

By Eva-Maria Scholz, 25 March 2015

## Business models for digital goods: video games (episodic games)

In [a recent post](#) on IPdigIT Paul Belleflamme raised the question of what might be appropriate business models for digital goods in the “culture of free”. This is the second post of a two-piece series in which I will have a closer look at the video game industry.



Over the past decade many things have changed in the video game industry. One main aspect is, without a doubt, the move to a digital distribution of video games via platforms such as Steam (Valve Corporation) or Origin (Electronic Arts). With this change came a change in the business strategy of video game developers. Today two business models enjoy an ever greater popularity in the industry: free-to-play and episodic games. In this blog post I focus on the latter, i.e., on the concept of episodic games.

Let me first clarify what I understand under an episodic video game. Not unlike a TV show, an episodic game is divided into separate episodes that stand on their own, but are part of a larger concept. The episodes are released over a defined period of time - typically several months - and, compared to the complete game, have only a relatively short duration of play.

The concept of episodic games is not entirely new. Nevertheless, it was not until TellTale Games released *The Walking Dead: the Game* in 2012 that the concept was recognised as a business strategy with mass-market appeal. Since then there has been a surge in the release of episodic video games. Recent titles include TellTale Game's adaptation of *Game of Thrones* or Dontnod Entertainment's *Life is Strange*.

In times of ever faster consumption cycles it may sound paradoxically that spreading the release of a video game over several episodes can be a smart move for video game developers. In the following I will have a closer look at some economic aspects of episodic games and hope to

convince you that this is indeed likely to be the case.

### Consumption habits of digital consumers

The rise of downloading and streaming services, such as iTunes or Netflix, significantly shaped our *digital consumption habits*. As such, we, as consumers, developed certain expectations regarding availability, prices and our ability to choose when it comes to the consumption of digital media content like music or TV shows. Those expectations are linked to the characteristics of digital media content: piece-wise consumption (focus on tracks/episodes instead of the full album/season), easy and instant access and relatively low prices.

By releasing video games on an episodic basis game developers respond to these expectations. The result are lower price and non-price barriers to the consumption of video games that allow game developers to widen their sales basis and even to attract new user groups.

- **Prices.** Episodic games are released in several instalments that are each offered for a fraction of the price of the full game. As a consequence, consumers that are hesitant to purchase a game for financial reasons may be less reluctant to do so under an episodic release format. Dontnod's *Life is strange*, for example, will be released in five episodes. At the moment of writing this post, the first episode is available for 4,99€. The full game, i.e., all five episodes, is currently priced at 19,99€ (with access to later episodes once they are released).
- **Instant access.** The move to a digital distribution of video games via platforms such as Steam or Origin significantly contributed to the success of an episodic release format. As such it provides consumers with easy and instant access to the latest episodes and by this lowers their non-price barriers to consumption (imagine you would have to order each episode via amazon or run to the next video game store in order to pick it up).
- **Commitment and risk-aversion.** Video games are experience goods; prior to playing a game consumers do not know their private valuation for it. Moreover, under a traditional release concept video games are typically characterised by relatively high prices and long game play. It is then not difficult to see that more risk-averse consumers may be hesitant to download a game due to a combination of high price, long time commitment and experience good character ("I will not spend 60€ on a game that I will never finish anyhow. And what if I don't end up liking the game?"). An episodic release format lowers these non-price barriers to consumption by giving consumers a legal and easy way to sample the good at a relatively low price as well as by reducing the perceived time commitment.
- **Casual gamers.** By releasing a video game in several instalments, complex games become more accessible. This may attract new user groups such as casual gamers.

### Anticipation, buzz and consumer involvement

One challenge of an episodic release format is to motivate consumers to repeat their purchase with every release of a new episode. Luckily, an episodic release format features two effects that facilitate this.

First, releasing a video game episode-by-episode creates anticipation. We all know this from our favourite TV-show. An episode ends with a cliff-hanger, making us count the minutes until the next one is released.

*The need to wait for the next chunk of the game adds to the excitement and anticipation, making the release of each episode feel like an event to be savored and enjoyed. (Ben Kuchera on Polygon)*

Second, making consumers wait between the release of two episodes provides time for the emergence of a community of players. Episode-by-episode players can share their gaming experience, compare their progress in the game or speculate about the next episode(s). This not only creates a certain buzz around the game which attracts new consumers, but also ensures that consumers stay involved in the game.

*We saw the strength in that model as the way to tell a story and it was tied into our digital distribution strategy, which was to break the content up in a way that would engage people over time and have them return to you, instead of just building a one-time experience. (Dan Connors, CEO of TellTale Games)*

### **Continuous improvement and innovation**

Similar to free-to-play games, an important advantage of an episodic release format is the existence of a feedback loop. By this I mean two things. First, developers can react to feedback from the gamer community and apply it to future episodes. Second, and in my eyes even more important, developers learn about their consumers and their gameplay. This gives developers important information on how to adapt future episodes. The result is not only video game content that matches consumer preferences more closely, but also that innovation and experimentation become less risky. It follows that under an episodic release format game developers have a greater freedom to experiment with techniques, different forms of narration and so on. Consumers thus benefit in form of higher quality and more innovative video game content and might even see the release of video games that otherwise might not have been made.

I mentioned previously that, in contrast to a classic release format, consumers have to be motivated not only one time, but several times to purchase (part of) the video game. This implies that with an episodic release format each episode has to be a hit. Otherwise, what is the incentive for consumers to repeat their purchase once the next episode becomes available?

### **Funding**

Episodic games involve two main types of costs: a project sunk cost (to be paid regardless of how many episodes are developed) and a variable per-episode cost (to be paid for each episode developed). As a corollary, getting the project started, i.e., developing the first episode, is less costly with an episodic concept as compared to a standard release format. New video game content may thus be released faster. Moreover, the sales from past episodes may, at least

partially, finance future episode(s), resulting in an overall lower need for external funding.

Related is the following point. Episodic games are typically offered at different pricing plans. Take for example the case of *Life is Strange*. At the moment, consumers may download the first episode either for the episode price of 4,99€ or by paying the price of the complete video game (five episodes) of 19,99€. Consumers who opt for the latter option advance their payment in the hope that the full game will be developed. Episodic games, hence, share similarities with [crowdfunding projects](#). For investors and developers this share of consumers may contain valuable information as it can be interpreted as a measure of confidence of the market in the video game.

Developing and selling a video game episode-by-episode may also be less risky. The reason is that the existence of the previously mentioned feedback loop gives developers the opportunity to adapt the game episode-by-episode. Or, in the worst case, an episodic release format gives developers the option to opt-out and stop the production of future episodes. In contrast, under a classic release format, developers have to pay the full development costs before receiving a feedback from the market.

*Although the business model sounds very promising, it raises several important questions. In my eyes the most important, and challenging, one is "How to get the pricing and the timing right?" Also, in your eyes, are episodic games a promising concept to fight digital piracy?*