Suggestions & notes for educators interested in teaching *One Up: Creativity, Competition, and the Global Business of Video Games*

Prepared by Joost van Dreunen

September 2020
LECTURE APPROACH

Introduction

I wrote *One Up* based on my own teaching experience with the material: each chapter roughly captures a 75-minute lecture. Here I’ve provided an outline on how I generally teach each of the chapters to students, including key concepts and companies case studies. Generally, I organize my time with students as follows:

### Timeline schematic for 75-minute lecture class

<table>
<thead>
<tr>
<th>Minutes</th>
<th>10</th>
<th>30</th>
<th>65</th>
<th>75</th>
<th>oo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household &amp; current events</td>
<td>Segment overview</td>
<td>Challenges</td>
<td>Q&amp;A</td>
<td>&quot;Office Hours&quot;</td>
<td></td>
</tr>
<tr>
<td>Discuss relevant news items and developments from previous week, incl. major releases, industry events, acquisitions.</td>
<td>Introduce main topic and discusses what happened in the previous decade.</td>
<td>Discuss how specific companies came under threat/confronted an opportunity, and the end results.</td>
<td>Assign students specific roles in explaining a company's position and how they would approach, among other things, negotiations with other firms, establish competitive advantages, etc.</td>
<td>Discussion may continue after class has ended. Students will have more personal questions.</td>
<td></td>
</tr>
</tbody>
</table>

A key component is starting each class with a discussion of 2-3 developments from the prior week. These can vary from major product releases to industry conventions and M&A-related news. This helps students to lean into the discussion right away and often provides great examples to illustrate some of the topics and concepts discussed throughout this course.

Following the review of the news, I generally spend 20 minutes setting the stage of a specific part of the industry during a specific period. For instance, in “Games Industry Basics”, we’ll discuss the rise of gaming during the Atari-era and its collapse. This allows to highlight the industry’s underlying economics and set the stage to discuss how Nintendo’s strategy played out during the second part of class.

Lastly, the topics have been organized in such a way as to provide a cohesive narrative that starts at the early days of the games industry, gradually leads to contemporary strategy questions, and ultimately presents several forward-looking questions. Obviously, all this is a recommendation as much as it is a method that works for me personally.

The following section offers a one-page ‘teacher’s outline’ for use alongside each of the chapters in the book, including a summary, an overview of the relevant segment, strategic challenges, and reading recommendations.

I have tried to make this document as accessible and comprehensive as possible but am eager to receive any thoughts and feedback. Please email me at jvd228@nyu.edu.
LECTURE APPROACH

Thank you.

<table>
<thead>
<tr>
<th>Lecture 1</th>
<th>Digitalization of Entertainment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lecture 2</td>
<td>Games Industry Basics</td>
</tr>
<tr>
<td>Lecture 3</td>
<td>Empire on the Edge of a Volcano</td>
</tr>
<tr>
<td>Lecture 4</td>
<td>Everyone's a Gamer Now</td>
</tr>
<tr>
<td>Lecture 5</td>
<td>Myth of the Mobile Millionaire</td>
</tr>
<tr>
<td>Lecture 6</td>
<td>Greatly Exaggerated Death of the Console</td>
</tr>
<tr>
<td>Lecture 7</td>
<td>Glorious Return of PC Gaming</td>
</tr>
<tr>
<td>Lecture 8</td>
<td>Epic Quest for Intellectual Property</td>
</tr>
<tr>
<td>Lecture 9</td>
<td>Watching Other People Play Video Games, and Why</td>
</tr>
<tr>
<td>Lecture 10</td>
<td>New Revenue Models</td>
</tr>
</tbody>
</table>

**Overview**

**Explanation of different course elements**

**Summary**
Provides a synopsis of the main topic of a lecture.

**Segment overview**
Frames the conversation and offers introductory comments before setting up a broader discussion around the case studies.

**Challenges**
Sets up 2-3 discussion topic or case studies that can be explored with the class. Where available I have indicated the corresponding chart or dataset from the book.

**Further Reading**
Offers adding reading suggestions.
Lecture 1. Digitalization of Entertainment
[Corresponds with Chapter 1 from the book.]

Summary
Introduces key concepts (e.g., mental models, networked-based content) in the broader context of entertainment industry.

Segment Overview
Discuss with class example of how musicians have adjusted to digitalization of their business with an increased reliance on live performances. Streaming services like Spotify largely serve as marketing vehicles. Similarly, film production has changed dramatically as companies like Netflix and Amazon began to fund projects and build their content catalogues (e.g., algorithm-based content strategies, binge watching).

Challenges
The move away from traditional, product-based entertainment publishing challenges video game companies.

- **Resistance to change.** The metrics used by industry executives to measure success have shifted, too. What used to be straightforward (“units sold x average selling price”, Figure 1.2) is now a more complex equation (e.g., “monthly active users x conversion rate x average spend per paying users - acquisition costs”, Figure 1.3).
- **Switch from product to platform economics.** Instead of controlling for efficiencies along the supply chain, digitalization has shifted the focus to networked audiences.
- **New generation of game makers.** The lowering of entry barriers has resulted in the globalization of the industry and the rise of a new generation of firms that capitalized on the rapid growth of online audience. Because they were slower to move and leverage digital technologies, incumbent firms (e.g., publishers, retailers) lost market power and now face a changed industry landscape.

Further Reading (alphabetically)


Lecture 2. **Games Industry Basics**  
[Corresponds with Chapter 2 from the book.]

**Summary**  
Describes in broad strokes how the traditional business has operated for almost three decades and serves as a starting point to better understand the changes that follow.

**Segment Overview**  
Explain the basic economic elements of traditional game publishing: high upfront costs, winner-takes-most, seasonality, demand uncertainty, and platform economics. The market for console gaming started at a really high note early on, but quickly collapsed. This led many to believe it was a temporary fad and a derivative category, rather than an industry all its own. How do each of the different types of the companies active in interactive entertainment mitigate risk?

**Challenges**  
Three separate case studies that represent key value chain participants and how they mitigate risk in the conventional, product-based business model.

- **Nintendo revitalizes the industry (platform).** Following the industry’s collapse, the Japanese game maker Nintendo successfully penetrated the North American market by applying several strict rules to ensure the quality of the content for its console.
- **Electronic Arts raises the bar in games marketing (publisher).** To distinguish itself from rival publishers and in pursuit of a grand vision of games as art, EA introduces the marketing narrative of the game designer as a rockstar.
- **Naughty Dog establishes a creative culture (developer).** To attract and retain the best creatives, developers like Naughty Dog create a flat organizational structure in which, seemingly, everyone has a say in the development of a title.

**Further Reading** (alphabetically)


Lecture 3. Empire on the Edge of a Volcano
[Corresponds with Chapter 3 from the book.]

Summary
Presents an in-depth account of how GameStop managed to become the world’s largest specialty games retailer and how it manages, or at least tries, to reinvent itself.

Segment Overview
Retail has long been a key part of the success of product-based video game publishing. Provide an overview of the retail business in key industrial economies and discuss how core strengths like customer education, promotion, and used game sales are being repurposed to suit the needs of a changing market. Will GameStop face the same fate as other retailers in the face of the rise of e-commerce, or will it manage to reinvent itself?

Challenges
GameStop’s fate serves as a proxy for the broader product-based business and how the broader industry was forced to adapt to the new economic foundation of digital video games. We can identify different stages.

- **Early days.** GameStop established itself as the largest specialty games retailer through an aggressive acquisition strategy and supply chain efficiencies. More so, it developed several key components to its business model that allowed it to differentiate from competitors like Walmart and BestBuy.
- **A challenger appears.** Amazon rise threatens GameStop’s conventional retail model. Or does it?
- **The Empire tries to strike back.** GameStop formulated several different initiatives to stave off digital competitors and capitalize on the affordances of digital distribution.

Further reading (alphabetically)

Lecture 4. **Everyone's a Gamer Now**  
[Corresponds with Chapter 4 from the book.]

**Summary**  
Describes the ascension of video games to become a mainstream form of entertainment. The rise of casual titles across mobile platforms and social networks has allowed the gamer demographic to expand both in size and diversity.

**Segment Overview**  
The economic landscape of the games industry looks nothing like it did just a decade ago. Today is in the midst of shifting its focus away from a narrowly defined demographic to a more inclusive, global player base (Fig 4.1). This transition has obvious implications for both marketing, design, and underlying revenue models.

**Challenges**

- **Zynga targets everyone.** An important milestone in the transition of gaming from the fringes of the entertainment business to its center was the emergence of casual games (Fig 4.4).
- **Fortnite breaches the walled gardens.** The ability to play against others irrespective of the device they use greatly expands the value of a title. The console segment, however, has long been fragmented into three entirely separate walled gardens (Fig 4.5).

**Further reading** (alphabetically)


Lecture 5. **Myth of the Mobile Millionaire**
[Corresponds with Chapter 5 from the book.]

**Summary**
Examine the rapid rise of mobile gaming and looks at how game makers navigate the challenge of increasing development costs in a growing market.

**Segment Overview**
Mobile gaming has gone through a decade of spectacular growth and today accounts for roughly half of the worldwide video game market. Initially, low entry barriers allowed for a host of new organizations to enter the market and claim a share as incumbent publishers dragged their feet. Since then, the landscape has changed substantially: consumer spending on mobile games grew to $45 billion by 2018 and behemoths like Tencent, NetEase, and Activision dominated the market. Yet much of the enthusiasm from its earlier stages persists today. This is the myth of the mobile millionaire: the idea that ten years after it took off, the mobile category remains an accessible marketplace in which anyone with a good idea can become a successful smartphone-based game developer. But does this myth that the mobile games market remained open and accessible as it started to mature hold true?

**Challenges**
- **Apex predators move slowly.** Looking at the top grossing mobile game firms, we observe that it is by and large newcomers that dominate this market (Fig 5.1).
- **Supercell rethinks how to design its games.** After failing to impress anyone with Gunshine, the developer drastically changed how it made games and managed to establish no fewer than four billion dollar franchises (Fig 5.4).
- **A return to offline marketing.** As the various app stores grew more crowded, mobile game developers looked to more traditional marketing channels to reach consumers.

**Further reading** (alphabetically)


Lecture 6. Greatly Exaggerated Death of the Console
[Corresponds with Chapter 6 from the book.]

Summary
Discuss the changing economics of the console business. Dispels the myth that dedicated gaming hardware is dying by outlining the strengths of Microsoft, Nintendo, and Sony.

Segment Overview
The console business is seemingly ripe for disruption. Just three industry participants control the market, and each offers dedicated, proprietary hardware for different use categories and sold for comparatively high prices. Moreover, hardware cycles have been extended and the disappointing sales of Nintendo’s Wii U, which followed the spectacular success of its predecessor the Wii, further evidenced imminent doom. It all supported the idea that the conventional games business had become stale, slow, and ready for disruption. Even large publishers had growing skepticism about how much longer the console would dominate the industry landscape. How did console makers successfully escape their alleged inevitable doom?

Challenges

- **Zeebo fails to establish itself in Latin America.** A collaboration between U.S.-based provider of telecom equipment, Qualcomm, and Tectoy, a Brazilian game and electronics firm, proved unable to expand the global console market, and thereby suggested the end of an era.
- **Xbox goes to China.** A global market means access to consumers in different countries. Overcoming different obstacles to reach consumers is central to success can be difficult even if you’re one of the largest firms in the world.
- **Grand Theft Auto 5 Online.** The largest entertainment release in history struggled at first to facilitate its massive online playerbase but ultimately managed to disprove its investors’ skepticism.

Further reading (alphabetically)


Lecture 7. **Glorious Return of PC Gaming**
[Corresponds with Chapter 7 from the book.]

**Summary**
Discuss several key innovations that contributed to PC gaming both regaining its relevance to the overall industry and flourishing alongside mobile and console gaming.

**Segment Overview**
Before its digitization the physical PC business had fallen out of grace with major game makers (Fig 7.1) Executives had accepted the idea that dedicated gaming hardware had “won” the platform wars. Nintendo’s success, combined with the market entry of Sega and Sony, resulted in a massive growth spurt in the global install base of consoles, and many publishers were squarely focused on creating content for dedicated gaming hardware. As the industry grew, so, too, did risk in game development. Especially large publishers found themselves unable to resist the economics of console gaming. Digitization dramatically shifted the circumstances of the PC games market, and it grew from just over $1 billion in annual consumer spending in 1998 to more than $30 billion two decades later.

**Challenges**

- **Valve proves that “everybody was going in the wrong the direction.”** A unique combination of ample financial control and the application of a new way to corporate organization, the eclectic firm Valve created a digital distribution platform that sparked a growth spurt and a wave of innovations in PC gaming (Fig 7.2).
- **The end of the world for World of Warcraft.** After the MMO genre established itself, growing competition and the emergence of free substitutes forced Blizzard to answer a critical question: stay the course with a subscription-based model or switch to free-to-play? (Fig 7.5).
- **South Korean game maker Nexon breaks into North America.** Nexon’s core PC title *MapleStory* proved tremendously popular especially among American teenagers. Despite heavy competition from incumbents, the South Korean game maker manages to surprise everyone by rolling out a targeted strategy (Table 7.3).

**Further reading** (alphabetically)


Lecture 8. Epic Quest for Intellectual Property
[Corresponds with Chapter 8 from the book.]

Summary
Review different approaches to intellectual property as a competitive differentiator against the background of a changing marketplace.

Segment Overview
Developing your own IP is time-consuming and expensive. It requires a grand vision, including fleshing out a main character, establishing a broader story universe, and creating a consistent visual aesthetic. Successes like Minecraft and Angry Birds defy business logic and confuse companies about what to expect when developing or acquiring IP. Large publishers may have multiple projects in development simultaneously but only release a single one at once to give it the support it needs to succeed. Electronic Arts, for instance, spent several years on Anthem, a new shooter franchise, and Ubisoft weathered through months of criticism for repeatedly delaying its fighting game For Honor. Both of these franchises have been only moderately successful. Even the most successful companies struggle with developing IP.

Challenges

- **Hasbro innovates through acquisition.** Acquiring IP as the basis for innovation and further insulation from changes in the market is not a full-proof strategy as Hasbro found out when it went on a buying spree in the late 1990s.
- **Rolling a natural 20.** Fragmentation of the consumer base for role-playing games forced Dungeon & Dragons-maker Wizards of the Coast to adopt a radical strategy.
- **Gaming with the Kardashians.** The appetite for celebrity-based games surged with Kim Kardashian: Hollywood. However, leveraging a broader range of celebrities and existing media properties as the differentiator for a new release is more difficult than it looks.

Further reading (alphabetically)


Lecture 9. Watching Other People Play Video Games, and Why
[Corresponds with Chapter 9 from the book.]

Summary
Discuss how live-streaming has evolved into a critical component in the way that game companies market their content to audiences.

Segment Overview
Today, more than 2.2 million people are streaming on the platform to a daily audience of fifteen million unique visitors. After music, which is the most popular type of content on platforms like YouTube, audiences like to watch videos and live streams of people playing or discussing interactive entertainment. With so many people worldwide now regularly watching both prerecorded and live-streaming videos of others playing games, the phenomenon has disrupted how publishers market their titles and opened up new avenues for advertisers to connect with young audiences.

Challenges
• Electronic Arts discovers live-streaming. Despite putting most of its weight behind building momentum for the release of its new sci-fi shooter, Anthem, another one of its own titles, free-to-play Battle Royale shooter Apex Legends, stole the spotlight (Fig 9.1).
• Valve crowd-sources prize money. One of Valve’s Dota 2 has a monthly audience about 1/10th the size of the category leader League of Legends. Instead of focusing on size, Valve formulated a esports marketing that emphasizes loyalty.

Further reading (alphabetically)

Lecture 10. **New Revenue Models**
[Corresponds with Chapter 10 from the book.]

**Summary**
Examines the viability of publishers and platform holders who now are exploring advertising and subscription revenue.

**Segment Overview**
Now that video games are a mainstream form of entertainment, the underlying economics that drive this industry have shifted. Geographic boundaries and homogeneity of its audience no longer restrict game companies. We may ask: does this newfound status and broader cultural visibility enable revenue models that previously were unsustainable?

**Challenges**

- **Microsoft places a $200 million bet on in-game advertising.** Fueled by a fear of missing out, the software giant finds out exactly how incompatible games and advertising were when it acquired an in-game ad network called Massive in 2006.

- **The Netflix of Games.** With the release of a new generation of consoles just around the corner, we now also find a new offering: cloud gaming. Subscriptions have proven to be a strong favorite among consumers interested in video and music. Will we soon all subscribe to a gaming service, too?

**Further reading (alphabetically)**

“Microsoft Acquires Massive, Inc,” Stanford University, Case Wiki 2007-353-1, updated May 29, 2007, 8. [https://web.stanford.edu/class/ee204/Publications/Massive-Microsoft%20EE353%20CasePublisher%202007-registered.pdf](https://web.stanford.edu/class/ee204/Publications/Massive-Microsoft%20EE353%20CasePublisher%202007-registered.pdf)

Tom Hancock, “China 5G Rollout to Boost Cloud Gaming,” Financial Times, November 4, 2019, [https://www.ft.com/content/4a4cd344-fa2f-11e9-a354-36acbbb0d9b6](https://www.ft.com/content/4a4cd344-fa2f-11e9-a354-36acbbb0d9b6)