per year business. In terms of revenue, that amount is bigger than the worldwide box office or the Film Industry (42$Billion), the Music Industry (19$Billion), the National Football League (15$Billion), the National Basketball League (8$Billion), the Major League Baseball (10$Billion) and the National Hockey League (5$Billion) combined (Hasan Minhaj, 2019). Microtransactions generate most of the profits for the biggest game developers in the industry because it costs significantly less to generate revenue from a microtransaction than from the release of a physical copy of a new game (K. Azin, 2020).

As we’ve seen, video games have progressed greatly from their beginnings in primitive consoles, today, video games can be categorized as more than just computer and console games. With the rise of social networks, smartphones and other personal devices, there have been more game categories like mobile and social games,

with a wide variety of monetization possibilities and simplified access for the consumer (Statista, 2021).

In 2020, the revenue from the global PC gaming market was estimated at 37 billion USD, while the total mobile game market generated a figure of over 77 billion USD (Statista, 2021). Console gamers from the 80's and 90's have now become adults with independent and significant disposable income to spend on video games, therefore this industry can no longer be taken as a youngster's hobby but as a legitimate business with respected players such as Sony, Apple, Microsoft and others that generate billions of dollars in revenue. In 2020, Sony's PlayStation 4 reached more than 112 million units sold globally (Statista, 2021).

Almost 18 percent of U.S. internet users from ages 18 and older spend more than six hours per week playing video games (Statista, 2021) and one of the latest reasons why gaming has experienced more consumption is because of the COVID-19 lockdown measures. Videogaming today is (mostly) an indoor type of entertainment and during these trying times, users have turned to gaming as a way to escape and pass the time.

In 2020, the coronavirus pandemic impacted most industries negatively as countries around the world underwent various forms of lockdowns, however, for videogame companies the pandemic proved to be a major opportunity, as people were forced indoors for long periods of time, sales went on to reach record-breaking levels, exceeding both sports and film industries combined (Gilbert, B. 2020).

All gaming platforms recorded an increase in engagement and revenue due to the lockdown permitting players to dispose more time for consumption, however mobile gaming generated the largest revenue of all gaming platforms. This can be explained with the ease of access, for instance, more than two-fifths of the global population owns a smartphone, most of mobile game titles are free to play

(Wijman, 2020) and from the developer's perspective the development of a mobile game is far less complex than other platforms, so the business cycle of that product flows much more efficiently even in a pandemic disrupted environment. Overall, there was an estimated 2.6 billion mobile gamers in 2020, of which 38% participated in microtransaction purchases (Wijman, 2020).

Console gaming platforms went on to record a 45.2 billion USD revenue in 2020 with 729 million players worldwide (Clement, 2021). Engagement and player spending has naturally increased with the lockdown situation, but in the case of consoles there were some setbacks due to COVID-19.

Console game sales still rely heavily on physical distribution which experienced issues and delays due to the pandemic, in addition, there is a great component of collaboration between developer companies that was negatively affected, and lastly the necessary certifications for release were also delayed from their normal waiting times. These issues affected planned release dates for games in 2020 which also affected the scheduled launch for the next-generation consoles (a highly relevant business cycle for Sony and Microsoft). The growth in the console gaming market has slowed down due to these issues, not excluding the fact that the announcement for next-generation consoles like Sony's PlayStation 5 causes consumers to halt spending on consoles until the release of the new one.

In the case of PC gaming, with 1.3 billion players, the market reached a revenue of 36.9 billion USD in 2020 with a growth of 4.8% relative to 2019, mostly due to the lockdown situation. Unlike consoles and mobile gaming markets, the PC title releases don't reach revenues that significantly affect the market. Most of PC's popular games have maintained their popularity for years and maintain revenues through DLC, subscriptions and microtransactions (Wijman, 2020).

The PC market also enjoys a much more digital environment than consoles, which means physical distribution being affected due to COVID-19 did not bring many delays to reach PC consumers, however it did affect the release of scheduled game titles.

Geographically, in all three major market segments (PC, console, and mobile gaming) almost half of all consumer spending came from China and the U.S. markets in 2020 (Wijman, 2020).

As previously stated, the corporate giants of this industry have been mostly established by now, with some rising and falling in popularity. The console gaming segment has organically settled for an oligopoly between the largest console manufacturers Sony, Microsoft and Nintendo with their most relevant product, the gaming systems (Bruno, 2009). Their star products are renovated after every life-span cycle of the console and announced at the E3 Convention in Los Angeles, where their largest business projects, innovations and the overall state of upcoming videogames and related entertainment is communicated to the community (Bruno, 2009).

Regarding the current videogame consumer preferences, it is a fact that consumer expectations relating to quality and performance of the products are higher than ever before. Videogames and companies need to prioritize popularity, relevance and value perceived by their customers above all else (Activision Blizzard, 2020). Failure to deliver consistent high-quality games or improvements to those games, failure to connect with the customers through efficient marketing efforts, failure to successfully expand franchises or failure to meet consumer expectations and keep their interest and loyalty can result in a deep negative impact on a company's revenue and profit margins.

Keeping an invested interest and loyalty from a modern videogame consumer is highly dependent on the videogame being constantly updated with fresh content and higher quality modifications (Activision Blizzard, 2020) therefore, in order to

remain competitive and avoid losing consumers to their competitors, developers need to create new products and new content for existing products.

In this industry, once a well-received product is shown to be highly successful and consistent, there is a high risk of imitation from competitors. In this case, there is a game format that's proven to be successful, and all the competitors need to do is develop the same software with different characters and different names. This can affect the price that a developer charges for their original game, since now the consumer can acquire essentially the same format at a potential lesser cost (Activision Blizzard, 2020).

The nature of consumer response is highly fickle in this industry, with consumer expectations being so high, if a product does not meet its advertised quality and function, for any reason such as errors in the code or *bugs* (which has a higher chance of occurring since updates are now happening constantly) that can drive a consumer to leave the game and turn to the competitors, negatively impacting the business (Activision Blizzard, 2020).

Regarding the current market trends, according Gilbert (2020) and general consensus in gaming communities, there seems to be a growing preference and popularity for mobile gaming and e-Sports events, along with a greater demand for free-to-play games, particularly "GaaS" type games where the microtransaction business model thrives.

"GaaS" is an acronym used in the gaming community that stands for "Games as a Service". Games as a Service a type of business model made to generate revenue from games beyond their point-of-sale or the point where players acquire them for free. The GaaS model normally involves the microtransaction business model for in-game purchases, but it might also use subscription fees (like Activision Blizzard's World of Warcraft) or paid downloadable

content (DLC) by selling those content updates (Vaudour & Heinze, 2020).

The monetization model of games prior to the “online takeover” of tech, as we’ve seen during the 80’s into the early 00’s was built around the single sale of a physical copy of a videogame for users to own and play in their home systems. Once the digital distribution era began, both players and developers started leaning towards microtransactions as a recognizable and modern method to create revenue for games, particularly with multiplayer games being able to scale to massive amounts of people simultaneously as opposed to 2-4 friends having to be physically present to play, with wired controllers (Vaudour & Heinze, 2020).

Perhaps one of the earliest and most popular examples of a GaaS type game is Activision Blizzard’s World of Warcraft released in 2004, which charges a monthly subscription fee to its players for access the game’s servers, and on top of this fee, Activision Blizzard also charges for a physical or digital copy of the game. This steady inflow of revenue allows developers to keep servers running efficiently and to reinvest in the game with new content and update the quality of the game.

Many developers would eventually follow the example of World of Warcraft and utilize not only subscription fees but other designs of microtransaction offers, such as season passes and DLC (downloadable content). Some current major titles that followed this monetization trend and the GaaS business model include Fortnite, Rocked League, Destiny 2 and still World of Warcraft, among many others (Zendle et al, 2020).

The GaaS business model represents a major innovation in the gaming industry at this time because the model of a videogame being provided as a service that you can optionally pay for over a period of time is a different and new idea in this industry. This is comparable to the exciting innovation back in the 80’s and 90’s of

arcades and videogame machines, where a group of friends would gather for a social activity and pay for gaming services with quarters.

However, the GaaS model is extremely more extensive and customizable, with a variety of different payment options available, making it appealing for many types of games and projects in the industry.

For example, free-to-play game developers can use the GaaS model to monetize and profit from their product while maintaining a free entry cost for the consumer to access the game. This makes the videogame more accessible while contributing to an increased player count. While games with an initial purchasing cost can still use the GaaS model to remain profitable after their initial release, with further monetization options available such as in-game cosmetic item shops, DLC's and season passes. Today, games can continue making a revenue stream long after their initial purchase thanks to the GaaS and micro transaction business models.

From the player's perspective, the GaaS business model impact on games can represent a continuous update of content, turning certain games as a perpetual service of seasons, updates, and new content, making the product "fresh" and interesting for years and virtually never ending or tedious. However, this can negatively affect the experience for some players who preferred older content or just don't have the time or enjoyment in keeping up with constant new alterations. A common complaint about GaaS games is that whenever a returning player wants to pick up the game, it feels like a brand-new game that needs to be re-learned in order to play again, or that they have no "ending" with constant new achievements and updates. This can also alienate some players that have a preference for the traditional format of gaming with a beginning, middle and an end, often accompanied by a storyline (Zendle et al, 2020).

This particular example of division within a community happened with Activision Blizzard's World of Warcraft, with so many updates since 2004, today's version of the game is far distant from its original experience in 2004's World of Warcraft, a lot of long-standing players started to reminisce about the classic version of the game. Having organized and made their preferences noted to the developers, Activision Blizzard agreed to host two versions of the game: a Retail version and a Classic version which launched in August 2019, an exact version of 2004's game but with all the visual quality of today's technology (Vaudour & Heinze, 2020).

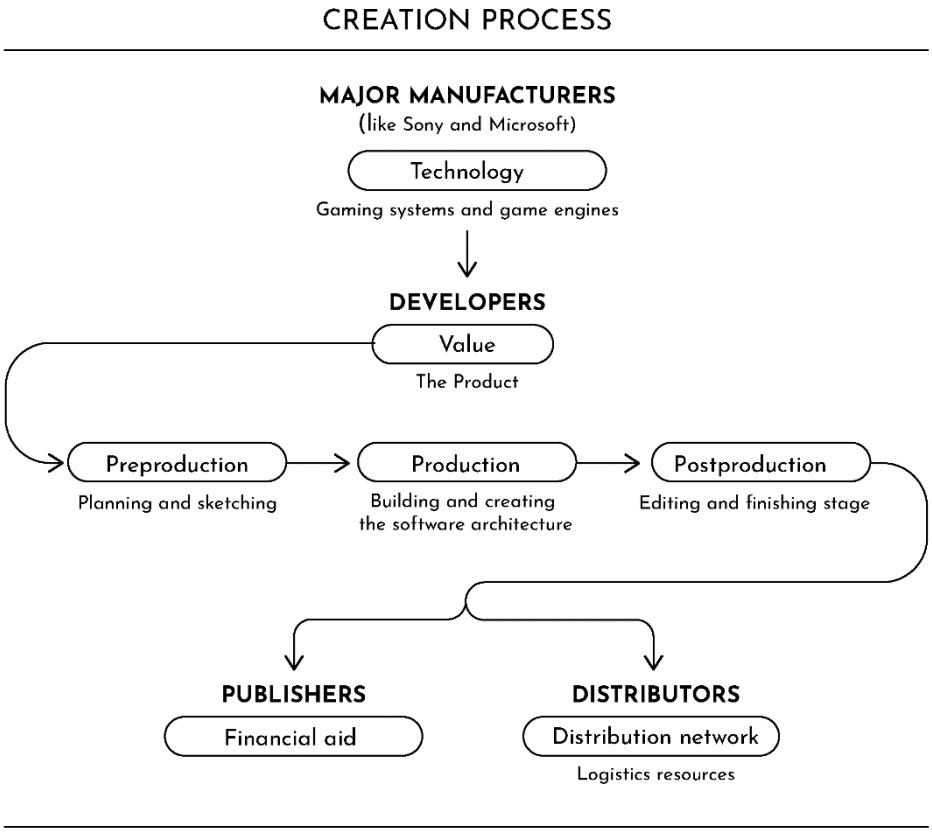
Developers and publishers are progressively joining the GaaS business model, for they can clearly see the appeal of the profit potential it has and the extra revenues it generates. Players however tend to position themselves on a divided status, some love the flexibility and wide-ranging content, and others believe it's a product of greed and corrupts the experience of the game.

Concluding that the GaaS model is just another platform for monetizing games that can be utilized to implement a variety of microtransactions available to developers and publishers. It can be used to benefit or take advantage of the consumer, depending on how it's implemented and organized. Virtually, more options should not have a negative effect on a product, its outcome depends on the delivery from its developers (Vaudour & Heinze, 2020).

1.3.3 Market Analysis: The product development perspective

Diving into the backstage of the videogame product and its industry, there is some importance in going over the value chain behind the creation of a videogame, also because in some of the separated processes, there is an unspoken presence of an oligopoly between the established major corporations who control the market, create a resource dependence for small and medium developers and contribute positively and negatively for the industry's environment.

Figure 1: Videogame Development Value Chain



Source: Author, 2021

The videogame product comes into place through a mix of technology, art, and interactivity (Gandia et al, 2016) with a creation process that includes various contributors in a value chain that starts with the major manufacturers like Sony and Microsoft which provide the technology (Gaming systems and game engines) for the developers to use their creative and technical assets to create value (the game design to be produced) which includes production stages like preproduction (planning and sketching stage), production (building and creating the software architecture) and postproduction (editing and finishing stage). Lastly, after the finished product the developers need publishers that provide financial aid and distributors that provide a distribution network and logistics resources (Gandia et al, 2016).

Developers are the most dependent party in the value chain of this process, depending on manufacturers for access to the

technology and on publishers to sell their product. This can pose a challenging situation of dependence and leave the small and medium developers in a predatory position of disadvantage towards the resourceful companies (Gandia et al, 2016).

In order to improve their situation, developers can try to increase their negotiating power by building and owning successful intellectual property, simultaneously establishing their reputation, enlarging their operating capacity, and alternatively by decreasing their dependence on third party providers of resources and competences (R&C), by acquiring their own technology, production, publishing, marketing and distribution capacity (Gandia et al, 2016).

In most studios, the development process of a game is subject to various degrees of resource and competences dependence from the larger companies who own the assets required for its creation, this can limit the developer's artistic liberty and take a good portion of revenue from the sale of their product (Gandia et al, 2016). Integrating multiple competences in a multimedia operation ensures the sound management and coherence of the studio's workflow, consequently speeding up the resolution of problems and stimulating creativity for the designers.

Small and medium studios show a new trend of strategic avoidance (partially or totally) of dependence of R&C on the larger companies, in order to protect the studio's intellectual property, financial gains and creative liberty by reducing their degree of dependence on third party resource providers (Gandia et al, 2016).

1.4 Activision Blizzard: Company Overview

Activision Blizzard, Inc is a world-renowned interactive entertainment and gaming corporation, headquartered in Santa Monica, California, with operations around the world. It's currently listed in the NASDAQ under "ATVI" (Activision Blizzard) and is a member of the Fortune 500 and S&P 500. They're responsible for some of today's most popular game franchises like Call of Duty,

World of Warcraft, Diablo, Overwatch, Candy Rush, and Hearthstone (Activision Blizzard Marketline, 2021).

They operate as both developers and publishers of their own content, making entertainment services and videogames for consoles, mobile devices, and personal computers. The company separates its revenue streams by three categories: Digital Online Stores, Retail Stores and Other Revenues. In FY2019, digital revenues accounted for 76% of the company's revenue reporting 4.932 million USD (Activision Blizzard Marketline, 2021). Geographically the company is present in the Americas, Europe, Middle East and Africa (EMEA), and Asia Pacific. In 2019, the American regions accounted for 51,5% of its total revenue, with the EMEA at 34,5% and Asia Pacific with 14% (Activision Blizzard Marketline, 2021).

They also participate in the field of e-sports with leagues and events, and even the media entertainment industry with shows based on the stories of their most popular franchises.

Activision Blizzard divides its operations through three major departments: Activision Publishing Inc (Activision), Blizzard Entertainment Inc (Blizzard), and King Digital Entertainment (King).

The Activision department is responsible for developing and publishing most products for the console segment of the market, through retail and digital stores, with popular projects such as Call of Duty and Destiny, for the console and PC platforms (Activision Blizzard Marketline, 2021).

The Blizzard department handles development and publishing of the larger projects for the PC platform, as well as some games for console and mobile platforms. They're most acknowledged by their subscription-based, massively multiplayer online role-playing games (MMORPG), and strategy games. They also own rights to a digital platform called Bettle.net where users can access, buy and

install any Blizzard and Activision game, as well as interact between games and engage socially with other users. Its notorious franchises include World of Warcraft, Diablo, Hearthstone, Overwatch and StarCraft (Activision Blizzard Marketline, 2021).

The King department services solemnly the mobile segment, mostly through Google's Android and Apple's iOS software with major mobile franchises such as Candy Rush, Farm Heroes and Bubble Witch (Activision Blizzard Marketline, 2021).

Additionally, the company distributes their virtual products in Europe through two subsidiaries: Centresoft in the UK, and NBG in Germany. These companies provide packaging, logistical and sales services, and they also service third-party publishers like Nintendo. Warner Brothers Interactive Entertainment and Sony.

Finally, under the Other Revenue alias for Activition Blizzards FY2019 reported gross revenue, lie the studios and distribution businesses as well as revenue from the e-sports events, which accounted for 10% of the company's revenue with a reported 648 million USD (Activision Blizzard Marketline, 2021).

1.4.1 Activision Blizzard: History Overview

The company was originally founded as Activision by James Levy along with four former programmers of Atari: David Crane, Alan Miller, Bob Whitehead, and Larry Kaplan in 1979, patented and recognized by the state of California as the first independent developer and distributor of entertainment software (Activision Blizzard Marketline, 2021).

Throughout the 1980's and 1990's, Activision went on to expand globally, opening offices in Japan (1989), United Kingdom (1993), France (1998) and acquiring UK's CentreSoft and Germany's NBG as subsidiaries for their distribution and publishing infrastructure in 1997. Releasing popular game franchises through the years like Earthworm Jim and SpyCraft, as well as arrange contracts to own the

rights of very popular movie franchises from major studios like Marvel and DreamWorks for the rights to develop and publish games based on their movies like Spider-Man and Shrek.

In 2008, Activision signed an agreement to enter a business combination between the subsidiaries of Activision and Vivendi (a French multinational mass media company) who at the time owned Blizzard Entertainment and renamed itself to Activision Blizzard.

During the following years, Activision Blizzard's operations included new business acquisitions, partnerships, and contracts between multinational corporations, along with new developments of intellectual property and further development of existing franchises (like Call of Duty, Diablo, Destiny and World of Warcraft). In 2015, the company unveiled the Activision Blizzard Studios business expansion, which involved a film and television studio to create content based on the company's franchises and their rich stories.

Further major events included a serious investment on e-sports and acquisition of the Major League Gaming (MLG) business, additional collaborations with sponsors and business partners to launch and develop new projects (new videogames, videogame expansions, brand merchandise, technical upgrades) and consultants like Nielsen to decide on future investments (Activision Blizzard Marketline, 2021).

In 2016, the company launched a consumer products division solely responsible for the development of merchandise and by-product content creation associated with Activision Blizzard's Intellectual Property (Lev-ram, 2017). With 2015's acquisition of the MLG, the company then controlled most of the distribution as well as the creation of e-sports competitions. MLG's role and dimension in this growing segment of the videogame industry is similar to that of ESPN's to traditional sports in the United States. Activision Blizzard's current CEO Bobby Kotick, 54, said in a statement commenting the comparison in 2017: "It might be more accurate if

ESPN not only distributed football games but also owned the National Football League and made all the footballs in the world as well" (Lev-ram, 2017).

Bobby Kotick is operating as CEO of Activision Blizzard since 1991, during these years, the exponential growth that the company has experienced is noteworthy. From 2012 to 2017, its stock price rose more than 400%, with a 45 million USD market cap and 17 active development studios around the world (Lev-ram, 2017). Kotick's strategy prioritizes relevancy in the market, through continuous growth and expansion, with successful business ventures, while owning most of the businesses that generate revenues for the company, collecting profits from varied sources beyond just product sales.

Kotick was originally a developer for the Apple II computer in the 1980s, at 19 years old he funded a software company, Arktronics, which ultimately failed to remain sustainable and in 1990 he managed to buy a 25% stake in a new entertainment software company called Activision, founded by the four former programmers of Atari. One year later, Bobby Kotick was the CEO of the company, having built the Activision Blizzard Inc to today's dimension, primarily through acquisitions of companies and all their resources, including Vivendi in 2008 (with Blizzard as part of its portfolio) forming "Activision Blizzard" (Lev-ram, 2017).

The undeniable success of the company and Kotick is paired with a questionable perspective of Kotick's strategy, there are those in the gaming community who have strong negative opinions of Kotick and the direction he takes the company, particularly since a lot of these fans were Blizzard enthusiasts that witnessed the change in company behavior, prior to the merger with Activision. The CEO has been criticized for excessive game monetization and franchising, the company's portfolio has some incredible titles like Call of Duty and World of Warcraft, but it is spoken in the community that the company often prioritizes focusing on existing titles instead of

innovating and creating new and fresh interest, pulling more and newer demographic towards their consumer base (Lev-ram, 2017).

Atari, a company that was once in the Fortune 500 for 2 years in the 1980's and once the largest and most successful video game company in the world, today has been bankrupt and bought by a French media company. Atari's co-founder Nolan Bushnell stated in an interview for TIME magazine regarding the business strategy of Activision Blizzard: "The financial strategy for these big blockbusters can lead to things getting stale because you want to do Rocky No. 247 instead of innovate... But entertainment is ultimately about novelty" (Lev-ram, 2017).

Kotick strategy, however questionable it may be, is undeniably effective as Activision Blizzard remains profitable to proportions undreamt of a video game company. The CEO has a reputation for "placing bets" on the right projects, companies and people, and to compliment the company's diversification to industries such as media and competitive gaming, Kotick has managed to recruit renowned individuals such as Steve Bornstein, the former CEO of ESPN as the chair of the e-sports division and Stacey Sher, the producing partner of Quentin Tarantino as the co-president of the TV and film department at Activision Blizzard (Lev-ram, 2017).

In 2016's annual report, the company stated that "It's time for the company to invest in new areas, from its position of strength. If it doesn't, it risks going the way of its predecessors, companies that became one-hit wonders, metaphorically speaking, no matter how many games they created." (Activision Blizzard Inc, 2016) reinforcing the strategy to maintain relevancy and innovation, through expansion and diversification.

1.4.2 Activision Blizzard's Business Overview

As mentioned, the company operates under three separate segments of videogame development, content creation and services: Activision, Blizzard and King.

Activision creates both premium and free-to-play content, receiving the majority of its revenue through full-game and in-game purchases, particularly the Call of Duty franchise.

Blizzard also delivers premium and free-to-play content, generating revenue from full-game and in-game purchases as well as subscriptions, particularly from the World of Warcraft franchise. It also owns the rights to an online platform, Blizzard Battle.net, which functions as an all access point to all Blizzard and some Activision entertainment content, as well as social interactivity between users (Activison Blizzard, 2020).

King generates revenue primarily through free-to-play mobile content, particularly from in-game purchases and advertising on the Candy Crush franchise.

Other less significant revenues in Activision Blizzard's portfolio reside in logistical and distribution business across Europe, as well as sales distribution and publishing services to third-party developers.

The company's operating business model is the franchise. It represents the majority of the revenues and a large percentage is originating from a few specific best-selling products, in fact, a disproportionate amount of profits is due to only three specific franchises: Call of Duty, Candy Crush and World of Warcraft amounting to 76% of net revenues for 2020 (Activision Blizzard, 2020).

This dependence on these three franchises for such a relevant amount of revenue is arguably a liability to the business, for the nature of this business is highly volatile and should a franchise not yield the expected results or lose popularity, it can negatively affect the business.

Activision Blizzard's main business strategy is ownership, expansion and diversification. Throughout its history, the company

has numerous documented acquisitions and partnerships to raise additional sources of revenue, it has recognized that its success is highly dependent on its ability to successfully manage their highly invested new business ventures like e-sports and entertainment media (Activision Blizzard, 2020). Furthermore, these new and different markets require new and different business models and not just the usual investment injection on the best-selling franchises, additionally, these markets have serious competitors with large consumer bases already established, which will prove to be a challenge for the company.

Success on these business ventures is imperative to maintain brand image and protect the core business of the company. Activision Blizzard's infrastructure is familiar with extending and adapting to business acquisitions but its security is highly dependent on the effective management of the growth. If poorly managed, it could result in the overextension of the company's operational and financial resources, damaging the fundamental objective of a better and larger business performance.

An important aspect for the company, specific to the console segment, is the impact that the platform providers can have on the business. Activision Blizzard's products are mostly developed for the console and PC platforms, and in the case of consoles, the company needs to enter agreements with Sony and Microsoft in order to legally deliver content for their consoles. These providers have a bargaining power over third party product developers that can greatly influence their operational results for this market, namely the cost and the launch scheduling of their content (Activision Blizzard, 2020).

In terms of risk, being dependent on third party platform providers, can mean unanticipated delays in product releases as well as unexpected and out-of-budget cost increases for development, marketing or distribution, any of which can negatively influence revenues and business performance. Sony and Microsoft not only

manufacture the platforms on which the company develops products for but they also own the digital store services for their respective platforms, in which products are “displayed”. The agreements made between the providers and Activision Blizzard could potentially limit access to the products for the consumers, ultimately affecting profitability (Activision Blizzard, 2020). Additionally, with the pressure from the competitors for the best possible access on their service platforms, the providers find themselves in a very favorable position to negotiate advantageous terms of contract, should they establish terms that disapprove of specific content (e.g. age restrictions) or limits the price cap on the company’s offerings, the expected results from these sales are at risk (Activision Blizzard, 2020).

Finally, regarding current industry trends, Activision Blizzard faces some level of risk as well, particularly due to the growing preference for the free-to-play business model and its underlying risks. Franchises like Candy Crush and Hearthstone are monetized with optional purchases dependent on consumers wanting to acquire their virtual items, as such, developers have to deliver appealing features and develop the game in order to attract new and existing consumers to play and purchase their microtransactions (Activision Blizzard, 2020). The company may face adversity if it invests in a new free-to-play game that does not meet expected results, revenues may not be enough to cover the development costs of the project. In the case of existing franchises, their profitability may be in jeopardy if the company fails to deliver appealing content that encourages consumers to purchase optional transactions or if third party providers make it harder or costlier for consumers to purchases said content (Activision Blizzard, 2020).

1.4.3 Activision Blizzard’s SWOT Analysis

Activision Blizzard’s strategy of expansion and diversification have yielded substantial results and lead to a competitive advantage for the company. Their involvement in varied fields of entertainment

as well as its established organizational structure, resources and geographic coverage are some of the company's most solid strengths (Marketline, 2021). Another source of the company's strengths lies in its reputation, built over the time it has served their consumers, derived from the leading quality that some of their most successful franchises have in their respective genres of product lines. These videogames not only foment deep engagement and investment from current consumers but the company's constant investment and development also manages to widen their audience reach. The company's reputation for leading franchises in multiple genres of gaming have made it so consumers keep choosing Activision Blizzard's offerings over their competitors, allowing the company to make more profitable moves like expanding revenue streams in their franchises via microtransactions (Activision Blizzard, 2020).

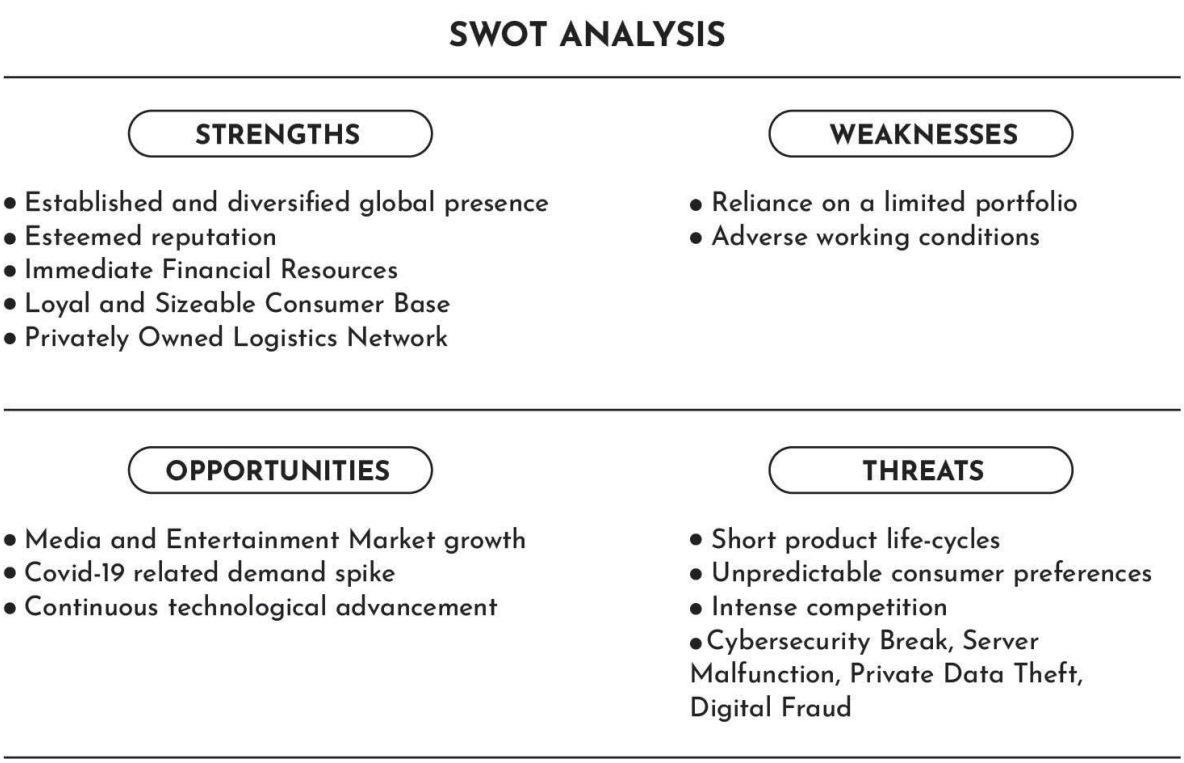
As we've seen before with Activision Blizzard's business overview, the company runs a limited but devoted portfolio of franchises which three of those franchises are responsible for more than half of the company's revenue (Activision Blizzard, 2020), as such, the majority of the company's weakness lies in the risk of those best-selling franchises failing to meet their projected revenues (Marketline, 2021). Another seemingly discrete weak point to Activision Blizzard's operation is its human capital. In the videogame development industry, great talent in a given area of expertise is subject to aggressive recruitment tactics between competitors and competitive compensation offers (Marketline, 2021). Additionally, Activision Blizzard, among other companies in the industry, has a reputation for underwhelming working environments particularly for women. The company is currently under investigation by the state of California, after the Department of Fair Employment and Housing (DFEH) filed a lawsuit against the company on July 20th 2021, following claims of gender-based discrimination and sexual harassment towards Activision Blizzard's female employees from men in leadership positions (Craig, 2021).

Regarding profitable opportunities for the company, on the long term, Activision Blizzard will benefit from the growth trend that seems to be occurring on the global entertainment and global games software markets. According to research by Marketline (2021) the global media and entertainment market will reach a value of almost a trillion USD by 2022 with the gaming software market reaching upwards of 58 billion USD. Having an established presence both competitively and geographically in the videogame market and some noted presence in the media entertainment market, it stands to reason that the company will benefit from the growth trend happening in these markets (Marketline, 2021). Strangely, an unexpected short-term opportunity for the company was some of the impacts of the Covid-19 pandemic. For Activision Blizzard's operations, there was an increase in product demand, primarily due to the action of staying at home measure for social distancing, naturally this took a lot of consumers to seek entertainment best enjoyed at home, such as Activision Blizzard videogames. Although this opportunity won't be stable for long term planning, the company still stands to benefit from the externally influenced demand of its products (Activision Blizzard, 2020).

Finally, external threats to the company's performance include inevitable industry characteristics such as short product life-cycles and changes in consumer preferences (Marketline, 2021). The introduction of a new product, particularly from Activision Blizzard (which does not often produce and launch new franchises) has a high risk of not achieving popularity and acceptance from the community, it could mean revenues not covering developmental costs of a project and negatively impact the company's results, as such, the company is indirectly forced to remain overly invested on their best-selling franchises which adds to the risk of a higher negative impact in case of failure by those franchises. In the videogame industry, the changes in consumer preferences are unpredictable and fast paced, video game titles usually have a short lived popularity and it's the

game genres that tend to last, as such, for a company that is largely invested in the franchises that it develops, this rapidly changing environment poses a threat to any new potential projects by the company (Marketline, 2021). Another primary threat to Activision-Blizzard's operation is its competition (Activision Blizzard, 2020). A very relevant part of the franchises the company develops are meant for the console segments, and in those markets there are competing companies with substantially larger resources like Sony, Nintendo and Microsoft, each owning their respective console platform, which means they have leverage and a tactical advantage to certain aspects of business like distribution, product promotion and ease of access for consumers. Moreover, even with smaller companies there is a risk of imitation and competing products for the company's franchises, which has an effect on decision making for sales, such as limiting prices and demand planning, negatively impacting the bottom line (Activision Blizzard, 2020).

Figure 2: Activision Blizzard's SWOT Analysis



Source: Author, 2021

In sum, Activision Blizzard's strengths primarily come from their established and diversified presence in the global videogame and entertainment market as well as their earned reputation for quality videogames, while their reliance on a limited portfolio for the majority of its revenue and their issues with working conditions for workers are a serious weak point for the safety of its operations. The ongoing trend for growth on the global media and videogame industry will likely prove to be of benefit to the company, as well as the short term boost in demand related to the Covid-19 pandemic social distancing, however the industry's nature of short product life-cycles, unpredictable and rapidly changing consumer preferences paired with intense competitors will prove to be a challenge for the optimization of the company's bottom line.

Some noteworthy mentions, not necessarily specific to Activision Blizzard but to leading international tech companies, are the position of strength that allows them to immediately finance new projects with a large and loyal consumer base to expect some immediate returns on investment, as well as a large privately owned logistics network with the resources to fund expensive marketing campaigns. In the videogame industry, there are regular opportunities regarding new unexplored technologies that are adapting into the videogame business such as augmented reality and virtual reality equipment, and common threats constant across all companies in tech such as cybersecurity threats, server malfunction, private data theft and digital fraud.

2. Methodology

The purpose of this chapter is to present the investigation that took place to study the microtransaction business model and the relating subjects to support this study such as the GaaS business model and the case of Activision Blizzard's monetization methods.

The research findings used in this study provided a theoretical support to build the first chapter of this thesis which supplied the bulk of the materials needed to reach the necessary conclusions related to the purpose of this prooject and the answers to the questions of the case study. The context of this case study provided an extensive overview of the videogame industry with an orientation towards the monetization models used throughout its history as the industry naturally progressed and changed.

Regarding the subject of this case study, the first chapter also provides the reader with a clear understanding of Activision Blizzard's current status of operations, profiling the company as a business entity, an overview of their history, their portfolio of franchises and a SWOT analysis developed according to the available reliable information such as their latest annual report.

To better serve the purpose of this study, a survey was developed, distributed and answered by 470 respondents. The purpose of this survey is to grasp a better understanding of the extent of the microtransaction business model's influence in the videogame industry today. By acquiring some insight into the contact that respondents have with the videogame entertainment media and purchasing behaviors of a variety of different consumer demographics that compose our sample.

With the attained results, we can draw some conclusions regarding the financial sustainability of the microtransaction model as a monetization model, as well as its capacity to reach different types of consumers. The survey was organized into four rounds of questions, each with a specific purpose, designed with some

limitations so as to not alienate consumers not so well versed with videogame exclusive terminology. The initial phase of this survey's distribution was meant to identify flaws and wording mistakes to make the questions less ambiguous, as such, the survey was firstly distributed to friends and family through the Google forms platform. The survey was mostly distributed through social networks (Instagram and Facebook) and debate websites such as Reddit.com where there are social online communities built around discussing videogame related content, those communities supplied the most respondents of our sample.

The first round of questions was meant to create consumer profiles with our sample, inquiring the respondents anonymously on gender, age, nationality, occupation and disposable income. The objective of these specific questions was to possibly test the stereotypical notion of associating videogame content with younger men, and to create a relation between the available disposable income and the purchasing behaviors of videogame content by the respondents.

The second round of questions pertains to the contact that respondents have with the videogame industry, regarding the amount of playtime (if any at all) and the platform used. This helps enrich the consumer profiles, to separate casual players from avid dedicated consumers, and with the gathered data regarding platforms, it is possible to make queries such as analyzing data by the used platform (mobile, consoles, PC's or others).

The third round of questions was only made available to respondents who have owned or played a videogame, for this line of questioning was more specific to videogame and videogame content purchases. These questions were meant to inquire the elasticity of demand (Marshall, 2012) of consumers specific to the potential of spending money on videogame content, to better assess the current reach of the videogame industry to the public, without prejudice regarding the type of consumers.

The fourth round of questions was only made available to the respondents who have or would consider spending money in a videogame for themselves or others. This group of questions was specific to videogame content purchases and the microtransaction business model, to acquire an understanding of how much the MTX model is present in the videogames played by the respondents, through any variants of MTX's and season passes (which is a very common way for casual players to participate with a small amount in videogame content purchases). There was also an assessment of how the respondents felt towards different types of microtransactions (from very negative to very positively) so as to draw conclusions based on consumer feedback regarding the available options of purchase.

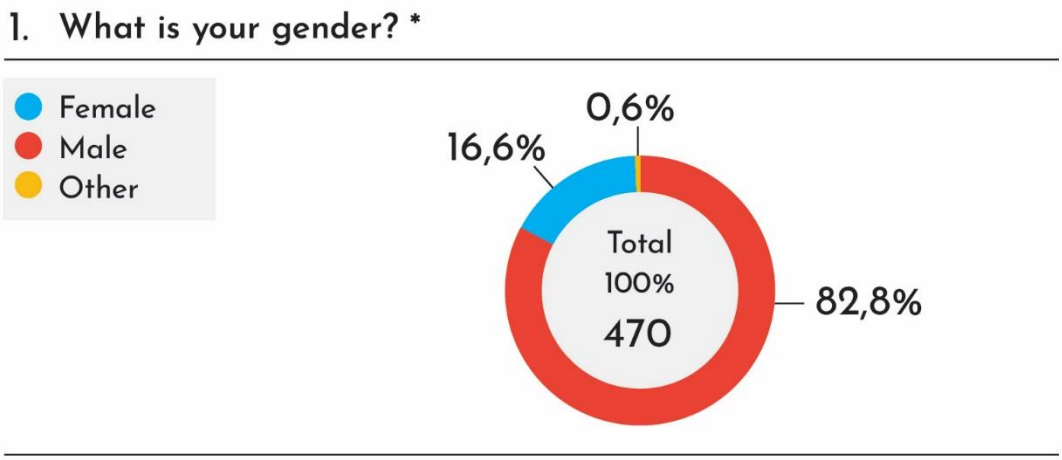
2.1 Results from the survey

This survey was divided by four main lines of questioning, titled as such: i) consumer profile; ii) contact with the videogame industry; iii) videogame purchases and spending; iv) microtransactions. While the results of the questions will be displayed in the following sub-chapters, the questions of the survey as they were displayed in the Google forms platform are available in the Annex section at the end of the thesis,

2.1.1 Consumer profile

The question to start our consumer profiling was the gender of respondents, the possible answers were limited to "male", "female" and "other". The majority of the respondents were male followed by female and others, the specific amounts are as shown in the following chart.

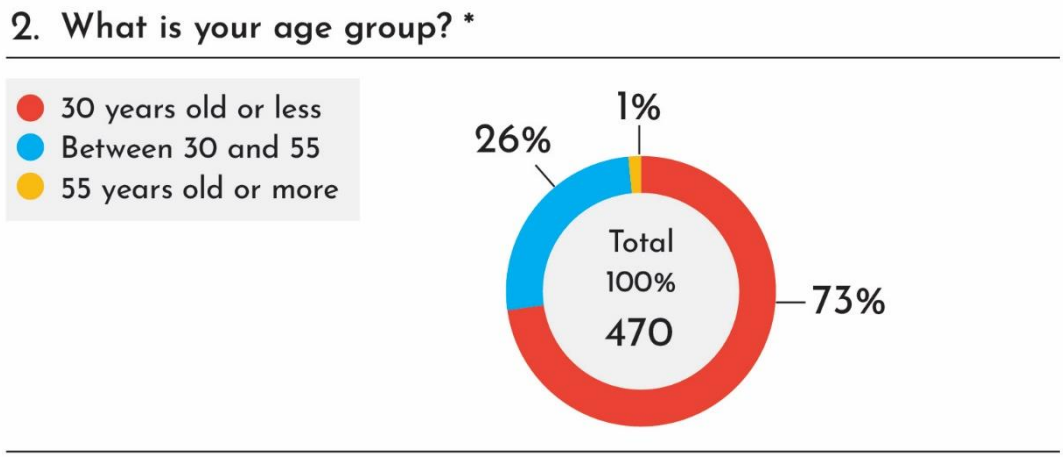
Figure 3: Results from the question: "what is your gender?"



Source: Author, 2021

Regarding the age of respondents, there was a limitation of age groups in order to simplify our sample, divided by "30 years old or less" (young adults and teenagers), "between 30 and 55" (younger and older adults), "55 years old or more" (adults and seniors). The distribution of ages of our respondents are as depicted in the following chart.

Figure 4: Results from the question: "what is your age group?

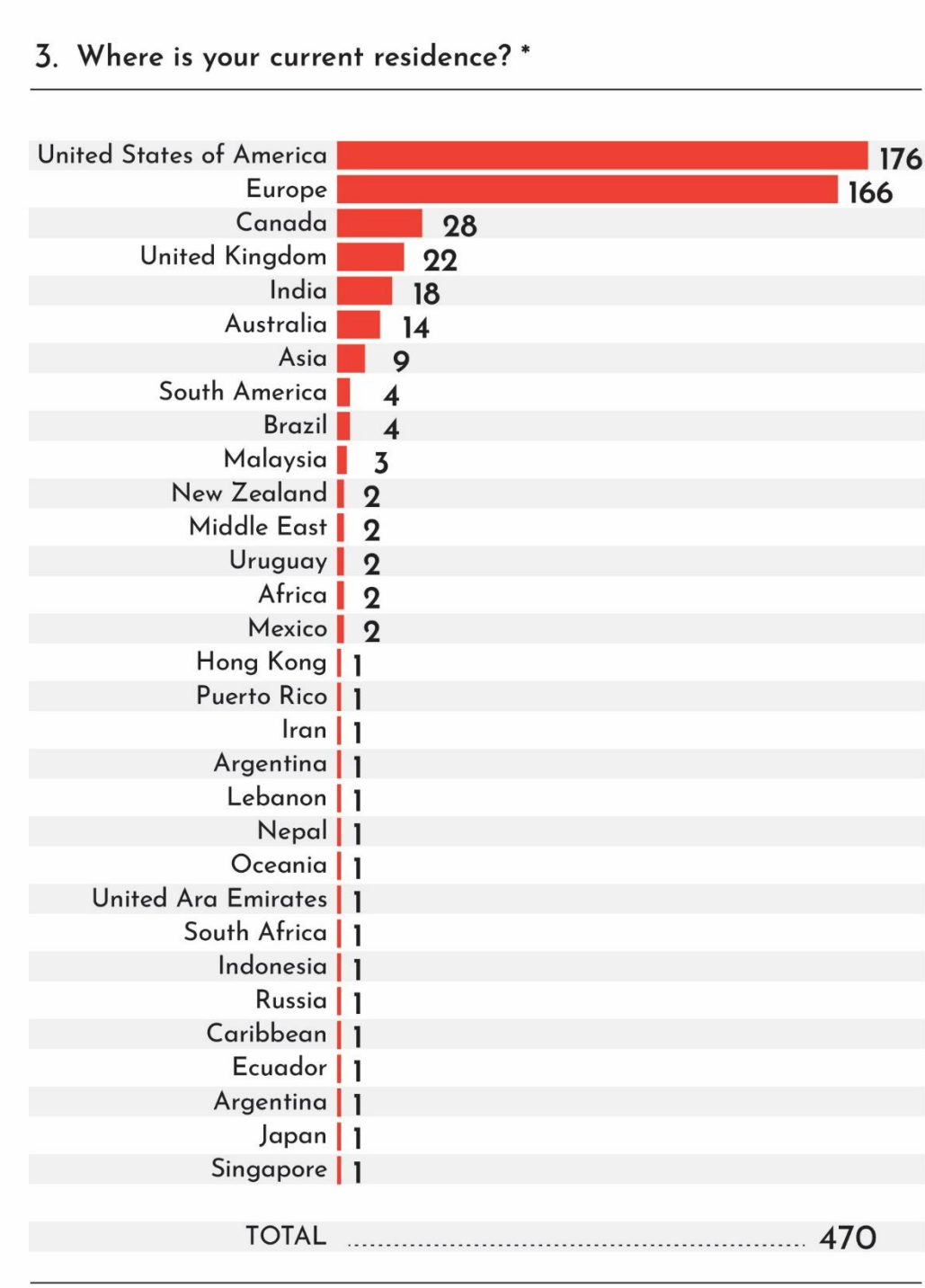


Source: Author, 2021

The current residence of the majority of respondents is in the United States of America (176 respondents) and Europe (166 respondents), given that the places where the survey was distributed were mostly populated by American and European users. As such the

possible answers were “Europe”, “USA”, “UK” and an input option for other locations. The geographical distribution of respondents is as follows.

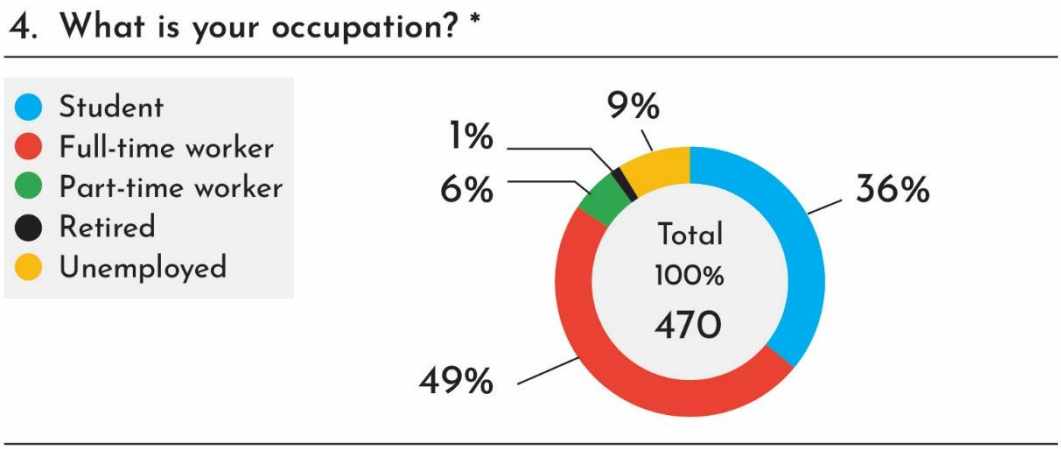
Figure 5: Results from the question: “where is your current residence?”



Source: Author, 2021

The occupation of respondents was inquired by the time consumption of the occupation, with the exception of the "Student" option, to keep the simplicity of results. The possible answers to the occupation of respondents were organized into full-time and part-time work, retired, unemployed and student. Their distribution is depicted in the following pie chart.

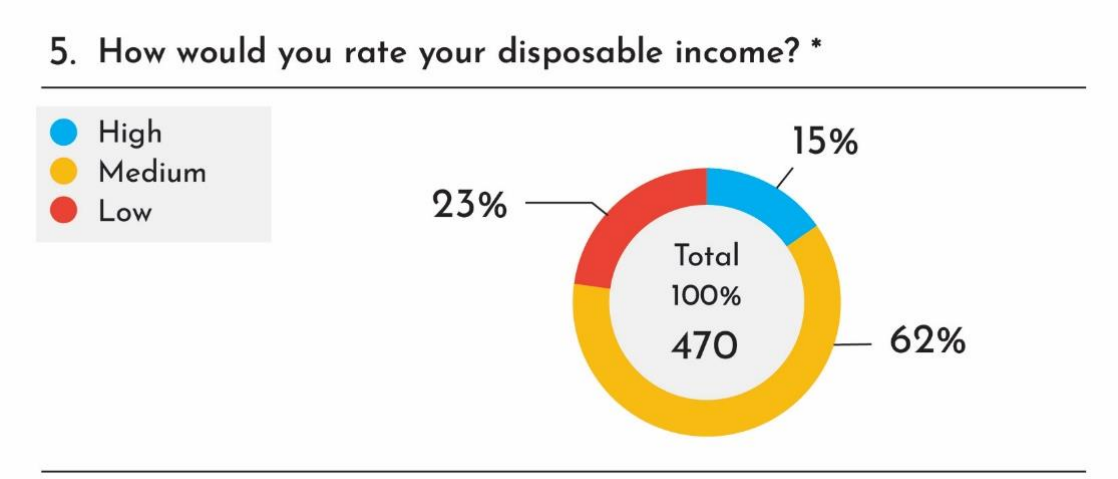
Figure 6: Results from the question: "what is your occupation?"



Source: Author, 2021

The last question of the consumer profile section was to inquire the available disposable income of respondents, divided into three ranks: "Low", "Medium" and "High". With the majority of answers classifying their disposable income as "Medium", the distribution of our sample can be seen in the following chart.

Figure 7: Results from the question: "how would you rate your disposable income?"



Source: Author, 2021

2.1.2 Contact with the videogame industry

The second line of questioning began with a question to separate in a very general way the respondents who were or have been videogame consumers, from those who have not, inquiring about ownership or consumption of videogames, with the results distributed as shown in the following picture.

Figure 8: Results from the question: "have you ever owned or played a videogame?"

Source: Author, 2021

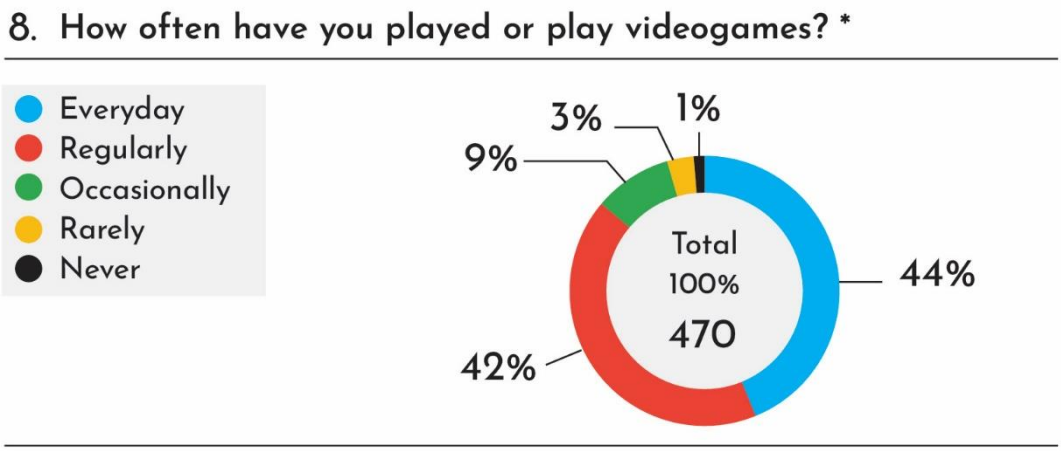
The following question inquired the respondents on their current contact with videogame products, with the distribution of results is depicted in the following picture.

Figure 9: Results from the question: "do you currently own or play a videogame?"

Source: Author, 2021

Next, the respondents were asked about their frequency of videogame consumption, currently or in the past, for the case of people who used to play videogames but no longer due. The answers were ranked from "never" to "everyday", with the sample distributed as follows.

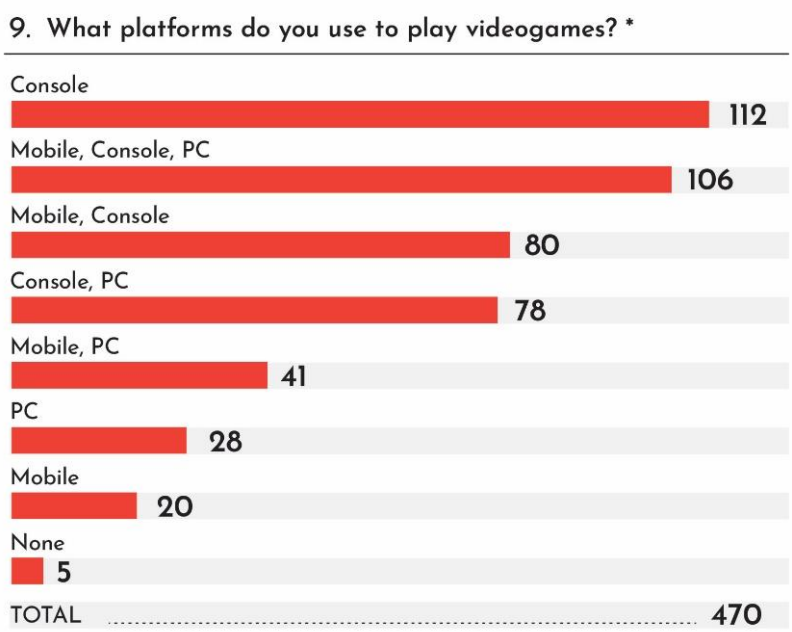
Figure 10: Results from the question: "how often have you played or play videogames?"



Source: Author, 2021

Lastly, the relevant question to ask regarding the contact with videogames by respondents would be the platform used to consume products. That would most commonly be mobile, consoles or personal computers, with an input option for other uncommon platforms. The results yielded the following distribution.

Figure 11: Results from the question: "what platforms do you use to play videogames?"



Source: Author, 2021

2.1.3 Videogame purchases and spending

This group of questioning is meant to bring clarity on how willing the respondents are to spend money on videogame products and videogame related content for themselves or others, for example, even if a respondent is not a consumer themselves they can perceive the value of a product as a gift to a relative or friend and engage in videogame related purchases.

The first and second questions of the third group of questioning was made with the intent of separating the respondents who had contact with the videogame industry but had no intention or experience with videogame purchases, merely to consume free-to-play content, and the distribution of the respondents is as follows.

Figure 12: Results from the question: "have you ever spent money on a videogame?"

Source: Author, 2021

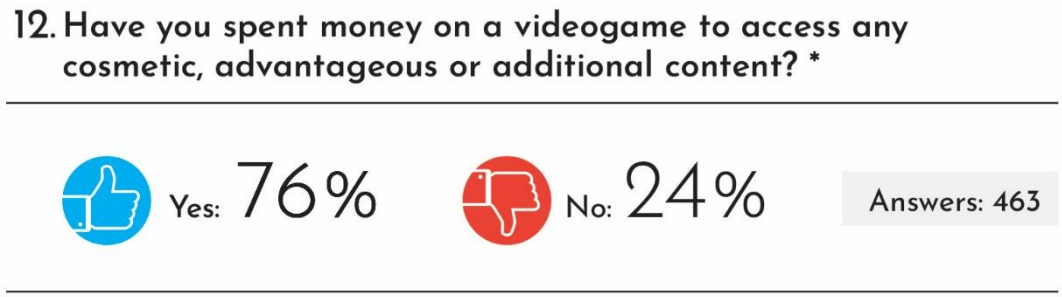
The second question, as previously stated, was meant to identify respondents with no intention of participating in videogame related purchases, specifically to anyone other than themselves. The results yielded the following distribution of responses.

Figure 13: Results from the question: "would you consider an occasion where you would make a videogame purchase for someone?"

Source: Author, 2021

The respondents were then asked whether they had purchased specific videogame content including "cosmetic", "advantageous" or "additional" videogame content like downloadable content. The distribution of results yielded ¾ to "Yes" as the following chart displays.

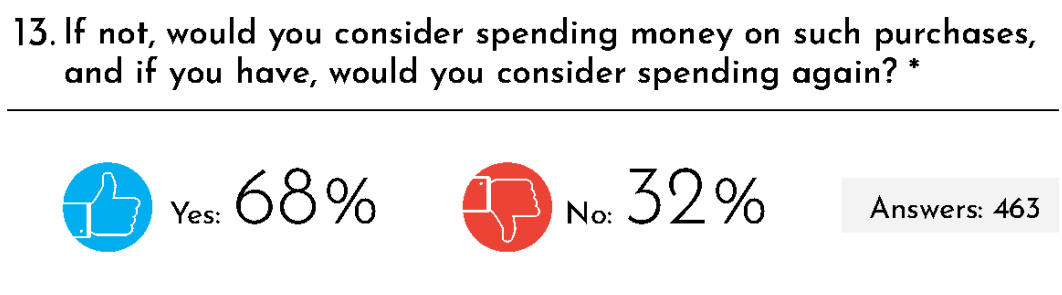
Figure 14: Results from the question: "have you spent money on a videogame to access any cosmetic, advantageous or additional content?"



Source: Author, 2021

The following question was an opportunity to see the potential reach of videogame spending from our respondents, asking whether they would consider making another videogame related purchase in case they have made one, and if they haven't, if they would consider making one in the future. The majority of respondents answered positively to this question, as shown in the following picture.

Figure 15: Results from the question: "if not, would you consider spending money on such purchases, and if you have, would you consider spending again?"



Source: Author, 2021

The last question of this group also helped to enrich our consumer profiles, and even form a general consensus of this sample of respondents on videogame spending behavior. The question was

organized from levels of spending patterns regarding videogames, with a statement describing each level, more than one statement could be chosen simultaneously. The most frequent response was “I could occasionally spend money on a specific videogame that I really enjoy”. The distribution of responses are depicted in the following table.

Table 1: Results from the question: “please select the statements that best describe your spending patterns regarding videogames”

14. Please select the statements that best describe your spending patterns regarding videogames: *

“I could occasionally spend money on a specific videogame that I really enjoy.”	179
“If the videogame that I play releases any interesting new cosmetic or additional content, I’m compelled to have it and might spend money on it.”	97
“I regularly spend a considerable amount of money on videogames and additional videogame content.”	53
“I could occasionally spend money on a specific videogame that I really enjoy.”, “I have or would spend money on videogames for someone who enjoys them”	36
“I regularly spend a considerable amount of money on videogames and additional videogame content.”, “I have or would spend money on videogames for someone who enjoys them”	29
“If the videogame that I play releases any interesting new cosmetic or additional content, I’m compelled to have it and might spend money on it.”, “I have or would spend money on videogames for someone who enjoys them”	28
“I would never spend money on videogames, it’s a game and there’s a variety of free games available”.	22
“I have or would spend money on videogames for someone who enjoys them”	13
“I would never spend money on videogames, it’s a game and there’s a variety of free games available”., “I have or would spend money on videogames for someone who enjoys them”	6
TOTAL	463

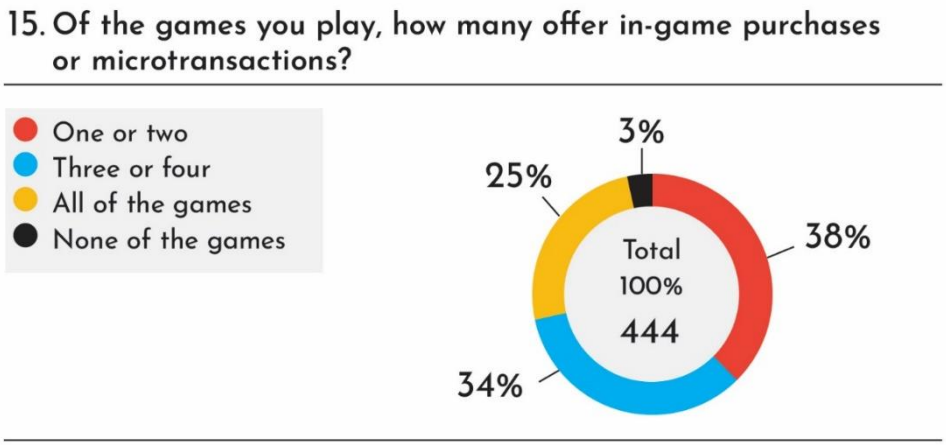
Source: Author, 2021

2.1.4 Microtransactions

During the survey, a short explanation of the term "microtransactions" was given to the respondents at the beginning of this group of questions, to prevent misguided answers in the following questions. This line of questioning was specific to inquire the respondents on their in-game purchases, not only of microtransactions but also season passes and gain some feedback on their opinion regarding certain types of microtransactions. To keep the legitimacy of the data, this group of questions was only made available to the respondents who have or would consider spending money in a videogame for themselves or others.

The first question was to get help get an understanding of the popularity that the MTX business model has gained, through the feedback of this sample, inquiring the respondents on how many videogames that they play offer in-game purchases. The responses were almost unanimously more than one, with only 15 respondents answering with zero games offering microtransaction options. The results are displayed in the following chart.

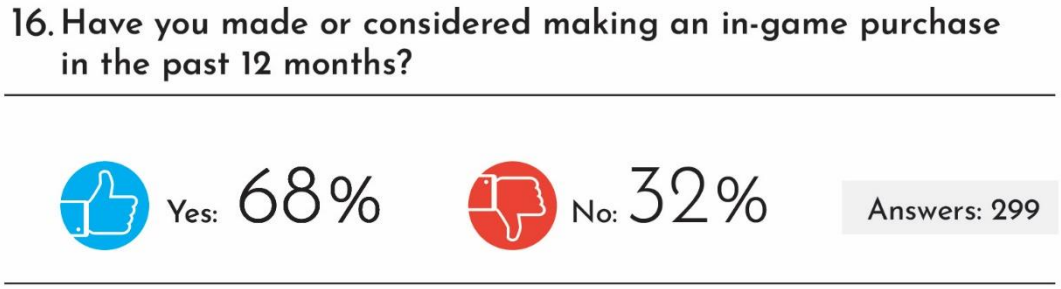
Figure 16: Results from the question: "of the games you play, how many offer in-game purchases or microtransactions?"



Source: Author, 2021

The second question inquired the respondents if they had made a microtransaction purchase in the past twelve months. The results yielded a majority towards "yes", the distribution is displayed below.

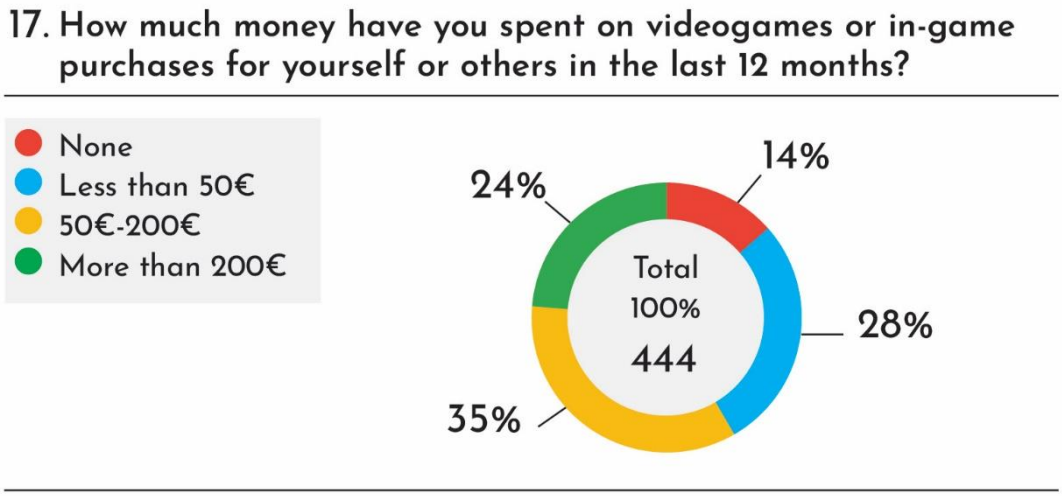
Figure 17: Results from the question: "have you made or considered making an in-game purchase in the past 12 months?"



Source: Author, 2021

The third question identified the amount of money spent (using euros as currency) on microtransactions, divided into four intervals between zero and more than 200€. This purchase could have been for themselves or for others, with the relevancy being on the amount spend in the past twelve months. The results are shown in the following chart.

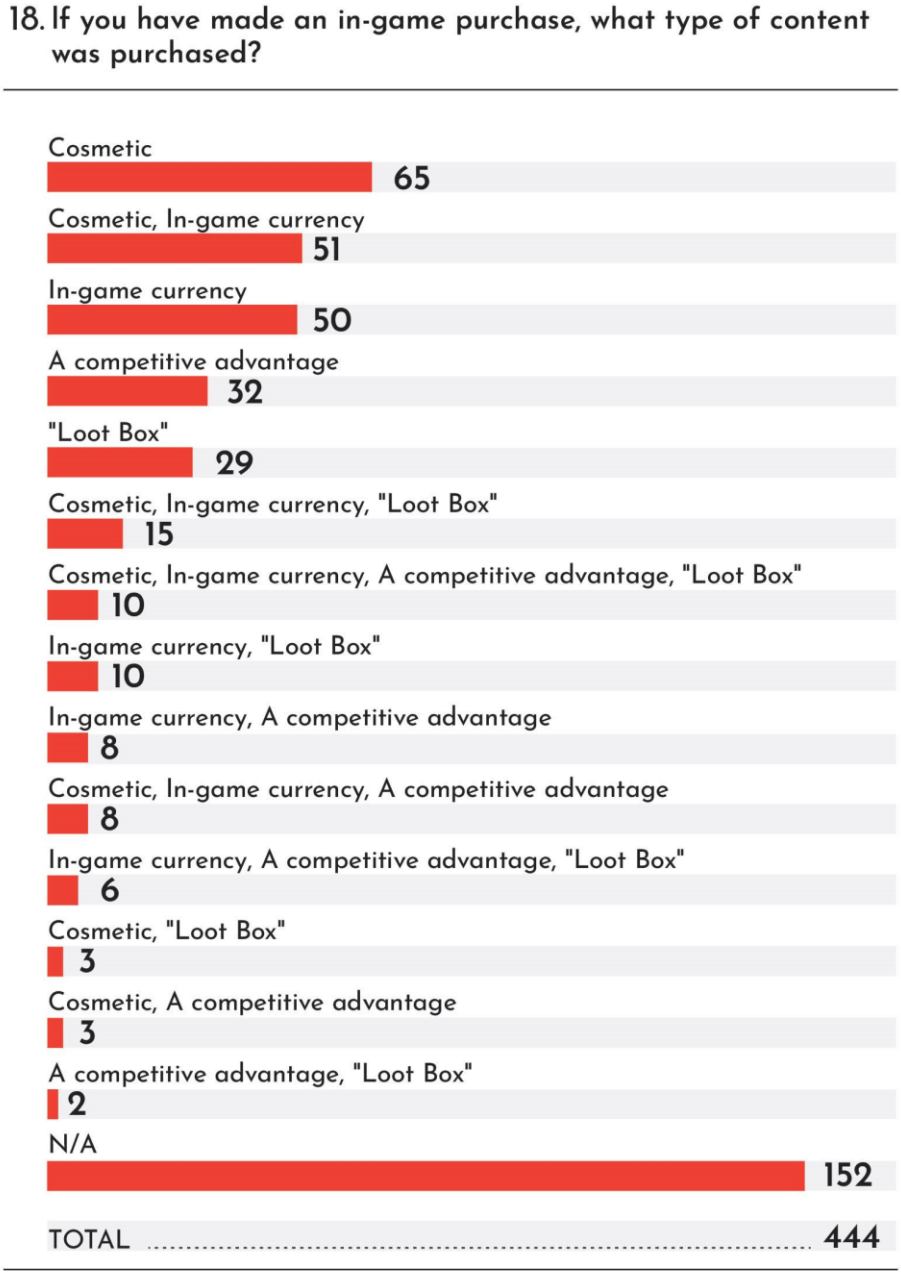
Figure 18: Results from the question: "how much money have you spent on videogames or in-game purchases for yourself or others in the last 12 months?"



Source: Author, 2021

Next, the respondents were inquired on the type of in-game content that was purchased, between the most common types of microtransactions: cosmetic, "pay-to-win", loot boxes and in-game currency, with the option of "non applicable" (N/A) for less common microtransactions, to keep simplicity. The results are shown in the picture below.

Figure 19: Results from the question: "if you have made an in-game purchase, what type of content was purchased?"



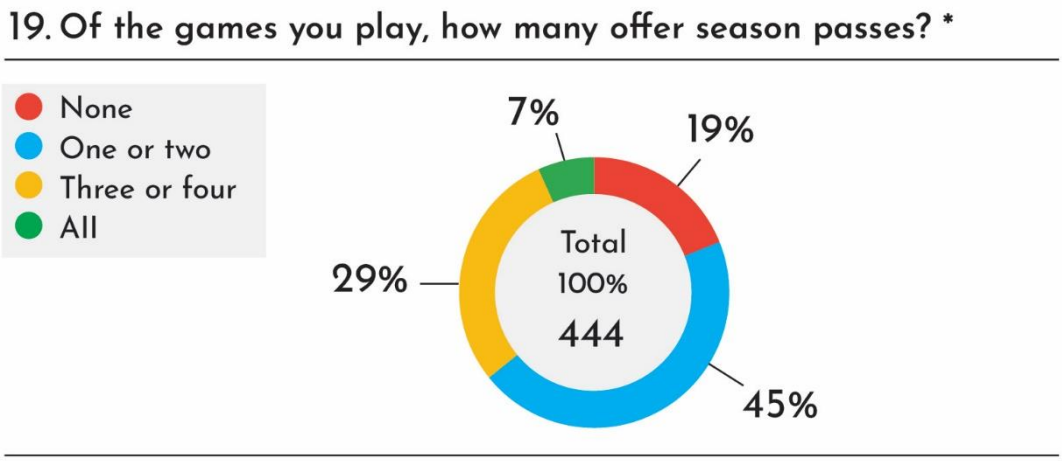
Source: Author, 2021

The following questions follow the same path as the previous four question, but regarding season passes instead of singular microtransactions. As we've seen season passes offer a larger group of virtual items at a discounted price on a limited time offer. This is a very common and advantageous option of monetization for companies and for consumers, as more people are attracted to

discounted offers than full priced purchases, so revenues are boosted from purchases by consumers who don't normally participate in microtransactions.

The next question inquired on how many videogames played by respondents offered the option of purchasing season passes. The results are show in the chart below.

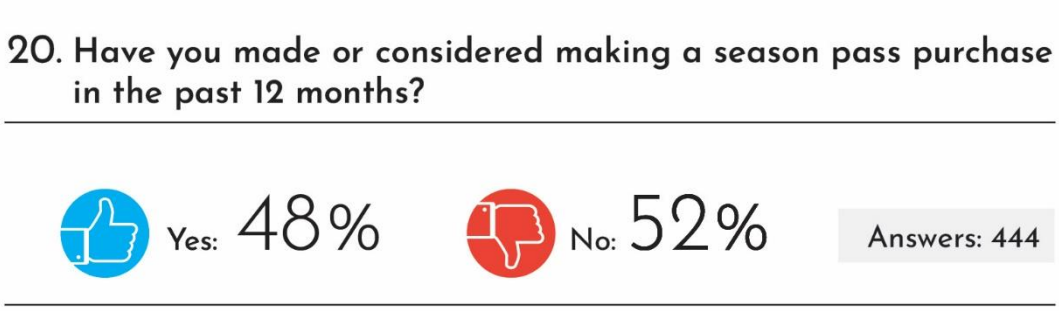
Figure 20: Results from the question: "of the games you play, how many offer season passes?"



Source: Author, 2021

The following question inquired respondents on whether they had made or considered making a season pass purchase in the past twelve months. The distribution of our sample is depicted in the following picture.

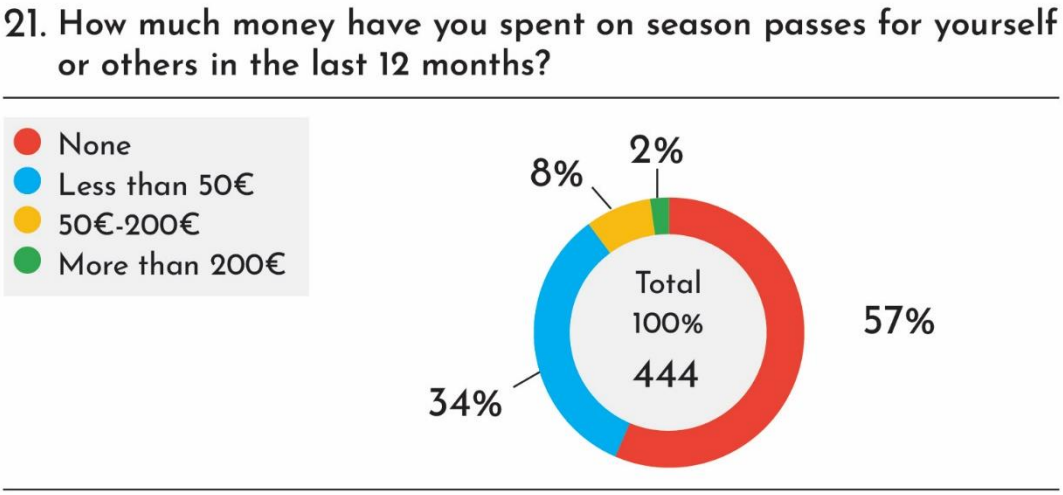
Figure 21: Results from the question: "have you made or considered making a season pass purchase in the past 12 months?"



Source: Author, 2021

The following question identified the specific amounted spent on season passes by respondents in the past twelve months. The results are shown below.

Figure 22: Results from the question: "how much money have you spent on season passes for yourself or others in the last 12 months?"

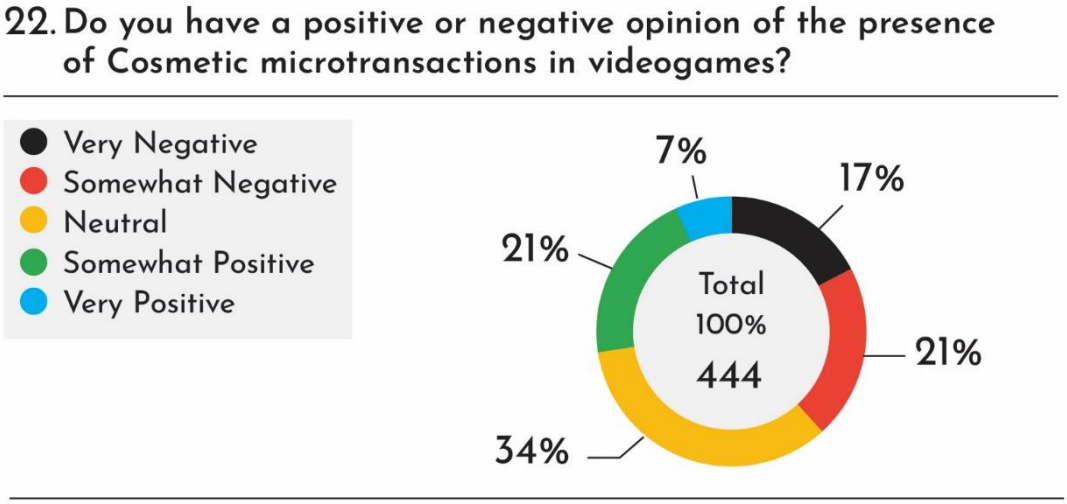


Source: Author, 2021

Lastly, the survey finished with three questions inquiring the respondents on their feedback regarding some types of microtransactions, as they can be the cause of controversy in the videogame community, which is especially relevant for companies to identify the consensus of their consumers regarding these types of monetization.

The next question asked for the respondent's opinion regarding the presence of cosmetic microtransactions in videogames, with the possible answers ranging from "very negative" to "very positive". The results are shown in the chart below.

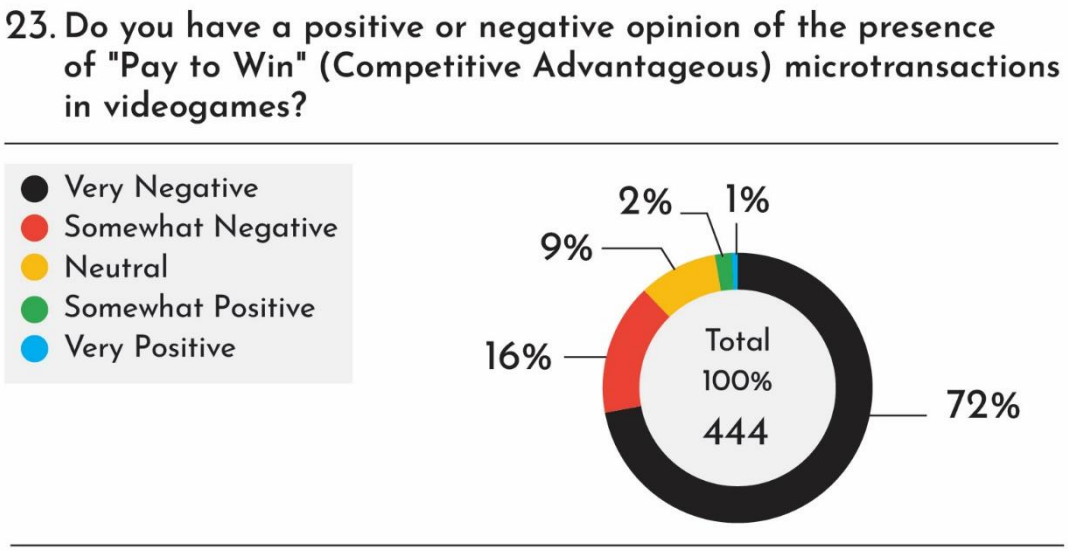
Figure 23: Results from the question: "do you have a positive or negative opinion of the presence of Cosmetic microtransactions in videogames?"



Source: Author, 2021

The second question of consumer feedback was towards the presence of "pay-to-win" (competitively advantageous) microtransactions in videogames. To no surprise the results of this specific type of MTX were generally negative, as it's shown in the picture below.

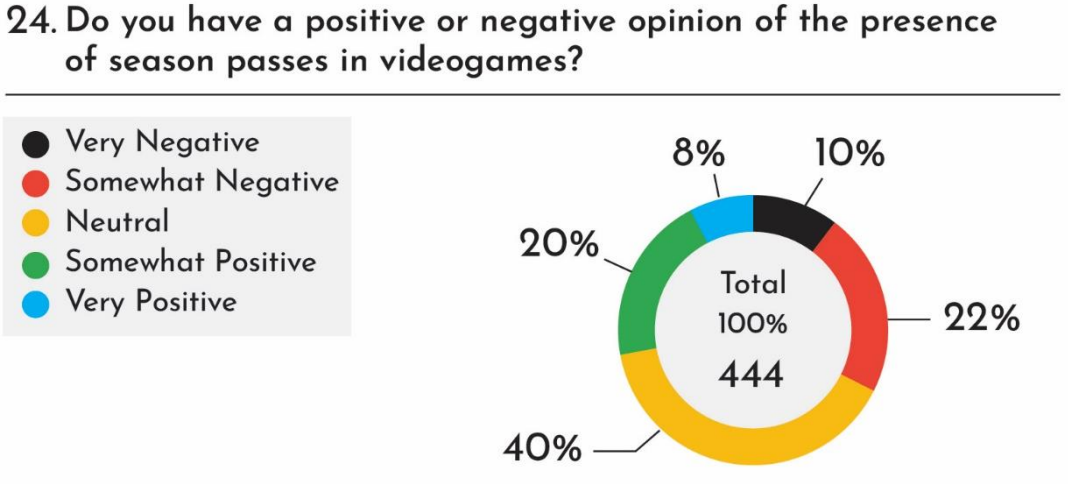
Figure 24: Results from the question: "do you have a positive or negative opinion of the presence of "Pay to Win" (Competitive Advantageous) microtransactions in videogames?"



Source: Author, 2021

The last question of the survey inquired the respondent's feedback regarding the presence of season passes in videogames. The results were generally balanced with a larger consensus towards "neutral", but no extreme tendency like the previous case. The specific results can be seen in the chart below.

Figure 25: Results from the question: "do you have a positive or negative opinion of the presence of season passes in videogames?"



Source: Author, 2021

3. Questions

As per the official structure of a pedagogical case study, to test the theoretical knowledge acquired thus far, this chapter proposes a group of relevant questions auxiliary to the objective of this project.

These questions enquire the theoretical topics of the microtransaction business model, the GaaS system while contemplating the actual case of Activision Blizzard's current position and their direction moving forward. Moreover, these question aid in the academic enrichment of business management, digital project planning, consumer behavior and economic sustainability subjects.

3.1 Case study question proposal

Question 1 – Is the microtransaction business model a sustainable videogame monetization model? Please provide an example to support your answer.

Question 2 – Considering the current direction of the videogame industry and consumer preferences, is Activision Blizzard's business strategy viable for the long term? Deliberate on its advantages and disadvantages.

Question 3 – *"The microtransaction and the GaaS business models are complements of each other and are not mutually exclusive."*

Based on the materials provided, comment on the legitimacy of this statement.

Question 4 – Is the microtransaction business model applicable to any videogame product?

Question 5 – Imagine that Activision Blizzard aims to develop a project to reduce dependency on their limited portfolio. Based on this goal, suggest a specific approach to achieve this objective.

4. Teaching notes

4.1 Case study target

The present case study was developed for undergraduate and master students studying the fields of Management, Business Administration, Finance and Strategy. This study can provide a deeper insight into the digital economy, specifically the growing market of the videogame industry, their modern monetization methods and revenue generating strategies.

Additionally, the consumer driven nature of this industry makes it so that this study can benefit both professionals and students of Marketing regarding means of reaching and adapting to consumer preferences in a business environment that prioritizes consumer demand and consumer engagement over time.

4.2 Pedagogical objectives

The main objective of this study is to further the understanding and documentation related to the new and progressive microtransaction business model as well as modern business strategies and monetization methods of the videogame industry, with the example of one of the top videogame developers and producers of the market, the Activision Blizzard, Inc.

Additionally, this thesis should provide more insight into the digital economy topic as the business models addressed mostly include online platforms and software services. Through the extensive theoretical revision of the microtransaction and its associated business models along with the practical evidence of Activision Blizzard's performance, there can be a rich educational development of topics such as digital marketing strategies, entertainment business management and financial control in an industry structured and driven by consumer preferences.

This pedagogical case study was developed with the following educational objectives:

1. To identify the financial and economic sustainability of the microtransaction business model.
2. To perform an overview of the current state of the videogame industry, market trends and of the company under study.
3. To perform a deep theoretical analysis of the microtransaction business model, their variants, advantages and disadvantages.
4. To explore the modern monetization methods and systems used by in the current videogame market.
5. To understand the transition of the videogame industry from their traditional revenue generating strategies to the digital economy and online entertainment service provision.
6. To apply the theoretical material regarding strategic monetization methods to the betterment of the company's performance.
7. To understand the priority of consumer preferences and demand in this industry, supported by the company's business strategy.
8. To increase the documentation on the industry and market trends, with direct consumer feedback provided from the performed survey.

4.3 Literature review

4.3.1 The business model: theoretical analysis

The primary and starting point of this case study should begin by defining microtransactions and the most common MTXpurchases . In the videogame industry, up until the 1990's and early 2000's, the videogame developers strategized their business and revenue inflows around the physical sale of a copy of the developed game, taking the shape of a cartridge, a disc (CD-ROM) and later even the digital copy available to download inside the consumer's gaming system (Evers et al, 2015).

Around the early 2000's, beyond the sale of a videogame as a complete product, videogame developers started to offer additional

items, bonuses or downloadable content (DLC) within the actual game for a monetary price, in order to create longevity and additional revenue from the released game. From then on, there was a new form of transaction of goods known today as a "microtransaction" (Gusmão et al, 2019).

Currently the microtransaction model has established three popular offers since its beginning, to the current state of the industry. With different degrees of popularity among consumers, the three main types of content sold in microtransactions are cosmetic, pay to win, and loot boxes (Zendle et al, 2020).

Almost all microtransactions in a game will lead to a decorative or aesthetic change in the product somehow, but there is the established type of microtransaction that is purely meant to exclusively provide an additional or different option for how the game or some specific part of the game looks, and those are referenced as a Cosmetic microtransaction (King et al, 2020). They provide no competitive impact on the playability of the game and no advantage or disadvantage in either a singular player or multiple player experience (Gusmão et al, 2020).

For example, in one of the most popular multiplayer *battle royale* genre games Fortnite, developed and released by Epic Games in 2017, players can purchase "emotes", which are actions that their game characters can perform to express ideas or feelings, such as dancing and celebrating a victory (Zendle et al, 2020). With more than 250 million registered players as of March 2019, Fortnite has grossed more than 1 billion USD in cosmetic microtransactions alone since its launch in July 2017 (King & Delfabbro, 2020).

According to Zendle et al (2020) some microtransactions, once acquired, provide a higher probability of success within the game experience or an advantage within a competitive context relative to players who did not purchase that microtransaction. Although the term "pay to win" comes from popular embellishment, it does

accurately characterize this type of MTX as there is no recognized official term for them. Pay to win MTX's can also simultaneously provide a cosmetic change to the game, but not necessarily, some games make a point to separate the cosmetic from gameplay advantage microtransactions while others group the two together in their offers, having an additional item that looks different but also has an impact on how the game is played (King & Delfabbro, 2018).

This particular type of MTX is a highly controversial one, for the most natural reason being that (if poorly managed) it can potentially turn this once affordable and simple entertainment into a predatory monetization system that entraps players into having to spend consecutively larger amounts of real money in order to fully enjoy the available content (King & Delfabbro, 2018). In highly competitive games, there is the debate of how much this MTX can negatively impact the credibility of the game, turning the competition from who can play the best to who can pay the most (Harviainen et al, 2020).

Controversial topics like this have turned a lot of players away from games with pay to win MTX's and some game developers make a point to exclude this type of MTX when developing their product, in order to appeal to the player community's wishes (Zendle et al, 2020).

"Loot boxes" are a different type of MTX entirely, which can be comprised of both cosmetic and pay to win items, but what characterizes it is the fact that players are not always previously informed of what they are getting for their money before the transaction (Brady & Prentice, 2019).

Zendle et al (2020) define loot boxes as "items in video games that may be bought for real-world money, but which provide players with a randomized reward of uncertain value". Some loot boxes can be considered part of the pay to win MTX in the sense that they can contain rewards that impact the playing

experience like the case for the sporting soccer game FIFA, developed by Electronic Arts (EA) in 1993, where loot boxes contain player cards that can unlock better players, being advantageous to the performance of the soccer team during the matches. In 2017 alone, EA reportedly made 1.3 billion USD in loot box MTX's (Brady & Prentice, 2019).

The parallel features between loot boxes and gambling have raised concerns with health officials and regulators, due to the similarity with the technology and reward system, Brady & Prentice (2019) have found that those who consume videogames more frequently are more likely to engage in gambling activities, especially male consumers.

This MTX contains a "box" of rewards (more than one), where usually there is an algorithm coded in the game system where higher valued rewards have a reduced chance of dropping in that group of rewards, they're usually displayed or calculated by a random number generator (Azin, 2020). In the massive multiplayer roleplaying game World of Warcraft, there are online communities of players that gather and play together regularly with the primary objective of seeking and collecting these rare items with a lower chance of appearance.

Traditionally, the videogame development process is timed around a project. The companies gather the resources, draw up a timeline with a budget to meet the necessities and once the project is complete and the game is released, the resources and the workers are no longer required until a new project appears (Semuels, 2019). However, with the exponential growth in technology and customer demands for quality and quantity of the product, production costs for videogames have risen while the sale price for top production budget games (triple A games) has remained static to keep up with the very sensitive price elasticity of demand by videogame consumers (Marshall, 2012).

For these reasons, game development companies have turned to the MTX model to remain profitable. Independent and smaller game developers usually cannot afford to charge the same price as their larger competitors due to consumer hesitation to make a purchase priced equal as a triple A game, without the assured quality and satisfaction from the product (Tan, 2019). Routledge (2016) makes the case for prioritizing adaptation, for developers to make games available at an insignificant price amount to the buyer or even for free, only to reach profitability through the MTX model. From that strategy came the term “freemium”.

With freemium games, players now have the option to play them and enjoy the product without having to spend any monetary amount in the game but also to be able to invest a determined amount of money into the game which can lead to cosmetic or gameplay advantages to their experiences in the game (Xiao & Henderson, 2019).

There is the debate whether the MTX model can be detrimental to the nature of the game, especially when it comes to Loot Boxes being linked to gambling addictions (Gong & Rodda, 2020) as opposed to the current trend where studios try to reach for more profitability through the MTX model, sometimes by compromising the younger consumer’s mental health and raising ethical questions with the forcing of a predatory monetization system (Lelunek-Kuleta & Bartczuk, 2020). For bigger companies with significant budgets to make their games, there is a majority negative consensus towards the MTX being involved in game monetization, with cases of backlash from the communities so loud that there are cases where studios have altered the game entirely to remove microtransactions from their systems (Tan, 2019).

Initially, the approach of the MTX model was to make the game content more attainable, with delayed revenue of additional sellable features (Tomic, 2017). When independent and new game developers

start their activity, they don't have relevant investors and stakeholders to make sure the costs are covered, therefore, from a business standpoint microtransactions ensure covered costs and even profitability (Tomic, 2017).

Some multiplayer and freemium games, like Riot Games' League of Legends released in 2009, thrive on microtransactions. It's a completely free to play game, yet it's one of the highest revenue generating games in the current market (C. King, 2017).

4.3.2 Monetization Schemes and Microtransactions Adaptations

Microtransactions are part of the innovation happening in the videogame industry today. Establishing a new option for the digital purchase of virtual goods from within the game for small payments at a time. This concept has revolutionized the way videogame developers organize monetization and revenue income in the process of videogame development (King & Delfabbro, 2018).

These organizations generating millions in revenue with virtual sales, at their core, are digital enterprises. Mark Skilton (2015) defined digital enterprises as "a form of organizational structure with a legal basis, enabled by technologies to provide physical or virtual products or services (…) and virtually operate monetization mechanisms that generate social and financial value, worth in one or more digital economies".

Developers have now locked in to organizing the monetization mechanisms of their games around microtransactions, with some becoming so sophisticated that players refer to a game's "Economy" (Kerr, 2006). Some monetization schemes are even discussed to be considered as predatory.

King and Delfabbro (2018) define predatory monetization schemes as "(…) purchasing systems that disguise or withhold the long-term cost of the activity until players are already financially and psychologically committed". These schemes are based around a strategy of misinformation to the players by the game makers,

inciting and stimulating players with the appearance of an appealing game complete with all the qualities that match their preferences, but once the initial purchase or the substantial investment is made, the players then realize that the reward systems often require purchasing obligations in order to obtain the desired outcomes. Instead of delivering rewards proportionately to skillful performances or when strategic gameplay is shown by the players, some developers keep the most desired rewards available only through the exchange of real money (King & Delfabbro, 2018).

The extent of these "predatory monetization schemes" goes beyond just the game reward systems and their monetization. Some top gaming companies like Activision Blizzard have successfully patented systems that are designed to encourage microtransaction purchases through selective multiplayer matchmaking. This technology was first filled in 2015 but later granted in 2017, and its goal is to match players together in a way that influences game related purchases through an experience with joining two different specific player profiles (Marr et al, 2015).

This engine may match a more experienced player possessing a variety of in-game items purchased with a newer player, so as to encourage the newer player to make the same game-related purchases to simulate the experience of the experienced player by obtaining the same virtual items through microtransactions (Marr et al, 2015).

This technology is also equipped with the possibility of "soft targeting" the players profiles, for instance, a newer player profile can be determined to possess characteristics that indicate that the player wants to become a martial arts expert in a game, therefore, the engine will match the junior player with an experienced player which has purchased items related to martial arts expertise and even allocate them in a match where martial arts will be highly efficient to complete the match successfully, in doing so, maximizing the appeal in that experience for the junior player to be seduced into

purchasing the martial arts package for his account (Marr et al, 2015).

The most common type of microtransaction made available in Activision Blizzard games is the “loot box”, also being the most controversial one. The reward for this microtransaction is a randomly selected group of virtual items with varied value (for the game), in this sense, there is a low probability for a player to attain a specific item of his preference from this type of microtransaction, therefore, players usually need to buy several in order to obtain a specific item (King & Delfabbro, 2018).

Wardyga (2018) argues that the loot box MTX greatly resembles the workings of a gambling slot machine, since they require no skill and return a prize randomly generated by the purchase, however, the loot box MTX is not globally regulated because the cost of buying a loot box is not considered to be a financial loss, virtual items are not considered to be valuable as there is no possible immediate financial return on virtual loot boxes in video games (King & Delfabbro, 2018).

4.3.3 Modern Revenue Generation and the “GaaS” business model

Routledge (2016) defends that the era of digital and online operations has created a trend for some organizations to utilize a business model extracted from the videogame industry known as games-as-a-service (GaaS), which works virtually without the need of a sale of a product but the provision of its services, where the developers meet the necessities of their consumers via the internet (Vaudour & Heinze, 2020). As we will see further on, this business model highlights the importance of delivery, timing, transparency, and creativity in order to gain and retain consumer engagement.

Games-as-a-service is essentially the Software-as-a-Service (SaaS) business model which was originally used by other types of service providers to deliver software-based services to consumers, like Microsoft Office 365, Dropbox, and Amazon Web Services

(Vaudour & Heinze, 2020). One of its main advantages is the single server from which the software services come from, which facilitates distribution, scalability and compatibility that used to be an issue with physical media distribution like CDs.

Chronologically, SaaS came first and GaaS was made as a variant of SaaS, adopted by videogame developers and publishers, where all the necessary software to play a videogame is located on an external server and accessed to via the internet by the consumers (Routledge, 2016).

Videogame revenues in the United States have nearly doubled, from 17.5 billion USD in 2010 to 29.1 billion in 2017 (Gilbert, 2020). With physical media accounting for two-thirds of sales in 2010, which are currently being replaced by digital media.

With today's model of GaaS, audience engagement is a priority now more than ever. Consumers can access videogames more easily than ever, with little to zero cost, this also means that the initial investment in a game that would keep the consumer loyal to the product is null (Routledge, 2016), therefore, developers need to create games that makes customers engaged and invested enough to spend money on it. Creating a product that instills in the client the perception of added value for them, is what will keep a GaaS gaming consumer loyal, engaged and invested enough to pay for the game and become a member of its community.

Initially the business model used in the video games industry was the "one price, one service" model (Kerr, 2006) which translates to a single purchase for a complete game, with the only remaining value after its completion being to replay it as it was or to resell it.

Logistically, people adopted the SaaS model more easily due to the flexibility of its software distribution, with the same cost, now consumers didn't have to spend time and money to move to a retail store, they can now buy a game at any time from the comfort of their home (Gilbert, 2020).

Vaudour & Heinze (2020) documented that from a development standpoint, developers don't need create a sequel for a videogame to make additional revenue, with the GaaS model, a game is virtually never-ending because they can keep updating it whenever and however they want, and deliver it with ease for the players that can access it as soon as they log in back to the servers. The procedure on paper may be made with "ease" but realistically this poses a large challenge for developers because game development has now become an everyday non-stop operation in the industry (Gandia & Brion, 2016), and players will only remain engaged in a game as long as their expectations are met. This creates an unspoken pressure on the developers who need to keep their audience's demands satisfied for months or years at a time.

The way the GaaS business model generates revenue is through a few select methods of monetization, namely microtransactions. As we've seen these micropayments (with no obligatory amount to be classified as micropayment) is the purchase of virtual goods in a videogame, these often contribute to a player's engagement in a videogame because the consumer has the option to select an item or feature that is appealing to him personally (Vaudour & Heinze, 2020). In the popular videogame World of Warcraft, for example, they have a specific popular form of microtransaction that allows the user to skip a very long part of the game that takes time to build their game character, which is called a "character boost" (that costs around $60USD), its appeal lies in accessing new content without having to invest time working away through all the levels of the game, this is popularly referred to as "the grind". Instead of grinding, players pay the $60 USD to start directly at the most recent content (Activision Blizzzard, 2021).

Free-to-play games are often accompanied by microtransactions to provide revenue for developers and for players to have the option to reach certain content without having to spend time for it, therefore, these games are more accurately called "Freemium" games

(Civelek et al, 2018). Another monetization option is advertising, a very common revenue generation model especially with freemium mobile games, usually in the form of a pop-up ad that promotes something within the developer company or a premium content within the game itself (Palmeira, 2020).

Subscription services is a monetization method common in online multiplayer games, made popular by its originator: Activision Blizzard's World of Warcraft. By paying a monthly fee, players get access to the entire game as long as the subscription is active, this also consequently boosts the loyalty and invested interest of players (Activision Blizzard, 2021). A subscription-based game doesn't necessarily require further microtransactions, but most offer them anyway, sold separately and not included in the subscription fee.

Season passes are comparable to a subscription fee in the sense that its purchase enables the access to content for a determined period of time. The way season passes work is almost like a bundle of virtual items or DLC, usually exclusive to the season pass, and it is sold at a discounted price comparing to the amount if all the items were sold separately (Zendle et al, 2020). The discounted price and the exclusivity of the content tied to the season pass not only boosts player engagement but also rewards their loyalty.

Vaudour & Heinze (2020) take an approach towards deconstructing the GaaS business model through analyzing the elements that compose it and in that way gain a more detailed understanding of the relations between them.

The customer segments represent the consumers that are the target of the value created from this operation, simplistically it's the videogame players, even though the value created differs from the type of gamer profiles.

The Distribution channels are the link that delivers the value to the consumers, in this case, the digital stores are the main link, with

physical stores being relevant for some consumers that still use those (Vaudour & Heinze, 2020).

The Customer Relationships highlight the relationship between the developers and the community that use their products, for the case of GaaS games, this is a very relevant pillar of this business model, because are constantly being updated and changed, and developers need to take into account the player's opinions and wishes, which some developers are proactively doing so, namely in platforms such as Reddit, an open discussion and content sharing website (Vaudour & Heinze, 2020). Developers often communicate unofficially to their community some upcoming developments and changes that are being addressed, which boosts morale, loyalty and engagement from the community.

The Revenue Stream is structured through the various types of monetization options that we analyzed previously, namely microtransactions, subscriptions, advertising and season passes. The Key Resources are assets that are vital to create GaaS games, such are physical (studio facilities), intellectual (powerful software to make a sophisticated product), human and financial (finance workers and distribution) assets (Vaudour & Heinze, 2020).

The Key Activities essential to the GaaS business model include efficient software development and an effective design and marketing.

The Key Partnerships are also important, particularly on the cost structure. Partnerships include all relations between participants such as publishers, developers, distributors and producers (Kerr, 2006). In this business, there can be exclusive partnerships that can be relevant in order to gain a competitive advantage over new entrants and existing competitors, and securing software suppliers, distributors and publishers with legally binding contracts can have a positive impact on the cost, namely by controlling the risk of unexpected costs (Vaudour & Heinze, 2020).

Some noteworthy impacts that the GaaS business model has had on the videogames industry is primarily the difference in the cost of a project (Vaudour & Heinze, 2020). Today, developers can launch an unfinished game and through communication and feedback from its community, adapt it and perfect it on the following updates accordingly. Vaudour & Heinze (2020) argue that it is vastly less expensive to launch an update than to launch an entire new game, and with the insertion of purchasable content in the virtual stores with each update, it can supply a sustainable inflow of revenue for the developers and publishers.

The GaaS also affected player engagement and loyalty, survey data shows that respondents felt like they were listened to and developers took into account their wishes when making new content and altering current content (Vaudour & Heinze, 2020) as well as the preference for the longevity of GaaS games. The potential longevity of GaaS can extend for years as long as there is player engagement and a large enough community to service, players can invest financially and emotionally on their game and game characters on the long term (Routledge, 2016).

With this new business model, it means there are less games being played simultaneously by players but there is also less need for them to be produced (Wardyga, 2018), developers need only to invest in their single most successful game and have consumers reach a state of emotional loyalty due to time spent on the game as well as a social sense of belonging, commonly resulting from friendships made during gameplay and communities established externally or internally between groups of players where they socialize and discuss themes related to the product.

As we’ve gathered, the most popular form of monetization of GaaS, is the MTX model. It’s an essential pillar to the success of this business model, for it enables an unprecedented customization of the experience for each consumer (Tomic, 2017). For example, gamers who lack the time to play or simply prefer to skip certain

parts of the game, often have the option to pay a specified amount of money to attain the results that they would otherwise have to "grind" for. The underlying value of this type of monetization for the consumers lies in the flexibility and adaptability that it provides for their gameplay experience.

There's also the relevant discussion regarding the sustainability for GaaS and the MTX as a business model, today, players demand more and better content for less money. Some consumers use the term "exploitative" and "greedy" when it comes to developers and publishers choosing which content should be paid for, who charge the majority of their content through microtransactions (King & Delfabbro, 2018). For the risk of falling into a "pay-to-win" environment of gameplay (which favors gamers with a higher disposable income) or the fact that a player can't enjoy a full game without having to endure potentially large purchases to unlock premium content.

With this way of making business, there are certain procedures to ensure a successful and smooth transition from the starting position of a project launch to a steady and sustainable business operation. For this purpose, Vaudour & Heinze (2020) defend the importance of fostering *Goodwill* from customers through minimum viable services (MVS) which in short comprehends a service with enough range to satisfy enough customers that justifies its proper development. MVS's are not only applied to videogames but to the SaaS business model as well, when launching new business venture developers need to supply their users with enough functionality and quality of service to meet their needs before they consider starting to pay for the service.

Another important practice with GaaS and SaaS business models include a transparent and informative cost communication for any specific purchase for the consumer (Kerr, 2006). The customer needs to be informed proactively by the company on the detailed amount of value it will receive for the amount of money it will be exchanged

for. Therefore, by making sure that the customers don't feel cheated and misinformed when making a microtransaction, the company consequently cultivates *goodwill* and customer loyalty. Failure to deliver this transparency can result in turning consumers away before even making a purchase.

Lastly, game developers and publishers should try to aim for having multiple and simultaneous monetization forms in their product, if possible, without crossing a threshold of being considered predatory and greedy towards their consumers (King & Delfabbro, 2018). By coordinating the effective and adaptable monetization practices that we've analyzed like microtransactions, season passes, and subscription services (in a single game) can make for a few balanced and profitable revenue streams for the company while providing a flexible and enticing virtual store rich with premium purchasable content.

4.3.4 Conclusions and Defining Facts

Although there is no officially recognized definition of the term microtransaction (MTX) to date, according to Gusmão (2019) a microtransaction is characterized by the location of where it occurs: inside the videogame software, typically an in-game store menu and it is also identifiable by the digital nature of the value exchanged: monetary value for virtual goods.

Zendle (2020) separates microtransactions offers into three main categories:

- Cosmetic microtransactions: they exclusively provide an aesthetic change for how an element of the game is visually displayed.
- "Pay to win" microtransactions: the virtual goods attained by this transaction provide the consumer with a higher success rate within the game and an immediate advantage in a competitive context.

- “Loot boxes”: this transaction provides a group of virtual items, in a randomized reward of uncertain value. It’s characterized by the concealed contents of the reward, the multiple items awarded at once and the randomized value of each item inside the reward. The virtual items themselves are not obligated to be of a cosmetic or pay to win category.

Today, videogame developers are turning to the MTX business model for its potential to generate continuous revenue after game release and for the reduced cost to generate content for posterior in-game purchases, as opposed to the cost of developing and publishing a whole new game (K. Azin, 2020).

Routledge (2016) brings light on the term “freemium”, which is used to describe videogames that are available for free or at a symbolic amount, that later reach profitability through the MTX business model. This business strategy is especially adequate for independent and smaller game developers that cannot afford to properly publish their games in the most popular platforms, and can’t charge the same prices as their larger competitors.

Some freemium games thrive on microtransactions, currently two of the most profitable games in the market: Fortnite (Epic Games, 2017) and League of Legends (Riot Games, 2009) are entirely free to access, and only offer cosmetic microtransactions (C. King, 2017).

The videogame developers and publishers profiting from the sales of microtransactions are considered digital enterprises for the digital platform of their operations. Mark Skilton (2015) describes digital enterprises as “a form of organizational structure with a legal basis, enabled by technologies to provide physical or virtual products or services (…) and virtually operate monetization mechanisms that generate social and financial value, worth in one or more digital economies”.

With the general monetization structures based around microtransactions, some monetization strategies can be called “unfair” for the consumer, even considered predatory regarding a fair transaction of monetary value exchanged for content delivered.

King and Delfabbro (2018) describe predatory monetization strategies as “(…) purchasing systems that disguise or withhold the long-term cost of the activity until players are already financially and psychologically committed”. This avaricious type of strategy is referred to as a “predatory monetization scheme”, because it disregards the transparency towards the consumer in the marketing efforts, promising an appealing game with a vast content available to enjoy, however once the purchase is finalized, the consumer soon realizes that the access to the most appealing content is discretely inaccessible without incurring in further and substantial in-game purchases.

Another relevant practice that can discretely fall into a predatory practice if poorly managed is the loot box microtransaction. As we’ve seen, the loot box delivers a random group of virtual items with varied value (King & Delfabbro, 2018) and with this system, a videogame can position its reward supply in a way that could entrap players to potentially buy several loot boxes in order to obtain a specific virtual item of their preference.

For reference, Wardyga (2018) argues that the loot box microtransaction resembles the mechanism of a gambling slot machine, as they require no skill and return a randomly generated prize. It is possible to attain the highest valued prize from a single transaction, but the chances for that to happen are highly unfavorable for the consumer, which in turn greatly benefits the company at the expense of the consumer’s compulsive gambling behavior to keep trying for its preferred virtual item (Wardyga, 2018).

The main point to retain from Vaudour & Heinze's (2020) research is their revision of the games-as-a-service (GaaS) business model. This system doesn't require the physical sale of a product or a license, instead it supplies the user with its services, meeting the needs and preferences of consumers digitally. It is important to understand that the success of this business model originates from its priority to delivery, timing, transparency towards consumers and creativity (Routledge, 2016).

Accessing videogames today is easier than ever, due to the digitalization of the videogame industry. The initial investment that developers needed to incur to publish and distribute a videogame is no longer an issue. Routledge (2016) argues that developers now need to turn their focus to game development and consumer preferences in order to create consumer demand and engagement, enough for them to spend money on freemium games.

Vaudour & Heinze (2020) made the point that from a business standpoint, it is no longer required to create a sequel for a videogame to create additional revenue longevity from a franchise. With the GaaS model, developers can keep updating the videogame content, selling it through microtransactions and strategizing its delivery in the most profitable way.

This business model greatly reduces operational and logistical costs of initial development, marketing, publishing and distribution, but the game development now represents an ongoing effort from the company, with the added pressure that the product will only remain profitable if consumers remain engaged, and the consumers will only remain engaged if their expectations are met (Gandia & Brion, 2016).

Wardyga (2018) brings light on the issue that with this new established business model, there are less games being played simultaneously by the same players in the market, which in turn reduces the need for the market to produce more videogames.

Developers now need to invest in their most successful franchise and focus on consumer attraction, engagement and consumer loyalty.

Tomic (2017) states that an essential pillar to the success of the GaaS business model is the MTX monetization method. Its unprecedented customization potential for the experience of each consumer is what makes the MTX model so successful. For example, players who lack the time to play a longer part of a videogame level, can now have the option to pay for the immediate results that they would otherwise have to spend their time on.

Lastly, Kerr (2006) makes the case for the importance of transparency towards consumers, specifically regarding the cost of a purchase and the realistic value exchanged. By confirming that the consumers aren't misinformed and don't feel cheated, the company is fostering *goodwill* and consumer loyalty.

If possible, game developers should aim for multiple and simultaneous monetization methods in their franchises, without being predatory towards their clients, by coordinating effective microtransaction variants adequate for a specific type of game, developers can reach stable, sustainable and profitable revenue inflows from a single franchise (King & Delfabbro, 2018).

4.4 Critical analysis of the survey results

In this chapter there will be a critical analysis and concluding deductions taken from the end results of the statistical data from the survey, located in the chapter 2.1 and the "Annexes" section. The collected data will allow for an enhancement or rebuttal of the theories and findings of the authors invoked in this study, regarding the matters of videogame consumers, videogame consumption, videogame content purchases and consumer preferences on microtransactions.

It's relevant to mention that this pedagogical survey is of a qualitative nature, performed with the intent of adding to the

foundation of theoretical and practical materials needed to create this case study. It is not an established market study with a complete advanced statistical analysis.

The following subchapters will highlight the main conclusions from the most relevant results of each subsection of the survey: consumer profile; contact with the videogame industry; videogame purchases and spending; and microtransactions.

4.4.1 Consumer profile

As previously stated, this section was meant to draw a demographic division of the respondents of this survey, and it accomplished this purpose. With an international distribution, the 472 respondents were mostly male (82%) which plays into the findings of past research by Griffiths et al (2004) with younger males being more likely to consume videogame products. The majority were young adults as 73% were 30 years old or less which still left 121 respondents between the ages of 30 and 55, which is somewhat unexpected as it deviates from the average consumer age of 28 years old according to the research of Griffiths et al (2004).

Another relevant statistical fact is that the most frequent answer to the occupation of respondents was that they were full-time workers (49%), followed by students (36%). The available disposable income of respondents focused on the medium (62%) and low (23%) categories, which is expected as videogames are not considered luxurious commodities.

The findings from this section reinforce the findings of the psychological study performed by Heiden et al (2019) which correlates videogame consumption and negative psychological functioning. In short, this study found that there was a negative correlation between excessive videogame consumption and healthy psychological functioning (i.e. empathy, affectivity, self-esteem, among others). Moreover, the statistical data collected from the results of this survey regarding respondent's occupation, education

and financial status aids to invalidate the notion that avid videogame consumers are mostly teenage males associated with antisocial behavior, problematic videogame consumption and unhealthy habits.

According to research videogame consumers are more likely to be male adult citizens but their videogame consumption has no direct relation to their productivity, culture and education (Heiden et al, 2019).

4.4.2 Contact with the videogame industry

This section aided to enrich the consumer profiles of this sample, acquiring a better understanding on how a group of individuals of varied backgrounds have contact with the videogame industry. To no surprise, of the 472 respondents, only 7 did not have any contact with videogames to date, and only 26 respondents not currently play videogames. Regarding the frequency of which respondents play videogames, 44% play every day and 42% play regularly (i.e. when free time is available), the survey did not inquire respondents on hours of play per day to uphold simplicity. This highlights the importance in the videogame industry to attract and retain consumer engagement according to Fields & Cotton (2011) “As a rule of thumb, the longer players remain engaged, the more likely they are to spend money”.

The majority of respondents used the console platform to enjoy videogames (24%) followed by a close majority (23%) who preferred all 3 available platforms: console, mobile and PC. The recorded diversification on platforms used by videogame consumers supports the legitimacy of the business strategy used by Activision Blizzard regarding their focus on growth, diversification and expansion, as documented by Lev-ram (2017) in an interview with Activision Blizzard’s CEO Bobby Kotick.

4.4.3 Videogame purchases and spending

The recorded results from this section add to the knowledge on consumer spending behavior regarding videogames and videogame related content. The results showed a positive inclination for consumers to spend money on videogames and videogame related purchases, for themselves or others, accounting for respondents who don't play videogames themselves but might purchase them for others.

When asked if they had spent money on a videogame, 96% of respondents responded positively and again regarding purchases for others (81%). When asked about videogame related purchases (i.e. in-game purchases) 24% of respondents did not partake in microtransactions, but the most frequent response regarding the spending habits of respondents was to occasionally spend money on a videogame that they really enjoy.

Once more, the general conclusion from the respondent's answers can be linked back to purchases motivated by interest and engagement. The findings of the research done by Vaudour & Heinze (2020) have revealed that the most profitable and most used business model for online videogames today is the GaaS system, this model is purposely adjusted to provide consumers with the highest accessibility and ease of purchase, as simple as the click of a button. The collected data from the survey and the conclusions from Vaudour & Heinze's research both indicate that even with all the logistical optimization of the purchase process, the primary cause for consumer engagement is content that meets expectations. Consumers will ultimately only incur in spending if they feel motivated to do so, as respondents stated, "If they really enjoy" the videogame they're playing.

4.4.3 Microtransactions

Lastly, the data collected from this section sheds light on the matters specific to microtransactions, namely, the respondents

preferences regarding the types of microtransactions, how many games they play that use microtransactions in their monetization methods and how much money they have spent on their in-game purchases.

Starting with the presence of microtransactions and season passes in videogames played by respondents, of the 444 respondents only 15 answered that microtransactions were not available in any videogames they play. This aids the cumulative findings from the research presented in this study that argues in favor of microtransactions being the new normative revenue generating business model in the videogame industry. This data aids the claims made by Zendle et al (2020) regarding the presence of microtransactions in videogames: “games which do contain loot boxes such as DOTA 2 and Player Unknown’s Battlegrounds may be so popular that, whilst the minority of games may have loot boxes, the majority of gamers are exposed to this feature”.

During the last 12 months 68% of respondents have purchased a microtransaction and 48% have purchased a season pass offer, during the same period, 35% of respondents answered that the sum of money spent in microtransactions was between 50 and 200 euros, however, only 8% of respondents spent that amount on season passes. Chatterjee & Rose (2012) performed a study on how payment mechanisms could alter the perception of products by consumers, and, in their findings, they could contest previous research that assumes product perception and payment methods are mutually exclusive. The research findings of Chatterjee & Rose (2012) and these results from the survey data demonstrate that different payment methods and differently assembled product offers (i.e. season passes and loot boxes) can increase or decrease attention from product benefits to product costs, altering the consumers price elasticity of demand (Marshall, 2012).

Finally, the feedback given by respondents regarding their view on cosmetic, pay to win microtransactions and season passes did not

come as a surprise taking into account the general consensus among videogame consumers and the findings of previous research. The majority of respondents felt impartial towards cosmetic microtransactions and season passes (approximately 40%) as the following most frequent answer was an equal draw between “somewhat negative” and “somewhat positive” (approximately 20%). To no avail, when asked about the presence of pay to win microtransactions in videogames, 72% of respondents felt “very negative”.

The feedback given by respondents regarding these three specific monetization methods affirms the research findings from Zendle et al (2020) where they suggest that pay to win microtransactions are increasingly more unpopular in videogames for reasons explored in the 1st chapter of this study, moreover, cosmetic microtransactions and season passes are recorded to have become more available in the majority of popular videogames as early as 2014, indicating a steady and gradual growth resulting primarily from positive consumer response.

4.5 Animation plan

LECTURE	OBJECTIVES	ACTION PLAN	TIME
1st lecture	To raise awareness to the case and prompt the interest of the class	Case study distribution by the students; Presentation of the case study and brief summary; Introduction of Activision-Blizzard, Inc and their business overview; Introduction of the mtx business model and videogame monetization, highlighting the case study's relevancy in the digital economy; Highlighting the case study's relevancy in the digital and global economy by using financial metrics; Separating the class by work groups (3 elements)	**60 min**
Homework	Learning consolidation and case resolution	Individual study of the research findings available in the case study; Further additional study from the main research authors (Zendle, Vaudour & Heinze, Tomic, King & Delfabbro); Group discussion and critical analysis of the study; Colletive resolution of the delivered questions	**120 min**
3rd lecture	Presentation of the practical questions regarding the company and the survey results	Brief summary of the topics approached thus far; Presentation of Activision-Blizzard, Inc: company, history and current state of business overview; Presentation of the case study survey's purpose, questions and results; Delivery of the remaining questions regarding Activision-Blizzard, Inc	**60 min**
Homework	Learning consolidation, further research and case resolution	Individual consolidation of the topics analyzed thus far; Individual study of materials regarding Activision-Blizzard, Inc and the survey's findings; Further additional study related to the company (annual reports, interviews and articles); Group discussion and critical analysis of the survey findings; Collective resolution of the delivered questions	**120 min**
4th lecture	Case study resolution presentation and class discussion	Student powerpoint presentation of their resolution group work (30 min); Student recommendations for the future of Activision-Blizzard, Inc; Student critical analysis of the findings and limitations of the research regarding monetization methods and business strategy of the modern videogame industry; Professor and class evaluation of each presentation (5 min)	**180 min**
	Assessment	Case resolution (60%) + presentation (30%) + recommentations/critical analysis (10%)	
Final lecture	Learning consolidation and case resolution	Presentation of the best resolutions for each question; Final recommendations and limitations of each group work; Open general discussion with the class	**45 min**

4.6 Animation questions

- How much revenue do you estimate the videogame industry generates per year?
- Have you heard of Activision-Blizzard, Inc? How? Have you enjoyed any of their videogames?
- In your opinion, what should be the main focus of videogame development? What would ensure a videogame franchise to become successful?
- Upon reading the case study, what would you say are the main monetization methods and most common business model in the videogame industry today?
- What is the source of Activision-Blizzard's success and how have they remained relevant?
- What was the main limitation of the performed survey? What relevant inquires could have been added?

4.7 Case Study Question Resolution Propositions

In this chapter will be displayed the adequate and pursuable answers to the proposed questions. Some questions have more than one suitable answer, particularly regarding the examples required, permitting some space for interpretation and creativity. Nevertheless, the materials provided in this study and the research findings from the legitimate sources used to perform this study should suffice to reach a clear answer to each of the proposed questions.

4.7.1 Is the microtransaction business model a sustainable videogame monetization model? Please provide an example to support your answer.

The direct answer to this question is yes. Specific to this case study, this answer is supported by a number of research findings,

statistical data from the survey and financial metrics of the videogame industry as well as the company analyzed in this study.

The microtransaction business model has proven to be the most profitable monetization method, relative to its underlying costs, in videogame history. As documented by Tomic (2019) during the first two decades of the 21st century, the videogame industry was saturated with the overproduction of videogames comparative to demand, primarily due to the growing number of educated information and communication technologies (ICT) experts which created larger and numerous development efforts. In turn, with rising offers and steady demand, developers were forced into incurring large costs with publishers to obtain favorable terms in their publishing contracts.

To escape this unsustainable environment, development teams turned to the internet to publish their videogames, using direct free distribution, distributors could then lower their prices and change their publishing strategies to even make the videogames available for free, with additional content being charged posteriorly (Tomic, 2017). From this moment on, the potential revenue to be made from a videogame was not limited to the number of copies sold at a maximum price of $60 each (the psychological price at which publishers don't go over in the videogame industry), but was extended by achieving economies of scale and the sale of additional content beyond the core videogame, all made possible through the microtransaction business model.

From a financial standpoint, there has been multiple recorded growth metrics from 2010 to 2020 in the global videogame market. Using the example of Activision-Blizzard, in their 2017 annual report, it's stated that more than half of revenue came from microtransactions. The company generated 7.16 billion USD in revenue, with 4 billion USD stemming from microtransaction variants (Activision-Blizzard, 2017). As documented by Gilbert (2020) videogame revenues in the United States of America have

risen from 17.5 billion USD in 2010 to 29.1 billion in 2017, having a recorded two thirds of sales occurring in physical media in 2010, currently shifting to digital media. This recorded exponential growth in revenue transpired at the same time as the MTX model became progressively present in videogames, which argues in favor of the financial sustainability of the microtransaction business model.

Moreover, the results from the performed survey in this study add to the argument of sustainability regarding the MTX model, as 97% of respondents have stated that at least 1 of the games they play have microtransaction offers in their monetization systems, and, more than half of respondents have incurred in microtransaction variant purchases in the past 12 months. The direct feedback from respondents on cosmetic microtransactions and season passes had a majority of neutral to positive results, with only pay to win microtransactions being negatively received, both results stemming from consumer preferences on their gameplay experience. These results speak to the economic sustainability of the MTX model, specifically supported by responding to current consumer preferences.

4.7.2 Considering the current direction of the videogame industry and consumer preferences, is Activision Blizzard's business strategy viable for the long term? Deliberate on its advantages and disadvantages.

The business strategy used by Activision Blizzard is clear: expansion, diversification and ownership. It has been stated by Activision Blizzard's board of directors that the main drivers of the company's position as a leader in the videogame industry are their well-planned strategies for sustainable growth in consumer products, as well as their long-term strategies of expansion and diversification in the new and upcoming markets of the industry, such as e-sports and the TV and film media (Lev-ram, 2017).

In an interview with Wardak (2019) Steve Young, the president of the consumer products division at the company, stated: “Activision Blizzard has a portfolio of some of the world’s most beloved franchises, and our aim is to work with world-class partners that enrich our fans’ experience around the world”. This statement speaks to the company’s largest asset, their franchises.

As documented in Activision Blizzard’s annual reports, in 2020, 76% the company’s net revenues were made by the Call of Duty, World of Warcraft and Candy Crush franchises. The company’s strategy has been to fully and financially lean into meeting consumer demand for these franchises, investing in their development, growth and marketing which has proved to be a successful strategy thus far according to Activision Blizzard’s reports. This strategy however is not one without risk. The obvious risk with having 76% of revenue stemming from 3 franchises is the sizeable damage that it can cause to the company’s bottom line, should one or more of those franchises fail to generate the projected results. In an industry with fast changing consumer preferences and relevancy motivated by novelty and popularity, this is not a minor risk in the long-term financial security of the company.

In an interview with Lev-ram (2017) Atari cofounder, Nolan Bushnell, indicated: “The financial strategy for these big blockbusters can lead to things getting stale because you want to do Rocky No. 247 instead of innovate … But entertainment is ultimately about novelty.” and Activision Blizzard has been criticized for excessively finding new ways to further monetize their best-selling franchises instead of creating new consumer products. However, the results speak for themselves, and revenues from these franchises have only risen with consumer demand, as the company keeps breathing new life into these franchises, even if not fully optimized for consumer satisfaction when it comes to price and paid content (Lev-ram, 2017).

Regarding the company's long-term strategy beyond their operating revenue, their current success is largely attributed to their CEO. Bobby Kotick is the infamous creator of Activision Blizzard's 45 billion USD market cap (Lev-ram, 2017) who stands by his strategy of prioritizing growth, ownership and diversification of sources of revenue. In the 26 years that he has acted as the company's CEO, the company has continuously acquired and partnered with other game development companies, distribution experts and marketing firms, still expanding its franchises by currently operating 17 development studios around the world.

One of the primary sources of Activision Blizzard's competitive advantage comes from Kotick's strategy of maintaining relevancy through constant growth and acquisition of talent to aid this effort. As Tom Staggs, the former CFO of Disney stated in an interview: "The approach he is taking leads them down a road similar to the one Disney has been on in the last 15 years or so" (Lev-ram, 2017). After Staggs left Disney, he was hired by Bobby Kotick as a consultant to aid in the execution of his strategy.

While Activision-Blizzard generates the majority of its revenue from their franchises and operational activity, Bobby Kotick works a long-term strategy to position the company as a mainstream entertainer (Lev-ram, 2017). Through advantageous and substantial talent acquisitions in the industries of which the company plans on investing, such as Stacey Sher, a producing partner of Quentin Tarantino, who is now the acting co-president of the company's TV and film department. According to reliable news sources and the company's accounting reports, Activision Blizzard's long term strategy has proved to be successful thus far, even if accompanied by serious underlying risks.

4.7.3 "The microtransaction and the GaaS business models are complements of each other and are not mutually exclusive."

Based on the materials provided, comment on the legitimacy of this statement.

The games-as-a-service (GaaS) business model is defined by Vaudour & Heinze (2020) as a virtual provision of a product's services, without the need of its physical or digital sale, where developers meet the needs of consumers through the use of the internet. The microtransaction business model has no official definition to this day, but various authors have accurately described its premise, namely Gusmão et al (2019) who describes the MTX model as a virtual offer of additional content within a videogame available for a monetary price, in order to create longevity and additional profit potential to a finished game.

The standout advantages to the GaaS model start with the flexibility of access for consumers, and distribution for developers. With the GaaS model, players are now able purchase a videogame from the comfort of their homes at 3am on a Sunday (Gilbert, 2020) and developers don't have to incur in physical distribution costs. Moreover, from a business standpoint, with the GaaS model, developers don't need to invest in multiple projects to create additional revenue as a videogame becomes virtually everlasting since the developers can keep updating it to provide new marketable content with its continuous service provision system.

The monetization method used in the GaaS system is, primarily, the MTX model, since the GaaS provides players with direct access to the game (potentially for free in the case of freemium games) the revenue generation comes from limiting access to select content with a monetary price. Although it can't be stated that this is the only monetization method used by the GaaS system, for example, Activision Blizzard's World of Warcraft (2004) uses the GaaS system, providing the users with full access to the game for a paid

monthly subscription amount of $14.99 USD (Activision Blizzard, 2021).

Financial writer Julie Young (2021) defines mutual exclusivity as "(…) two or more events that cannot happen simultaneously (…) where the occurrence of one outcome supersedes the other". To this effect, it would be incorrect to define the MTX and GaaS as mutually exclusive, yet, they are not entirely dependent of each other, as one event can occur without the other (Vaudour & Heinze, 2020).

Given that the GaaS has to use at least a variant of the MTX business model in order to generate revenue and fully serve its purpose, a more accurate statement would be that the MTX business model is a complement of the GaaS model, yet the two are not mutually exclusive. Moreover, they are not strictly dependent of each other yet they have a positive correlation, as there is a high chance that the MTX model will be found in a videogame using the GaaS model.

4.7.4 Is the microtransaction business model applicable to any videogame product?

To adequately answer this question there needs to be an association between the most popular types of microtransactions and their appropriate game genres.

For the purpose of this question, we can limit game genres by freemium multiplayer games and blockbuster (AAA) single player games. Civelek et al (2018) define freemium videogames as free games accompanied by microtransactions to provide revenue for developers and additional premium content for players who can spend money instead of time to attain it. Phil Tan (2019) documented the term "AAA games" for the large budget blockbuster videogames developed by leading companies like Sony and Electronic Arts.

The research findings from Zendle et al (2020) study on loot boxes, pay to win and cosmetic microtransactions shows that, in

recent years, while the popularity of loot boxes and cosmetic microtransactions has been on a steady gradual growth, pay to win microtransactions' popularity has declined to an increase in exposure not significantly greater than zero.

The conclusions regarding this matter from the authors used in this study form a general consensus towards a positive and adequate placement of loot boxes and cosmetic microtransactions in videogames that need the additional funding to remain active or in videogames where they periodically update new content to keep players interested (Civelek et al, 2018). For example, Fortnite (Epic Games, 2017) as of March 2019 had generated more than 1 billion USD in cosmetic microtransactions alone and still had a steadily growing playerbase of 250 million registered players (King & Delfabbro, 2020).

Zendle et al (2020) provide a clear perspective on the controversial aspect of pay to win microtransaction and the reason for their declining popularity and exposure in videogames today. The presence of pay to win microtransactions in multiplayer games has nearly vanished due to explicit consumer rejection of this MTX variant in a competitive context because it effectively changes the nature of the competition in the multiplayer genre from who can play the best to who can pay the most. Controversies over this type of monetization has led to developers refusing to include them in their videogame design, for example, Phil Tan (2019) documented the case of the single player AAA game Middle-earth: Shadow of War, released by Monolith Studios in 2017, where after the game was released, players voiced their negative criticism towards the presence of microtransactions in such a way that developers had them removed from the game entirely.

However, even if they are heavily criticized, pay to win microtransaction can serve a meaningful purpose, especially in single player videogames. Zendle et al (2020) use the example of Assassin's Creed: Odyssey, a single player AAA game released by

Ubisoft in 2018, where they offered the option for players to purchase a time-saving microtransaction that would enable them to level up more quickly. While not affecting any other aspect of the game and not depriving other players of their enjoyment of the game as originally intended, it did provide an optional and useful service for consumers who valued this offer.

The answer to this question is complex, as the microtransaction business model is seemingly the new norm of monetization of most popular videogames today, especially for independent companies that need the funding to remain profitable, but larger developers who thrive on investor and stakeholder funding don't need to resort to the MTX model for financial security (Phil Tan, 2020).

When it's the case of harmless optional cosmetic microtransactions, even in a single player context, the risk of negative feedback from players is expectedly low. However, in the case of pay to win microtransactions, developers need to be careful when deciding to use this MTX variant due to high risk of controversy and backlash from consumers, like the case of Monolith in 2017.

Ultimately, the microtransaction business model is possible to apply to any videogame, but the expected results of that choice of monetization are up to the consumer who decides to purchase in-game offers or not, and if the presence of those microtransactions will negatively alter the consumer's experience with the product.

4.7.5 Imagine that Activision Blizzard aims to develop a project to reduce dependency on their limited portfolio. Based on this goal, suggest a specific approach to achieve this objective.

As stated in Activision Blizzard's 2020 annual report: "Due to this dependence on a limited number of franchises, the failure to achieve anticipated results by one or more products based on these franchises could negatively impact our business." To mitigate this risk, the company has commented on their plans to expand their

franchises to new upcoming platforms like mobile gaming which the cost of development is significantly lower and the revenue potential is high, if the consumer interest matches the projected demand.

This measure however creates another risk which does not secure consumer engagement, given that different game genres create different types of player profiles with different consumer preferences. Investor's Business Daily newspaper writer Patrick Seitz (2018) wrote an article regarding the backlash resulting from the announcement of a product for the mobile platform from the Diablo franchise. Long time avid consumers who have enjoyed the franchise in its original personal computer platform since 1997, were hoping for a sequel to the franchise and instead were extremely disappointed with the inconsistent direction that the company went with this franchise (regarding consumer expectations), even booing the announcers on stage.

To the effect of this question, there is another direction that the company could pursue which would remain consistent with their operating business strategy and leading product quality. This project would expand Activision Blizzard's franchises to a new and unexplored videogame genre for the company, specifically, a fighting videogame.

Next Generation Magazine's Lexicon (Next Generation, 1996) defines fighting games as a videogame genre based around close combat between a small number of characters, in a limited space, where they fight each other until one opponent is defeated or the time expires. This project would utilize their existing patented videogame characters from their many franchises, from both Activision and Blizzard's portfolio, to develop a simple fighting videogame with a roster of fighters from their beloved and familiar franchises. As Wardark (2019) recorded in an interview with Steve Young, the president of the company's consumer products division: "Activision Blizzard has a portfolio of some of the world's most

beloved franchises, and our aim is to work with world-class partners that enrich our fans' experience around the world".

In a financial perspective, this project would have a substantial up-front development and marketing cost, as expected of a prominent product made by Activision Blizzard, however, with a tactical monetization system and sufficient consumer acceptance this project could yield enough revenue in the short and long term to mitigate the company's dependence on their three leading franchises.

From a design standpoint, this videogame is perfectly suited for cosmetic microtransactions, loot boxes, season passes, in a freemium model or even a purchasable digital copy made available through the company's platform (Battle.net), among other strategies of monetization like limited seasonal cosmetics and content bundles, for example, a Christmas bundle featuring winter themed appearances for the characters. To keep consumers engaged, beyond the pre-launch marketing efforts, this project could thrive on regular content updates, player ratings, tournaments for additional rewards, among others.

From an economic standpoint, the company would gain an unexplored segment of consumers from the fighting game genre, as well as renew the interest of existing fans of the franchises who can now enjoy a new and innovate product. The design, delivery and monetization of this videogame would align with the company's standard of leading game quality, franchise expansion and high profit potential without compromising the fair gameplay experience for the players.

With a successful accomplishment of this project, the consumer engagement would lift the revenue potential of this videogame to point of potentially reducing dependency of the company's revenue on the three best-selling franchises.

4.8 Case Study Question Resolution Slides

A STUDY ON MICROTRANSACTIONS

THE CASE OF ACTVISION BLIZZARD

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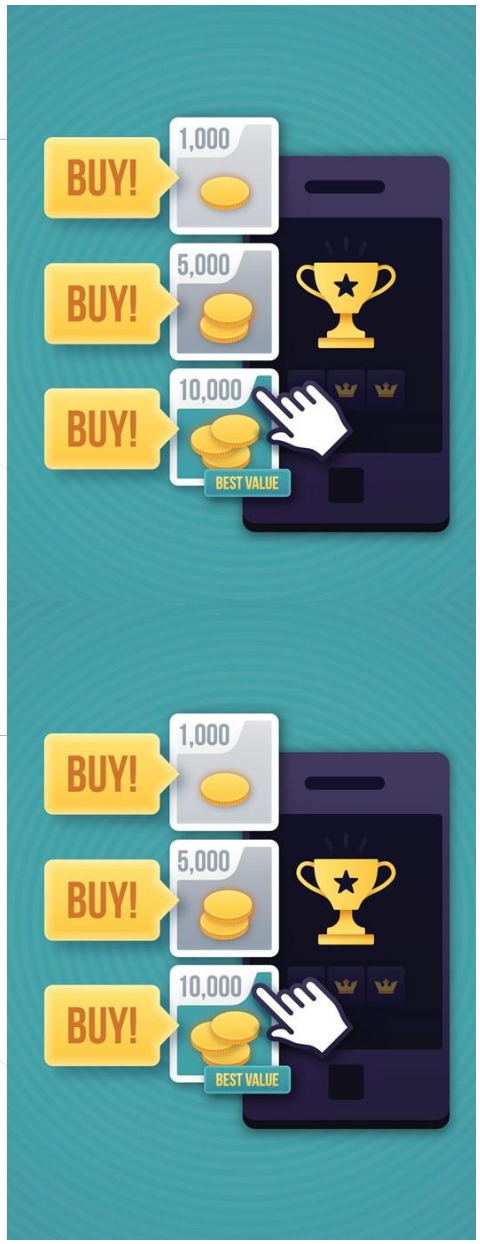
01. Case Study Context

Currently, the profitability of the videogame industry is at an all-time high.

The majority of revenue being generated by videogame publishers come from digital in-game purchases, known as microtransactions, which offer in-game content in exchange for a monetary fee.

The microtransaction business model has triggered a complete remodeling of the business strategies used in the videogame industry.

This study aims to document the impacts of microtransactions on the various aspects and stakeholders of the videogame industry.



01. Case Study Context

Gusmão et al (2019) defines microtransactions as anything you pay extra in a video game, after the initial purchase. The value received for the purchases lie in unlocking specific features or content, that were previously inaccessible.

They have no limit to the monetary fee charged, but they're commonly designed around small values at a time.

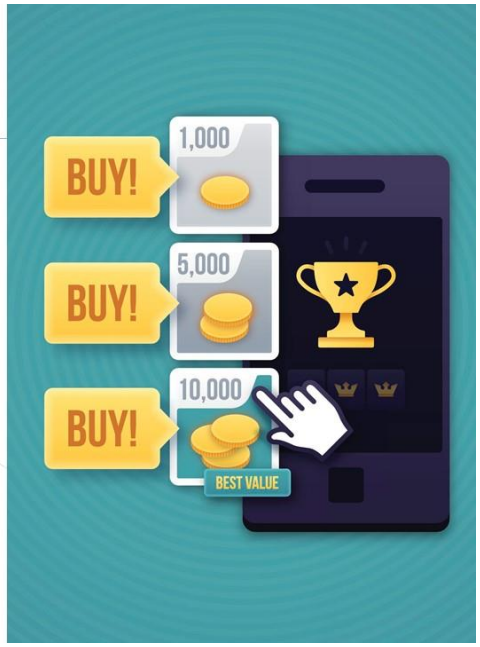
The content sold has various types and the transaction itself can take several designs.

01. Case Study Context

The microtransaction model first came into practice around 2007 by independent developers, or indie studios, who lacked the funding to participate in the traditional costly production process of the videogame business.

They turned to the internet to directly distribute their videogames and subsequently charge consumers for new content.

Today, microtransactions account for the majority of revenue made by the largest videogame companies in the industry.



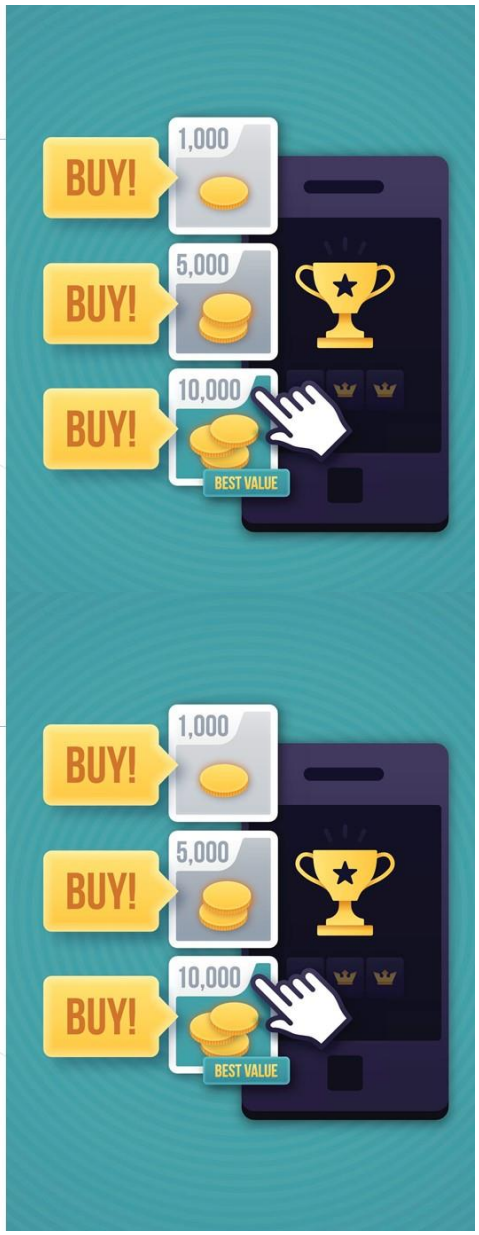
01. Case Study Context

The three main types of content sold in microtransactions are cosmetic, pay to win, and loot boxes.

"Cosmetic", exclusively provide an aesthetic change for how an element of the game is visually displayed.

"Pay to win", positions the consumer with a higher success rate within the game and an immediate advantage in a competitive context.

"Loot boxes", similar to slot machines, return a randomized reward of uncertain value. They're characterized by the concealed contents of the reward, the multiple items given at once and the randomized value of each item inside the reward.



01. Case Study Context

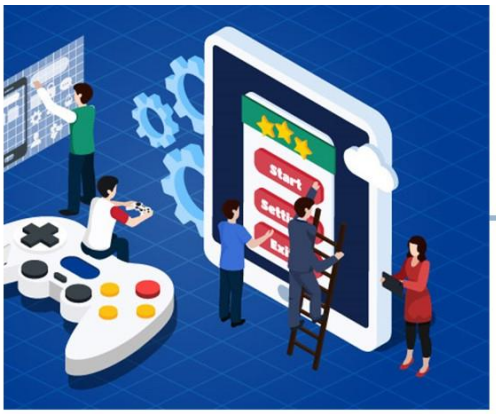
The most popular designs of microtransaction offers are Bundles, Season Passes, Subscriptions and Downloadable Content (DLC).

"Bundles", a group of items sold under a promotional price.

"Season Pass", a purchasable feature to earn additional rewards in-game during a limited time period.

"Subscriptions", a periodical fee paid to access the videogame.

"DLC", a direct addition of content to a finished videogame, available to download directly by consumers.

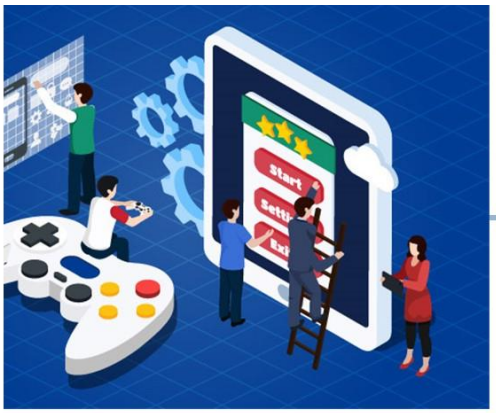


CASE STUDY CONTEXT

As of 2018, the gaming industry is valued at a 139 billion USD per year. In 2020, with the coronavirus pandemic, most videogame companies recorded an increase in revenue particularly from digital sales.

The videogame market divides into three major segments: Mobile, Console and Personal Computer (PC) gaming.

In 2020, the majority of revenue came from the PC segment, reaching 36.9 billion USD with a registered number of 1.3 billion players globally.



CASE STUDY CONTEXT

Current market trends reveal a growing popularity of “Freemium” games and the “GaaS” model.

“Freemium” is a term used for free-to-play games that charge for additional content posteriorly, through microtransactions.

“GaaS” stands for Games as a Service. It’s a term used for the digital availability of a game’s services directly to the consumer, monetized through microtransaction variants.

ACTIVISION BLIZZARD, INC

Activision Blizzard, Inc is a market leading developer and publisher of interactive entertainment content and services on videogame consconsoles, personal computers, and mobile devices.

The company’s portfolio is supported by strong videogame franchises, esports, film and television based on its franchises.

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ACTIVISION BLIZZARD, INC

As stated by their CEO Bobby Kotick, Activision Blizzard’s main business strategy is ownership, expansion and diversification.

In 2020, 76% the company’s net revenues were made by the Call of Duty, World of Warcraft and Candy Crush franchises alone.

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ACTIVISION BLIZZARD, INC

Diversified geographic presence and multiple offerings are the company's major **strengths**, whereas reliance on select few franchise for revenue remains a concerning **weakness**.

Growing global game software market and global media entertainment are likely to offer growth **opportunities** to the company. However, short product life-cycles and changes in consumer preferences, in intense competition, could prove to be a **threat**.

CASE STUDY RESOLUTION

Question 01
Is the microtransaction business model a sustainable videogame monetization model?

Question 02
Considering the current direction of the videogame industry and consumer preferences, is Activision Blizzard's business strategy viable for the long term?

Question 03
"The microtransaction and the GaaS business models are complements of each other and are not mutually exclusive."

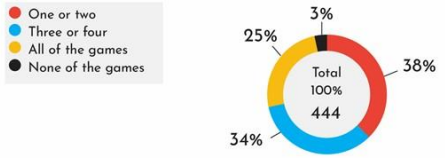
Based on the materials provided, comment on the legitimacy of this statement.

Question 04
Is the microtransaction business model applicable to any videogame product?

Question 05
Imagine that Activision Blizzard aims to develop a project to reduce dependency on their limited portfolio. Based on this goal, suggest a specific approach to achieve this objective.

Question 1

15. Of the games you play, how many offer in-game purchases or microtransactions?



16. Have you made or considered making an in-game purchase in the past 12 months?

Source: Pedagogical Survey (2021)

Argument 1 - Longevity
Transition from the traditional "1 price, 1 service" model to the progressive microtransaction model.

Argument 2 - Profitability
Revenues are no longer limited to a single sale, they're virtually continuous with new content updates.

Argument 3 - Financial Metrics
Videogame revenues in the USA have risen from 17.5 billion USD in 2010 to 29.1 billion in 2017, during the emergence of microtransactions.

Argument 4 – Empirical Examples
In 2017, Activision Blizzard generated 7.16 billion USD in revenue with 4 billion stemming from microtransactions.

The results from the pedagogical survey add to the argument of economic sustainability of the MTX model.

Question 2

Expansion and Diversification

Argument 1 - Short-term Safety
Well-planned strategies for sustainable growth in consumer products

Argument 2 - Long-term Investment
Long-term strategies of expansion and diversification in upcoming markets of the industry

Ownership

Argument 3 - Financial Assets
Activision Blizzard has a portfolio of some of the world's most beloved franchises. The company fully and financially leans into meeting consumer expectation for these franchises.

Argument 4 - Non-Operating Revenue
Under Bobby Kotick's strategy, the company has continuously acquired other game development companies, distribution experts and marketing firms.

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Question 2

Primary Risks

Argument 1 - Franchise Dependency
in 2020, 76% the company's net revenues were made by the Call of Duty, World of Warcraft and Candy Crush franchises.

Argument 2 – Unstable Consumer Engagement
Leading product positions are never assured in an industry with fast changing consumer preferences and relevancy motivated by novelty and popularity.

"The financial strategy for these big blockbusters can lead to things getting stale because you want to do Rocky No. 247 instead of innovate ... But entertainment is ultimately about novelty."
– Atari co-founder Nolan Bushnell (2017)

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Question 3

The GaaS Business Model
A virtual provision of a product's services, without the need of its physical or digital sale, where developers meet the needs of consumers through the use of the internet

The Microtransaction Business Model
A virtual offer of additional content within a videogame available for a monetary price, in order to create longevity and additional profit potential to a finished game.

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Question 3

Argument 1 - Monetization Liberty

The monetization method used in the GaaS system is, primarily, the MTX model, since the GaaS provides players with direct access to the game, the revenue generation comes from limiting access to select content with a monetary price. Although the GaaS system is not limited to use the in-app purchases as its only monetization method.

Argument 2 - Negative Mutual Exclusivity

Given that the GaaS has to use at least a design variant of the MTX business model in order to generate revenue and fully serve its purpose, a more accurate statement would be that the MTX business model is a complement of the GaaS model, yet the two are not mutually exclusive.

Question 4

Argument 1 – Pay to Win Controversy

Pay to win microtransactions in multiplayer games have nearly vanished due to consumer rejection of this MTX variant in a competitive context. It changes the nature of the competition from who can play the best, to who can pay the most.

Argument 2 – Consumer Experience

Ultimately, the microtransaction business model is possible to apply to any videogame, but the results of that choice of monetization are up to the consumers. They decide to purchase in-game offers or not, and if the presence of those microtransactions will negatively alter the consumer's experience with the product.

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Question 4

Single Player Games

- **Pay to Win Microtransactions**
  They offer the option for players to purchase time-saving microtransaction that would enable them to progress faster.
- **Cosmetic Microtransactions**
  Additional source of revenue, doesn't break the intended experience of the game.

Multiplayer Games

- **Cosmetic Microtransactions**
  Drives consumer interest and engagement, doesn't affect the game experience for other players.
- **Loot Boxes**
  Additional source of revenue, generates consumer engagement, adequate MTX offer for freemium games.

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Question 5

Problem

As stated in Activision Blizzard's 2020 annual report: "Due to this dependence on a limited number of franchises, the failure to achieve anticipated results by one or more products based on these franchises could negatively impact our business."

Proposed Solution

A new business venture that would remain consistent with the company's operating business strategy and leading product quality by expanding Activision Blizzard's franchises to a new and unexplored videogame genre for the company, specifically, a fighting videogame.

Question 5

Fighting Videogame

Close combat between a small number of characters, in a limited space, where they fight each other until one opponent is defeated or the time expires.

Portfolio Expansion

This project would utilize the existing patented videogame characters from their many franchises

Dependency Mitigation

With sufficient consumer acceptance this project could yield enough revenue in to mitigate the company's dependence on their three leading franchises.

Monetization Freedom

This videogame genre is perfectly suited for cosmetic microtransactions, loot boxes and season passes.

Consumer Market Growth

The company would gain an unexplored segment of consumers from the fighting game genre, as well as renew the interest of existing fans of the franchises.

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CONCLUSIONS

The videogame industry has gone great lengths from its traditional monetization model of "one price, one service".

With the integration of the microtransaction business model, the possibilities of the videogame business are far less costly and more profitable.

Currently, digital sales represent the majority of revenues generated by this business.

CONCLUSIONS

Ultimately, at the center of all decision-making and success cases in this industry lies the consumer.

The case of Activision Blizzard is a good example to document how important consumer engagement is.

In an industry where consumer preferences are fast changing and consumer expectations are rising, Activision Blizzard still remains as one of the leading market players whose greatest asset is their franchise portfolio.

CONCLUSIONS

The modern videogame consumer expects immediate accessibility, free-to-play games, transparent cost structures and quality products that are updated regularly with new and enticing content.

Developers today can enjoy a cost structure vastly less expensive thanks to the internet, the microtransaction model and the GaaS system.

5. Main conclusions

The videogame industry has gone great lengths from its traditional monetization model of “one price, one service” (Kerr, 2006) and its development, publishing and distribution structure based around the single sale of a physical videogame copy. With the integration of the microtransaction business model, the possibilities of the videogame business are far less costly and more profitable.

Today, the videogame industry generates more than 139 billion USD per year (Minhaj, 2019), having an impact on the world economy large enough for multiple videogame companies to be listed on the NASDAQ. Currently, digital sales represent the majority of revenues generated by this business, particularly, in-game purchases. This study’s primary goal was to elucidate the reader in the economic and financial sustainability of the main monetization model used in this industry today: the MTX model, supported by a deep analysis of the practical case study of Activision Blizzard, Inc.

To this effect, the research findings from the sources used in this study paired with the results from the performed pedagogical survey, provide the reader with a clearer view on the direction of the industry going forward regarding monetization methods and optimized revenue generation.

Ultimately, at the center of all decision-making and success cases in this industry lies the consumer. Consumer interest and engagement are what companies should aim for during the development process, for any monetization method’s effectiveness will fluctuate according to consumer engagement.

The modern videogame consumer expects immediate accessibility, free-to-play games, transparent cost structures that clearly state the level of investment needed to fully benefit from the available content, quality products that are updated regularly with new and enticing content and affordable microtransaction offers that don’t negatively impact the gameplay experience (Evers et al, 2015).

Developers today can enjoy a cost structure vastly less expensive thanks to the internet, the microtransaction model and the GaaS system. Publishing and distribution costs are extremely mitigated, particularly for independent developers, who don't need to resort to unfavorable contracts with publishers for decent consumer exposure and logistical costs for physical distribution and warehousing of videogame copies. Although the operational activities for developers are seemingly easier in today's videogame industry, there is the added pressure on production that comes with these new structures, as videogame production no longer follows a single cycle of development followed by sales and marketing efforts. With the increasingly popular GaaS system, videogame development is now an ongoing effort with continuous financial costs and constant worker pressure (Vaudour & Heinze, 2020).

The case of Activision Blizzard is a good example to document how important consumer engagement is, in an industry where consumer preferences are fast changing and consumer expectations are rising, Activision Blizzard still remains as one of the leading market players whose greatest asset is their franchise portfolio. At the helm of this enterprise is Bobby Kotick, the leader of 9500 employees around the world (Marketline, 2020) who took the role of CEO in 1991 and grew the company to its current dimension through a business strategy focused on expansion, diversification and ownership. According to Activision Blizzards annual report (2020) the company faces some risks regarding their dependency on a limited number of franchises, unstable working environment and balancing consumer engagement with increased paid content, however, efforts are in place to moderate these risks as the company further invests in e-sports entertainment, the mobile gaming segment and existing franchises.

6. Limitations and recommendations

As this pedagogical case study involved a vast research effort, there should be some mention of the limitations that restricted the betterment of this study. These limitations are related to time, resources, data precision, and ethical questions.

When performing individual research, due to the recent nature of the subjects approached in this study, there was a lack of relevant legitimate literature on the available database, particularly published books, as most of the research used in this study came from scientific journals, articles, newspapers, magazines and other legitimate sources.

The information on Activision Blizzard, Inc could have been enriched with direct contact with company personnel, especially in financial control divisions, to acquire a more precise information source than the available annual reports and published articles on the company, running the risk of the used data being biased, outdated or inaccurate. Moreover, some of topics approached regarding the practical case of this company, could have the potential to perform a separate study, for example, in the answer to question 5 in the case study question propositions: the fighting game project, would be possible to perform a business plan type of thesis to fully develop a plan for its accomplishment.

Regarding the performed survey, the organizational structure used to inquire respondents was purposely simplified to account for respondents that are not versed in videogame terminology. The survey could have deepened the microtransaction business model line of questioning when it comes to microtransaction variants and categories such as DLC, subscriptions, in-game currency, among others. Furthermore, while the survey proved to be extremely useful to depict a better understanding of consumer feedback, it could have been used to perform a fully-fledged market study with relevant KPI’s and business metrics.

Finally, for the purposes of this study, the results from the survey were not manipulated to draw additional conclusions, but it would be relevant to utilize statistical tools such as a Kolmogorov-Smirnov 1 sample test to acquire more descriptive statistical data from our sample and Microsoft Excel's pivot table function to perform additional analysis to further the documented statistical data on this subject, for example, the amount of money spent on microtransactions per respondents using a console platform.

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Annexes

Annex 1 – Pedagogical Survey questions as shown in the survey

1. What is your gender? *

- ◯ Female
- ◯ Male
- ◯ Other

2. What is your age group? *

- ◯ 30 years old or less
- ◯ Between 30 and 55
- ◯ 55 years old or more

3. Where is your current residence? *

- ◯ Europe
- ◯ United States of America
- ◯ United Kingdom
- ◯ Other: .....

4. What is your occupation? *

- ◯ Student
- ◯ Full-time worker
- ◯ Part-time worker
- ◯ Retired
- ◯ Unemployed
- ◯ Other: .....

5. How would you rate your disposable income? *

- ◯ Low
  (I rarely/never purchase anything "extra" than my necessary goods)
- ◯ Medium
  (I occasionally purchase goods beyond my needs)
- ◯ High
  (I regularly purchase goods considered as "extra" and beyond my needs)

6. Have you ever owned or played a videogame? *

- ◯ Yes
- ◯ No

7. Do you currently own or play a videogame? *

- ◯ Yes
- ◯ No

8. How often have you played or play videogames? *

- ◯ Never
- ◯ Rarely
- ◯ Occasionally *(when I am bored or have nothing else to do)*
- ◯ Regularly *(When I have free time, I often use it to play a videogame)*
- ◯ Everyday

9. What platforms do you use to play videogames? *

- ◯ Mobile *(Smartphone or Tablet)*
- ◯ Console *(Playstation, Xbox, Nintendo)*
- ◯ PC
- ◯ None
- ◯ Other: .....

10. Have you ever spent money on a videogame? *

- ◯ Yes
- ◯ No

11. Would you consider an occasion where you would make a videogame purchase for someone? *

- ◯ Yes
- ◯ No

12. Have you spent money on a videogame to access any cosmetic, advantageous or additional content? *

- ◯ Yes
- ◯ No

13. If not, would you consider spending money on such purchases, would you consider spending again? *

- ◯ Yes
- ◯ No

14. Please select the statements that best describe your spending patterns regarding videogames: *

- ◯ "I would never spend money on videogames, it's a game and there's a variety of free games available".
- ◯ "I could occasionally spend money on a specific videogame that I really enjoy."
- ◯ "If the videogame that I play releases any interesting new cosmetic or additional content, I'm compelled to have it and might spend money on it."
- ◯ "I regularly spend a considerable amount of money on videogames and additional videogame content."
- ◯ "I have or would spend money on videogames for someone who enjoys them"

15. Of the games you play, how many offer in-game purchases or microtransactions?

- ◯ None of the games I play offer in-game purchases or microtransactions
- ◯ One or two of the games I play offer in-game purchases or microtransactions
- ◯ Three or four of the games I play offer in-game purchases or microtransactions
- ◯ All of the games I play offer in-game purchases or microtransactions

16. Have you made or considered making an in-game purchase in the past 12 months?

- ◯ Yes
- ◯ No

17. How much money have you spent on videogames or in-game purchases for yourself or others in the last 12 months?

- ◯ None
- ◯ Less than 50€
- ◯ 50€-200€
- ◯ More than 200€

18. If you have made an in-game purchase, what type of content was purchased? *

- ◯ Cosmetic *("Skins")*
- ◯ In-game currency *(Gold, V-bucks, FIFA points)*
- ◯ A competitive advantage *(upgrades the abilities or mechanics of an element in the game)*
- ◯ "Loot Box" *(Card Packs, Players Pack, Drops)*
- ◯ N/A

19. Of the games you play, how many offer season passes? *

- ◯ None of the games I play offer season passes
- ◯ One or two of the games I play offer season passes
- ◯ Three or four of the games I play offer season passes
- ◯ All of the games I play offer season passes

20. Have you made or considered making a season pass purchase in the past 12 months?

- ◯ Yes
- ◯ No

21. How much money have you spent on season passes for yourself or others in the last 12 months?

- ◯ None
- ◯ Less than 50€
- ◯ 50€-200€
- ◯ More than 200€

24. Do you have a positive or negative opinion of the presence of season passes in videogames?

- ◯ Very Positive
- ◯ Somewhat Positive
- ◯ Neutral
- ◯ Somewhat Negative
- ◯ Very Negative

23. Do you have a positive or negative opinion of the presence of "Pay to Win" (Competitive Advantageous) microtransactions in videogames?

- ◯ Very Positive
- ◯ Somewhat Positive
- ◯ Neutral
- ◯ Somewhat Negative
- ◯ Very Negative

Annex 2 – Vaudour & Heinze (2019) GaaS Business Model Canvas

<table>
<tr>
<td rowspan="2">Key Partners:
• Publishers and editors
• External development teams
• Video game distributors (physical and/or digital)
• External software producers</td>
<td>Key Activities:
• Efficient software development
• Production: marketing, designing, and producing
• Platforms: updates, improvements, IT, promotions</td>
<td rowspan="2">Value Proposition:
• Constantly changing gaming experience
• New content: new quests, skin, map, characters, skills, weapons, etc.
• Fixed bugs
• Feedback and communication from editors/teams</td>
<td>Customer Relationship:
• Digital personal assistance
• Self service/FAQ
• Communities: forums and feedback
• Development of the players' engagement</td>
<td rowspan="2">Customer Segments:
• Gamers</td>
</tr>
<tr>
<td>Key Resources:
• Physical: production studio, video games stores
• Intellectual: CRM, production software
• Human: skilled development team
• Financial: editor's capital</td>
<td>Distribution Channels:
• Digital stores mainly
• Physical stores</td>
</tr>
<tr>
<td colspan="3">Cost Structure:
• Production
• Customer support
• Technical infrastructure</td>
<td colspan="2">Revenue Streams:
• Subscription
• Season pass
• Microtransaction
• Advergaming</td>
</tr>
</table>