



Competition within the Finnish games industry

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Topic of the paper

- **Competition between firms within a knowledge-intensive industry**
 - What kinds of selection mechanisms operate within the Finnish games industry?
 - How do the firms compete?
 - How is succeeding in that competition determined?
 - How does the market limit the performance of a firm?
- **Not just a matter of market shares**
- **What do the firms have to do in order to avoid bankruptcy or in order to enhance profitability?**



Content

Competition as a mechanism of economic change

Definition of competition

Succeeding in competition

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Competition among game titles

Competition among game developers

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Competition as a mechanism of economic change

Evolutionary framework

- Variation
- Selection
- Innovation

“The tendency of the most profitable firms to drive the less profitable ones out of business” (Nelson & Winter 1982)

High degree of similarity -> Intense competition

**Lower degree of similarity -> Lower intensity of competition
(Saviotti&Pyka 2004)**

**“Processes of competitive selection necessarily destroy (or rather absorb) the very variety on which evolution depends.”
(Foster&Metcalf 2004)**

Definition of competition

Competition

= “A rivalry between individuals (or groups or nations), and it arises whenever two or more parties strive for something that all cannot obtain”

Competition as a state of rest

Competition as a process

Efficiency

⇒ Competition is a process whereby the market shares within the industry are reallocated from the less efficient firms to the more efficient ones

“Some firms survive and some die, depending on the pay-offs associated with a particular strategy. If the selection pressure is high enough only the most efficient survive. The surviving firms therefore act efficiently, even if the strategy choice is not entirely deliberate.” (Knudsen 2002)



Succeeding in competition

Competitiveness is relative

“However, the crucial property of economic fitness is that it is not a property of the business unit alone, but arises from the interaction between rival business units in a given market environment. It is inherently a feature arising from membership of that particular population.” (Metcalfe 1998)

Competitive weapons

- **Avoidance of sloth and slack**
- **Innovation**

Research context

The Finnish games industry

- **Comprises firms that engage in the**
 - Development and/or
 - Publishing of
 - PC,
 - console,
 - mobile and/or
 - online games
- **Includes about 100 firms**
 - The first ones were founded in mid 1990s
 - The majority after the year 2000
- **From one to hundreds of employees**
- **All operate in the global market**
- **Only a fraction concentrates solely on games**



Case study findings

Firm	Founded	Employees	Platform	Subcontractor	Developer	Publisher	View on competition
Alpha	2004	35	Mobile		X	X	Against low quality developers
Beta	2002	27	Mobile	X	X		Sets upper limit on price
Gamma	2000	24	Mobile		X	X	Group effort against international big companies
Delta	1999	100	Mobile		X	X	Neck to neck with international heavy league players
Epsilon	2000	170	Online, mobile, handheld, console		X	X	We do our thing and we are not that interested in what others do
Zeta	2002	9	PC, online	X	X		Imposed by international publishers
Eta	1995	25	Console, PC		X		It is about owning a segment that is large enough
Theta	1995	13	Console, PC		X		International publishers are very picky

Competition among game titles 1/4

Developer selection

- **Feeling, excitement, intuition and consensus**
- **Market potential and technical problems**
- **Budget**
- **Competition within the genre**

**”The typical reason is that if there is a lot of competition. If there are big competitors then it will not pay off to do it. For example it is not a good idea to do a football game because there are big licences and brands like EA Fifa 2006 against which it is quite impossible to compete. And if you think that the idea does not have mass market appeal but it is a niche concept and we are trying to reach the global market. One typical case is ski jump game which we have but no-one wants to hear of it in the US or in England.”
(Delta)**

Competition among game titles 2/4

Publisher selection

- **Demo is presented to the publisher**
 - To get financing for the rest of the project
 - To make a deal on the mechanisms to share potential profits
 - **Publishers carry most of the financial risks**
 - **There is a smaller number of them**
- ⇒ **Strong position in selecting games**

”Usually the first draft is the worst possible like you have to give up your daughter and sign the paper with blood. Our own experience is that there is some room for negotiation and you can get reasonable things. The project is scheduled with some milestones and the publisher pays as the milestone is completed. The developer has the pressure and they are hanging on the publisher who can have quite tight strings depending on the situation. And if we are talking about a console game then it is quite a large part of the income of the developer then the publisher can dictate the artistic direction and whatnot.” (Theta)

Competition among game titles 3/4

Consumer selection

Mobile

- Deck placement

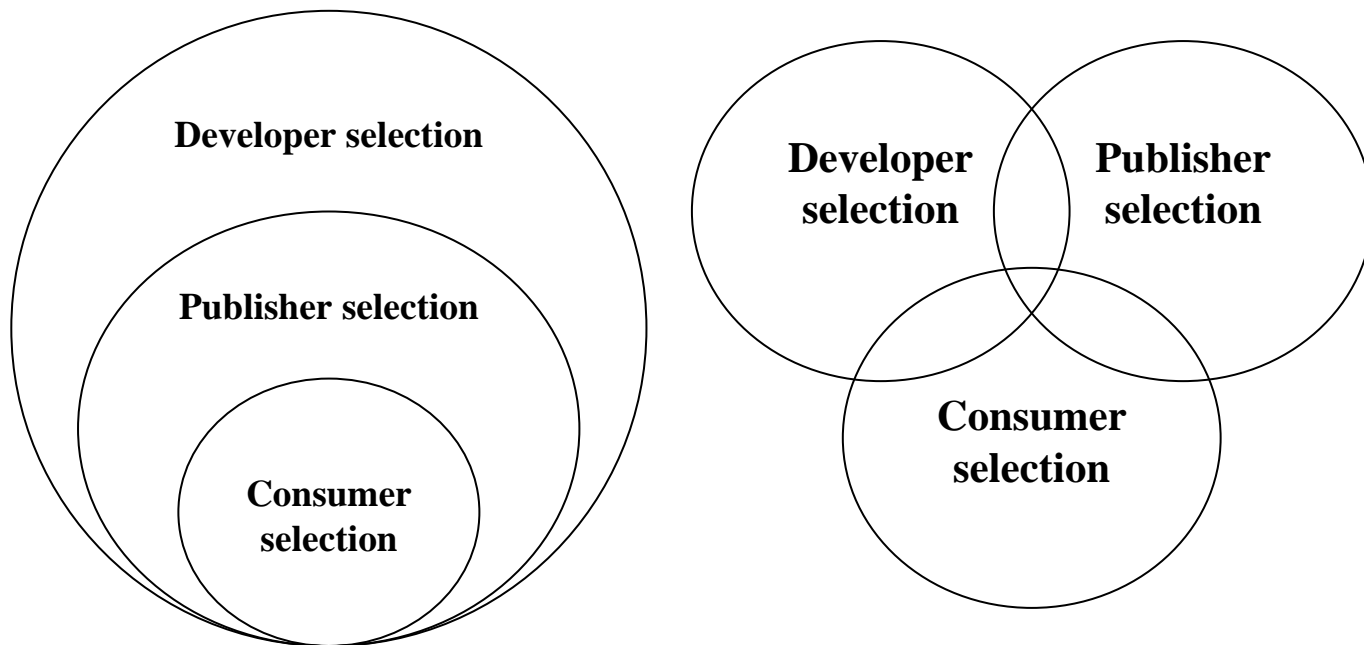
Console

- Marketing budget
- Competition within the genre
- Competition between genres

”The success of a game is determined six months before it is published. It starts with how the publisher believes that the game will succeed. They make projections based on how these kinds of games have sold previously and that is the first problem if your game is of a new type. There is no evidence of good sales for its type and the publishers do not want to invest in marketing. And when there is no marketing then it becomes a self-fulfilling prophecy.” (Theta)



Competition among game titles 4/4



Competition among game developers

Dying firms have run out of competence

- Technical aspect
- Business aspect

”Interviewer: Do you have direct rivals?”

Interviewee: No.

Interviewer: Why is that?

Interviewee: We sell orange juice and the others sell beer.” (Eta)

”Of course there is direct rivalry because in Europe there are about 700 mobile developers and if there is an operator that publishes ten games a month then there is quite a hustle and bustle.” (Alpha)

Variability of demand

Stimulation of demand

You just have to make a bet on the game concept that you believe in!

Conclusions

Competition

- **Not merely a race over market shares**
- **A complex process where simply being efficient in producing high quality products is not sufficient**

High risk, high payoff

Efficiency?

- **How to measure?**
- **Increasing returns**

Variability in market size

- **Temporary**
- **Permanent**

Competition over resources

Competition both encourages and restricts innovation

