ELIAS – Business Possibilities of Game Competence in the Border Region

Business models
Draft report v.0.2. – Ways to possible business models
Petri Lintula 24.02.2005

Preface

This report describes possible business models in game competence and development in Finnish-Russian co-operation in the border region. This second draft is based on the first draft of October 2005 including comments from the participating companies and universities. During this report drafting also a progress planning with a concrete game production case is done parallel and included in the latter part of the report.

Aim of the report is to give first thoughts on possible business models to companies and research organisations participating in ELIAS –project.

1. General about business models

Before embarking upon an approach to construct specific business models, first a definition is giving of what is meant here by a business model.

Definition of a business model
- An architecture for the product, service and information flows, including a description of the various business actors and their roles; and
- A description of the potential benefits for the various business actors; and
- A description of the sources of revenues.

A business model in itself does not yet provide understanding of how it will contribute to realise the business mission of any of the companies who is an actor within the model. We need to know the marketing strategy of the business actors in order to assess the commercial viability and to answer questions like: how is competitive advantage being built, what is the positioning, what is the marketing mix, which product-market strategy is followed. Therefore it is useful to identify beyond business models also “marketing models”.

Definition of a marketing model
- A business model; and
- The marketing strategy of the business actor under consideration.

Marketing models will not be subject of this report.

2. Special features in game businesses

Game business markets are experiencing a very strong period of centralisation. Role of editors and distributors are growing in significance. Game business is also a very capital-intensive business area and the market is highly competitive and global from its' very nature. Business is also characterised by a large number of autonomous and small developer teams which have specific creative role in the scene and are important also through their intimacy with the end-user market.

These “independent” developers can be very small developer teams having visionary concepts which make through-out in the markets. One of the very well known cases is the rise of New Zealand's Game Industry. While this is also based on similar kind of background like anticipated Kalevala –game inside ELIAS –project, this development will be studied a little bit more comprehensively in this framework.

Case example: New Zealand's Game Industry Profile

When examining New Zealand's general position in the games industry worldwide, the most significant headline observation is that there are hardly any businesses here with scale and reach involved in the in-depth production cycle of major international games. The industry has a few loosely connected tiers of companies and entities, which together form an ill-defined whole – neither serving markets together nor interacting domestically in a consistent way.

The most advanced tier consists of 3 or 4 larger companies with strong ties across several industries which deploy a range of business models. These companies have powerful global niches in serving the production systems for digital media (incl. gaming) by providing such things as special effects, visual services and productivity tools. Then there's a constellation of 5 or 6 interactive digital media companies, which serve very broad commercial and public sector markets, spanning tourism destinations to next-generation television developers. Sometimes their solutions may include game components. While these businesses are big enough to serve customers around the world, they aren't outright global niche leaders in terms of their size or penetration.

In short, this combination of significant niche skills seems to reflect New Zealanders' interests in keeping up with technology and being involved, in some way, with global trends in the creative and computer-based industries.

Within each of the tiers mentioned above, companies in the groups have experience of getting organised to engage in a strategic way with international markets, too. Adding to the positive background, New Zealand has a strong international reputation for technologists and media specialists who are recognised by their peers as being among the world's aware and connected.

The situation is different in the specific global market segment of mainstream PC/console games software. Although many entrepreneurs have made attempts to create small-scale games companies or production firms from New Zealand, in current publisher-dominated global market only a very few emerging local firms have so far attained the necessary linkages and scale to be able to be treated seriously. Even then, in the eyes of international market participants, the 2 or 3 New Zealand companies who have become known are only just big enough to be viable.

In mobile games New Zealand's assortment of industry player is also relatively isolated. Game developers in New Zealand could have an opportunity to establish a niche sector by exploiting their technical and creative flair in collaboration with other media experts such as the film industry. They also aspire to being more connected internationally. However the mobile development companies are very small. There are only one or two that are concentrating on mobile gaming, while other companies include mobile platform as one of their intended market segment for general work.

3. Networking

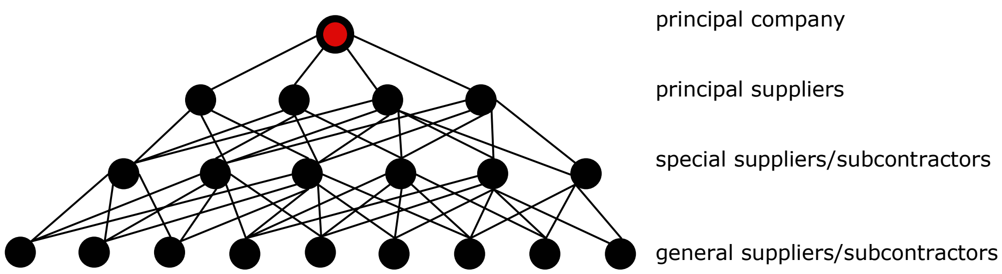
In this business model of cross-border co-operation between Finnish and Russian game industry actors networking model is crucial. Success and sustainability of the business model is very much decided at the level of networking which can be achieved in the co-operation. That's why development of business model was started with a survey on existing networking between participating players.

In general the co-operation networks can be divided into the four models. More traditional networks are Japanese and western type of work patterns. The more latter-day type of networks are strategic network model and channel model.

Japanese model of networks – long term relationships

Japanese work pattern is based on Japanese tradition, where the business is held with very small companies and very small units. In Japanese *keiretsu* tradition loose conglomeration of companies organized around a single actor for their mutual benefit.

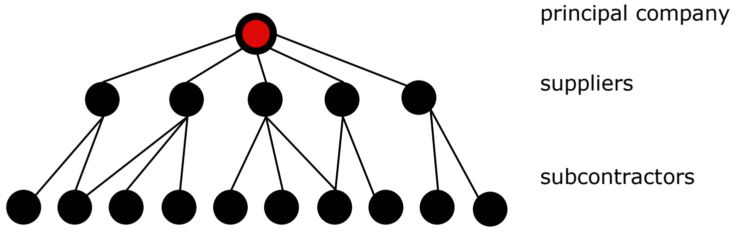
Japanese type of network can be described as a pyramid. In the peak of the pyramid is principal company whose subcontracting networks branches in hierarchical below. In the second level in the subcontracting network there are principal suppliers. The principal company has immediate relationship with principal suppliers. But what is noteworthy is that one principal company has only one principal supplier for the one activity or task.



In latter stages there are special suppliers and general suppliers. Special suppliers have specialized themselves in a specific area. General suppliers are the companies that are producing standardized goods, services or material. The companies that are in these levels are networked with various subcontractors.

Western model of networks – juxtaposition and rivalry

Where Japanese model of cooperation networks emphasize shared goals the western model is based mainly on juxtaposition and rivalry. The interaction with the network exists only by competition, and suppliers compete with each other.

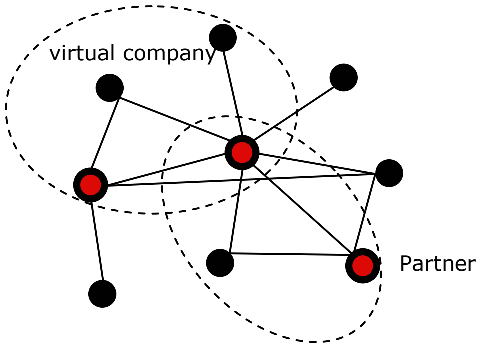


The principal company can have several suppliers and subcontractors within the same purpose. The principal company does it's own product development and product designing. Company gives its subcontractors very specific orders to meet it needs. Subcontractors' tasks are mainly to fulfil the principal company's precise requirements.

Strategic model of network – virtual companies

Nowadays there is a great shift in Europe and US towards to Japanese model of networking. The Principal companies are concentrating to a few subcontractors, and longer-term contractions are made. This model reminds both western model (several partners) and Japanese model (working together with shared goals). Model reminds the characteristics of an alliance and value network.

The partner companies form the basis of strategic network and they cooperate together with multilateral teamwork. On the second level there are suppliers or subcontractors.
One of the unique characteristics of strategic model is virtual company. These

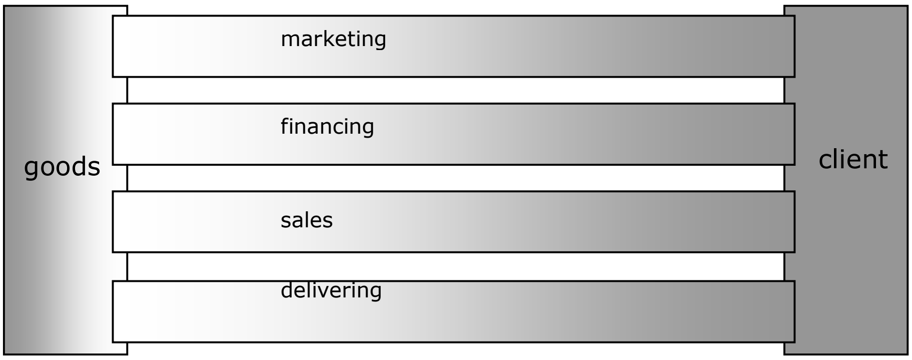


companies are joint ventures that are formed to execute the specific task or project (product development project for example). Even if virtual companies are temporary arrangements, the strategic network is very stabile. Network could have shared goals and organizational practices, and it could be a huge environment for mutual learning. Experiences and know-how stay inside the network.

Channel model – concentrating on expertise

So-called channel model is the ultimate network practice at the moment. Model requires that the organizations have fully commitment on a certain area of expertise. The networking in the channel model is concentrating on production, management of business relationships and sales.

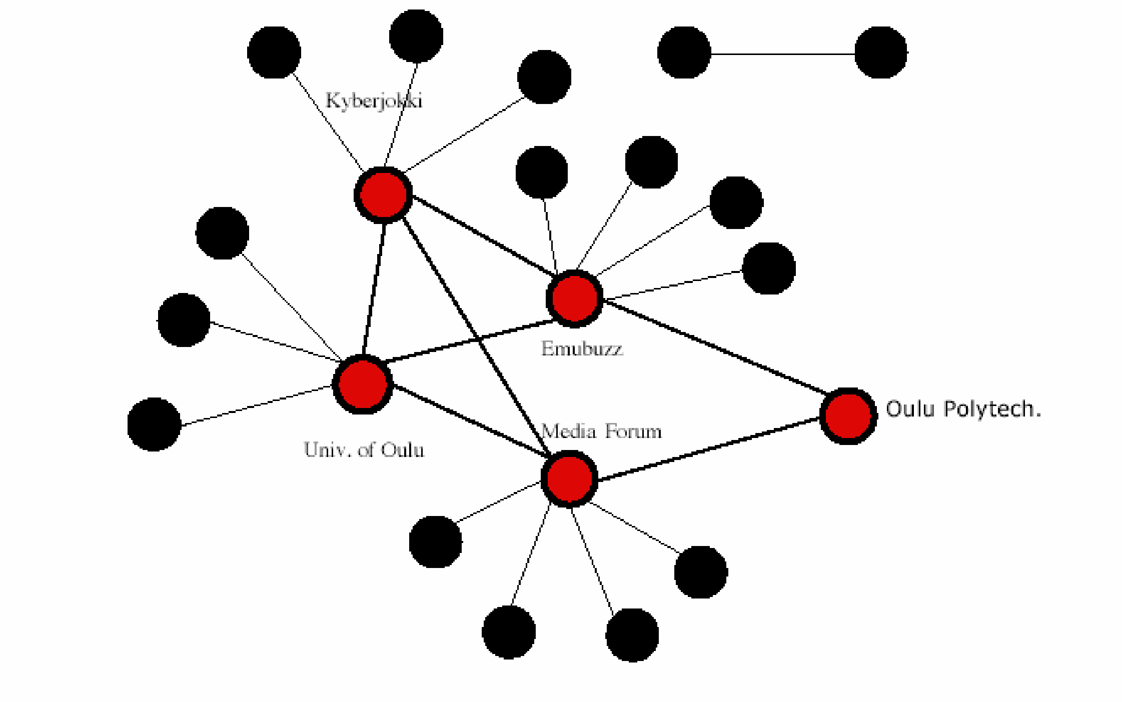
The different tasks in network are shared with members. One company is in the network for marketing, another for financing. The third one is for sales and the fourth one is in the network for delivering the goods or service. By this kind of arrangements the companies are able to concentrate in very specific business areas. Furthermore they are able to form an alliance within each other.



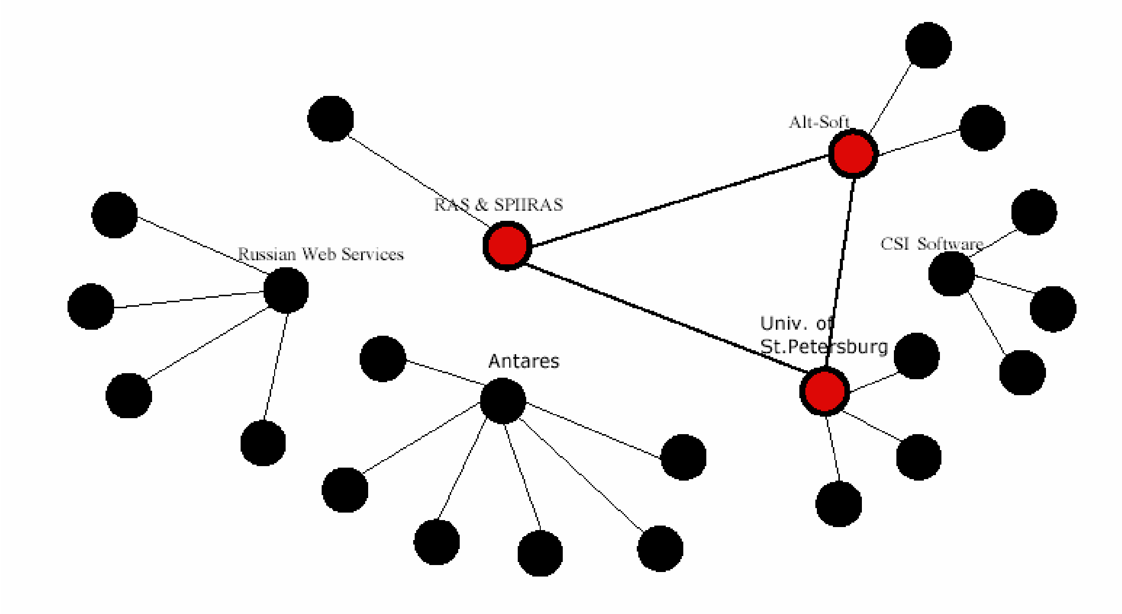
In the special case of ELIAS –project networking of different players must include not only companies but also other developers and facilitating agents. This kind of network building comes closest to the virtual company –model presented earlier. Also the survey done in the beginning of the project confirms this. This means specific challenges for the building of the real business co-operation between the players because no clear “driver” is to be identified among the participants. Without this kind of “driver” no commercial results can be achieved in the networking.

Results from Finnish and Russian side can be seen in graphic models below:

Oulu Region Network Model:



St.Petersburg Region Network Model:



Bringing these two networks together in a productive network means in the first hand intensifying contacts between the network nodes (red colour in the graphs). Secondly it means defining of roles for different players using facilitators like business support organisations. In concrete terms: universities will play “driver” role in the initial phase of the networking as long as a business actor emerges from both sides to take over the “driver” role. For the business model development helping this birth of the business actor will be prerequisite for any progress in commercial sense. This all will be defined and described later in the project using the concrete case of Kalevala –game.

4. Description of the case Kalevala -game

ELIAS –project aims to study feasibility of producing a Kalevala –based computer game in cross-border co-operation between Russia and Finland. Game should be produced to become part of “In the Spirit of Kalevala” –product family. This game production is concrete case for the to-be-developed business model. Production will be done in three phases: pre-commercial demo, market deployment and commercialising.

Pre-commercial demo will be marketed under the “In the Spirit of Kalevala” trade mark which was developed to cover whole EU markets. Development of trade mark begun 1995 and was registered European-wide 2001. Today mainly handicrafts, nature products and tourism services are marketed to Germany under the trade mark. Game product based on Kalevala is aimed to be tested in the Christmas markets 2006.

A parallel is sought to the use of Tolkiens’ books as basis for computer games in New Zealand. Kalevala has been an important reference material for Tolkien and many of his figures have their origins in Kalevala, Finnish national epos. A role game using Kalevala persons and stories is envisaged but in a way which is more focused in playability and entertainment than “serious” learning game.

5. Possible business models

Development of possible business models for Kalevala –game can be realised inside the ELIAS –project only to the level of pre-commercial –phase. What happens after this first phase can only be roughly anticipated while no real distributors or editors are involved in the project work.

Challenge in developing the business model for Kalevala –game is the big number of game developers participating in the co-operation and the lack of distributors and editors in the network. Possible business model must either take this granted and build on the existing players or start seeking lacking partners. As the co-operation between different players is in a very beginning phase first approach is advisable. First build the network to realise first production and after that lock distributors and editors. Of course, question of financing the production remains to be solved in this model. Proposed model goes out of the presumption of realising first game production as order work which will be 100% financed by a single buyer/client.

In this report business model definition can not be done further than describing possible ways of defining more clearly roles of different players and the market for the developed project and combining these to the potential revenues for participating organisations. Following model is proposed:

1. We concentrate in intensifying links between the network nodes of both regions and develop co-operation between network nodes from both countries. This means concretely co-operation led by the universities who help businesses test productive co-operation in well limited field of activities.
2. Through that we come to core business unit of the network which will then define the business case more precisely. This supposes the birth of the business actor who takes over the driver responsibility in Oulu area.
3. Revenue is in first phase sought from public customer of the end product, Kalevala –game. This customer will finance the first demo production. This customer already exists and negotiations for financing are on progress. Decisions will fall before mid-March 2005.
4. Production will be done in transnational teams comprising university and business players from both countries. Production process will be diversified in clear packages with leading organisations and sub-contractors.
5. End product will be media crossing. Technology platform needs to be defined before June 2005.
6. End product will come to markets Christmas 2006. Production will begin June 2005.

After this first phase of demo production editors and distributors can be taken into boat and further development of business co-operation will become solely business-driven and self-sustainable. Decisive role here is the success of the demo game and the experimental marketing done under the “In the Spirit of Kalevala” trade mark.