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Free-to-Play Marketing Strategy: Research and Evaluation

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Abstract

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Abstract

The Free-to-Play model is a marketing strategy, a way of distributing games, where customers are allowed to install and get most of the experience without payment. The objectives of the thesis project were to combine available theory about the Freemium model and create a template for businesses to follow while acquiring the Free-to-Play strategy, as well as to describe typical customers and ways of monetization.

To prove validity and reliability of the theoretical information, quantitative and qualitative researches were conducted. Data gained through the questionnaires and the interview has brought light on the important factors that need to be taken into consideration during the launch of a Free-to-Play product.

The objectives of the present study are viewed as achieved. After analyzing of theoretical information and the results yielded by the survey on customers' spending patterns, a customer profile was designed and ways of monetization were suggested. Another important outcome of the research work was a template which assists companies to avoid pitfalls while launching their products to the market. It was created by collecting all the required theoretical information and providing data collected from qualitative and quantitative studies.

The thesis research has brought plenty of useful information to work with and can be utilized for the future researches in the fields of Freemium marketing strategy, launching of apps/games on the market or building relationships with customers.

CONTENTS

1 INTRODUCTION

The inspiration for this thesis came from author's personal interest in marketing and Free-to-Play technologies. Free-to-Play marketing strategy has been effective and efficient starting from the beginning of 2000. Plenty of companies including giant corporations as well as independent software developers have acquired the model for its products. It created a whole new market niche with big amount of participants who create new products daily. However, surprisingly little amount of scientific researches were made in the field, leaving plenty of useful information outside the business process. The initial purpose of this thesis is to summarize main steps that company has to make to bring its app/game to a commercial success as well as to build long-term relationship with its customers. This research would be useful for companies to get better understanding on whom and how to target their products, and for independents who are interested in marketing since it has a lot of theoretical information that can be used in practice.

The particular thesis has following objectives:
- Summarize theoretical information which can be used for launching of Free-to-Play product
- Prove that Free-to-Play marketing strategy is worthy to acquire
- Describe the typical customer of Free-to-Play (creating of the customer profile)
- Suggest the ways of monetization of Free-to-Play products

The structure of the thesis starts with theoretical information useful for the practical purposes and continued by implementing of the knowledge gained from theory to create surveys that can help to answer the research questions: How to earn money from a Free-to-Play game/app? Whom and how to target Free-to-Play product? The thesis also has an interview with an expert in software development to get an opinion of professional who has an experience in a business process.

2 MARKETING STRATEGIES

"Marketing Strategy is the fundamental goal of increasing sales and achieving a sustainable competitive advantage" (Baker 2008). Marketing strategy includes both, short-term and long-term actions in the field of marketing that require the analysis of the situation in a company and formulation of market-oriented strategies in order to contribute companies' marketing objectives (Homburg, Kuester, Krohmer 2009).

Marketing strategies serve as underpinning of marketing plans. They exist to optimize companies' efforts and create an advantage over the competitors. There are many different strategies exist nowadays, they differ by executing time, funds involved, ways of implementing etc. The common goal of all the options is to benefit a company and build relationships with customers. Marketing strategy is dynamic, it is impossible to fully plan it, there is always percentage of uncertainty while implementing, since both customers and competitors can react surprisingly different from what was expected. In this situation the goal of a marketing department is to decrease percent of unexpected events as much as it is possible but be prepared to face obstacles on the way and adjust their actions according the present situation. (Homburg, Kuester, Krohmer 2009).

The dynamic of a marketing strategies is one of the reason why there are so many of them. Choosing the wrong path can lead small startup company or Giant Corporation to suffer losses. That is why lately attention of researchers was focused on this field of marketing.

2.1 Product Life Cycle

Why is it important to talk about product life cycle when dealing with marketing strategies? The answer is: since every product goes through the same stages during its' lifetime, marketing strategy has to be picked according the current phase. The term product life cycle was introduced back in the 1950s to describe which time stages typical product goes through. Four different stages were selected: introduction, product growth, maturity, and decline. The primary reason of this theory was to prolong each stage and increase profitability of the product. (Grantham 1997).

Basically the same reasoning exists when marketers apply strategies and theoretically speaking, marketing strategies can be divided at the same time periods for more accurate control over the product (Grantham 1997).

The figure below shows how typical product is moving through the phases of its lifecycle.

For the purpose of the future research it has to be mentioned that during an interview session with an expert in the game development it was found out that in expert's opinion even though the products of the Free-to-Play in the most cases are games, it has to be seen as normal business product since the development of it is pretty much standard product development process that means that from a business point of view targeting and distributing of it can be made via using standard business tools (Kiuru 2015).

2.2   Common Marketing Strategies

Marketing strategies can differ greatly from one another. According to Shaw (2012) "Marketing Strategy: From the Origin of the Concept to the Development of a Conceptual Framework" there is a framework for marketing strategies. Which means that each marketing strategy is used according the life cycle phase of the product or a company which is needed to be improved.

It starts from market introduction strategies. Usually at the start of any company or a new product line, it has to be decided does company want to penetrate existing market or take its own niche. Penetration and Niche strategies are most common in the introduction phase

 Market growth strategies: In the beginning of the growth phase, company can select from two different strategic alternatives: segment expansion or brand expansion. Brand expansion or more commonly brand extension is a marketing strategy which refers to a company that creates new product but uses well-known brand name to gain awareness. Marketing segment expansion strategy is referring to targeting product to different markets, increasing the need of the particular product in the different segments.

 Market maturity strategies: In this phase sales growth usually slow down, and marketers usually approach a maintenance strategy which allows firm to keep profit for a longer period of time before declining phase starts

Market decline strategies: Any product is going through the same life cycle and it is inevitable that at some point demand for product will decrease making it unprofitable to maintain a product. This is the stage where divest strategy being used. It refers to liquidating or selling particular segment to avoid further loses.

These four stages explain traditional marketing strategies that are commonly used worldwide. Any new strategy usually will belong to one of the phases.

2.3   Free-to-Play (F2P)

F2P is a business model, way of distributing games, where customers are allowed to install and get most of the experience without payment. Most of F2P games use pricing strategy of micro transactions, where entry and use of the product is free, but in-game purchases make process easier and more entertaining. (The Riot Manifesto 2015.)

Free-to-Play marketing strategy belongs to the market introduction strategies in most of the cases. Since F2P model does not withdraw money from its customers in the early stages, it makes it easier for developers to collect data concerning customers' opinion about the products, lags, and possible future improvements without fear to lose its reputation. The principal difference between Free-to-Play product and traditional paid game is that in case product fails customers do not lose its money. There have been many cases where after one game that did not satisfy desires of the customers, big development studios were shut down. In this sense, F2P is becoming ideal starting point for the company even if they are planning to turn it into paid or subscription based product later on.

This topic was also covered during the interview with an expert. It was also attempted to find how to keep people in the game when is just has been released and yet far from an ideal. Mr. Kiuru replied that in his opinion to achieve the desired level of addiction from the players, developers hast to constantly improve the product, because the difference between Freemium product and the traditional game which has a fixed price once you are buying it, is that the work of developers of F2P products only really starts when the game is released. It is highly important to maintain customer's interest in the game, since the longer they use it the more likely they will bring profit to a company. So, in this scenario main goal of developers become to constantly adapt product to the customer's needs and bring new experiences. It requires day to day communication with players, which not only gives plenty of valuable data to work

with, but also shows customers that developers care of the players and want to create long-term and trustworthy relationships. (Kiuru 2015).

This business model has grown its popularity rapidly. In 2010 the total revenue generated via F2P ($1.3 billion) was greater than the total subscription-based market ($1.1 billion) in the United States. Subscription-based revenue continues to grow, of course, and accounted for $1.3 billion in 2011, up 18% from the year before. F2P revenues grew to $1.6 billion in 2011, up 23 percent year-over-year. F2P has generated huge revenue over the last years, which make it one of the most profitable models in the video game business. (MediaBUZZ Pte Ltd. 2014.)

The Free-to-Play model originated in the late 1990s and early 2000s. Development of the internet has primarily influence on the increased usage of Free-to-Play games, since it greatly contributed to the distribution of the products. Nowadays F2P MOBAs (multiplayer online battle arena) such as League of Legends or Dota 2 have become among the most popular PC games. (Gaudiosi 2012.) The success in the genre has helped convince many video game publishers to copy the Free-to-Play MOBA model.

In 2010 SuperData Research released a mobile gaming research and here is overview of mobile gaming sector:
- Mobile gaming will represent a $7.5 billion worldwide market by 2015, tripling from 2010;
- Asia currently the largest market for mobile gaming, with revenues forecasted to total $3.2 billion by 2015;
- Freemium accounts for 55% of all mobile game revenues, compared to 6% ad revenue;
- Between 3.5% and 10% of a mobile Free-to-Play game audience will convert to paying users;
- Most users spend between $8 and $15 per month.

"The mobile gaming market is key to building a successful strategy," according to Janelle Benjamin, SuperData's VP of Research, "Only by capitalizing on the early momentum can game companies establish a sustainable footprint for the long-term" (MediaBUZZ Pte Ltd. 2014).

It proves that nowadays, entering the computer or mobile gaming market with a Free-to-Play product is one of the best alternatives for the game developers.

Huge demand on the F2P products is a great opportunity to increase profit of the company, yet the importance of sustainability of the game and keeping the gamers attention is the question to be answered. There is wide range of strategies to be used to keep people in the game and to acquire those businesses has to research its customers, competitors, current situation of the market, etc.

Acquiring of the Freemium marketing strategy product requires serious consideration of plenty crucial factors. Basically to decide which strategy is better to pick to advertise the game, developers have to analyze who are the customers, how to make them interested, which elements of the game is possible to ask money for and which has to stay free, how chosen marketing strategy will affect every part of the company.

3   POSITIONING ON THE MARKET, LAUNCHING OF THE PRODUCT

3.1   Mistakes that cause Free-to-Play app or game to fail

It is common that most of the startups fail at the beginning of the business lifecycle no matter how original the idea is. Developers of the Freemium products have to realize certain issues that cause a failure of their games before introducing the products to the customers. Very careful scanning process and understanding of the clients' needs can help company to avoid those mistakes and successfully launch their product. In 2014 SWRVE (the world's leading marketing engine for freemium games) researched and released five common mistakes that cause apps to fail.

- Mistake 1: No clear business objectives

"At the heart of successful product strategy is a clear definition of what success means and what the business is trying to achieve" (SWRVE Whitepaper 2014). It is important to understand that the clear business objective is not the suggestion that the game has high level and many people will install it. Business objective is rather to be a certain revenue target, or number of long term users wanted to be achieved. It will help to direct the work of the company towards the goals and carefully making steps in the beginning.

- Mistake 2: Poor Onboarding

"Here's a startling fact. 21% of people who download an app never look at it more than once." (SWRVE Whitepaper 2014.) Game or app will not last long if people will not stay in it, and prime cause of not willingness to use app after it was installed is poor onboarding. Onboarding in this situation means a method of answering the questions that - if you fail to answer them effectively - will end up causing users to give up: Why am I using this app? How do I use it? What else can I do? Far too many developers ignore this requirement. They are placing customer right in the middle of the game and leave them to their own, without clear instructions. To avoid this happening company should start thinking about initial gaming experience, and build out a smart onboarding process that stops users from getting confused.

- Mistake 3: No Organic Discovery

First step in the increasing of amount of users is to create word-of-mouth and bring people to your game without spendings. The giant mistake would be to focus on advertising campaigns and not to organize natural flow of users into the game. Of course the product cannot become popular without advertising, but it has to be only part of the process. Developers should make process of social sharing easy for the clients. For example encourage customers to share achievements to attract more users. People trust each other more than the advertisement and the company will benefit greatly. Another important factor that can not be achieved by advertisement is rating of your game (App store, Google Play, Steam, etc.). It is purely created by people who tried out the product. Encourage the customers to share feedback is fairly easy to organize, for example presenting in-app message asking for feedback. (SWRVE Whitepaper 2014).

- Mistake #4: No Relationship Building

"The more you learn about any individual user, and then tailor their experience, the more value they will get from your app, and the less likely they are to leave your service for another" (SWRVE Whitepaper 2014). Building long-term relationship with the customers is not necessarily the marketing activity itself - the push notifications, in-app messages, and the changes in user experience and so on - but really the learning and targeting that underpins it. This task belong to the marketing department of the company, they have to analyze feedback of the customers after every significant event of the game, find out if customers are enjoying current situation in the gaming process, asking customers what they would love to be changed. First of all it will give company plenty of data to work with and adjust product concerning the customers' wishes. Secondly and most importantly it will make your customers feel valuable, which will lead to further relationship with the game.

- Mistake #5: Building For The Wrong Audience

"We've learned this from many Swrve customers over the years: always make sure you know who you are building for, and make sure the experience you deliver is what they want - not what you think they want" (SWRVE Whitepaper 2014). Targeting for the wrong audience is fatal yet very common mistake among the businesses. It will

most likely destroy all the work that has been done simply because customers are not interested in the product. That is why company has to study its customers, for example conducting the surveys and creating of the customer profile.

These five mistakes are crucial to avoid bringing your company to success, and the fact that so many companies still fail because of the reasons discussed earlier makes it even more important to study these issues and suggest better decisions (SWRVE Whitepaper 2014).

Whenever developers are planning to advertise the product they have to consider how it will affect relationship building, and especially to which audience they are planning to introduce their products. During the advertising campaign it is easy to commit at least two of the killers mistakes that has been discussed before. During the interview with an expert this question was discussed. Mr. Kiuru began his explanation from saying that he does not believe in a standard way of advertising for a F2P products, because initially Free-to-Play product is not something being sold, it is something which is given to people for free. He explained that probably the more appropriate way for this kind of product is to create "Word of Mouth" where customers who tried out the product will share it with the other users. It is important for a freemium model to keep its appearance as totally free and entertaining time spending, so customers would get addicted first and later on will find out that they can spend money in a game when they are already involved in the process. Basically Kiuru's idea was that the aggressive advertising campaign with a lot of funds used is not the way to launch a successful F2P game. It is well-known that customer nowadays are tired of advertisement that follows them everywhere, which makes it a great idea to make your customers be your own marketing department, and surprisingly it brings much more players rather than traditional ways. Brilliant example of such way of distribution is League of Legends F2P game for PC that has been created by Riot Company. Just in 7 years of existence this game has become a cyber-sport with millions of players daily, and there is no advertisement of this game at all. After successful distributing of the product among the certain amount of players, situation has become so that players started to create its own community and actively invite people. (Riot Games 2015).

3.2   Strategic Positioning

Before applying strategies, a strong product is needed. If customers are not interested or unsatisfied with the game, none of marketing tools will be useful. So making of a strong proposition is about selecting position in the market and then operates within its borders. (Luton 2013).

According to Al Ries and Jack Trout (2006) in their book Marketing Warfare, there are four warfare strategies that can inform how to position your business and its brands: defensive, offensive, flanking or guerrilla.

Defensive warfare is used by market leaders. These types of companies use strategy that once brought them success, using large amount of funds to finance its campaign for the products that are already on the market. Most likely new companies can't acquire this strategy and defensive companies will become its main competitors, the ones company is trying to take players from. (Ries, Trout 2006).

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Offensive warfare strategies are used by the companies who are attempting to compete with industry leaders. An offensive company is a player who is trying to take a niche of a defensive company by being more strong and innovative. Even though offensive companies have same resources, they acquire something what defensive company can not, for instance they patented certain technology that draw customers from defensively positioned company. (Ries, Trout 2006).

Flanking warfare strategies are used by the small companies which are ambitious and goal-oriented but are lacking of resources. Companies who flank are risking and trying to take a market by the element of surprise These companies are moving to the genres and platforms that other companies do not see as appealing and surprisingly take big market niche and creating revenues. Many big companies used this strategy which makes them to breakthrough. However, as any risky start up, many of flanking companies fail before being able to get to the market. (Ries, Trout 2006).

The safest strategy for the small company is to use *Guerilla warfare*. Guerrillas are trying to take a small market niche and defend it instead of attempting to compete with the leaders. Sometimes staying small and profitable company is the best way to operate since if Guerilla companies are growing large enough they are often getting bought by bigger companies. (Ries, Trout 2006).

Choosing the wrong strategy is a common mistake among the companies in the Free-to-Play gaming industry. Copying of the market leaders without the same resources only causes failure. Small companies should have something more appealing for the customers to create demand for a product that has not taken market niche.

3.3   The High-level Proposition

First thing that almost every future customer will find out about the product are crucial for them to try to install the game. And here is what game developer's call High-level Proposition is coming in to play (Luton 2013).

In a Will Luton's (2013) book Free-to-Play: Making Money From Games You Give Away he explains the importance of The High-level Propositions as the first step of advertising of the successful F2P game.

"The high-level proposition - how the premise of your game is communicated through its title and visuals - is what makes players evaluate whether or not they want to play your game. In Free-to-Play all you're required to do is convince a player to part with some time, so the proposition can be light compared to $60 boxed-product games." (Luton 2013)

When game is appealing itself, it will eventually gain an interest of the customers. Usually, the high-level proposition is the name (or a logo) which attracts clients to try it out even before they actually got a chance to hear about the product. "The objective with this proposition is to communicate a compelling message to potential players that makes the game appealing. This message might be the action the player takes on, the theme of the game, its characters and its quality. Ideally, your high-level proposition will contain all of these elements while standing out as unique." (Luton 2013).

Creating this proposition is difficult process which requires plenty of knowledge in different fields starting from typography, and ends with a color theory while at the same time bearing in mind the market you're planning to reach, as well as selected customer group. Spending time and resources at the creating of proposition usually pays off in bigger profits for the company. (Luton 2013)

The quality of high-level proposition can make or break the game. If the proposition is poor, there will not be a demand for the product, since it will not be appealing for the customers right from the start. Almost in every case, creating of high-level proposition has to be first step of game developer, since it is obligatory to create an interest for the customer to install the game. (Luton 2013)

4 MONETIZATION OF FREE-TO-PLAY PRODUCTS

The F2P games industry has gone far in the past few years. "From a situation that many on the outside looking in would view as 'normal' - namely consumers paying for a game up front - we have migrated to the freemium model in which developers effectively give the product away and then rely on 'in-game' purchases" (The SWRVE Monetization Report 2014).

In January 2014 SWRVE released a paper which examines revenue delivered via in-app purchases, where 10s of millions of users, have been analyzed to produce data.

4.1 How many pay, and how much

It is given that the majority of freemium gamers do not use money in a game at all. For instance, in January 2014 only 1.5 % of active players surveyed made an in-app purchase at all. Since it shows that majority of users do not bring any profit to the company, it makes target marketing even more important. Marketing managers have to analyze customers and find out the group of people who can be named as spenders, and takecare of the need of this group before any other. Statistics from the SWRVE report shows that a monthly average spender brought $15.27 to the company. This particular sum is named MRPPU - monthly revenue per paying user. (The SWRVE Monetization Report 2014.)

This data proves that, businesses of Free-to-Play have to pay plenty of attention to the paying users to make sure to receive continuous revenue.

4.2 Value of Purchases

Before, it was explained that an average in-app purchase is $5.01. It is also important to show which price range of purchases represents biggest percentage of sales. The SWRVE report "shows in-app purchases as separate purchases and, plots both the % of purchases that hail into the bucket, and the total % of revenue accrued from that bucket." (The SWRVE Monetization Report 2014.)

From SWRVE research it can be seen that while purchases with a price range from $1 to $5 represent a majority (67%) of all purchases, they bring only 27% of revenues. Similarly, high value purchases (those over $50) account for 0.7% of the total number, but still significant a sizable 9% of revenue. "It is worth noting that very few stock keeping units(SKU) in fact fall into this range. Those titles that currently do not offer SKUs at prices greater than $50 should probably consider introducing them." (The SWRVE Monetization Report 2014.

4.3   How players break down

There are plenty of industries that are characterized by a small number of customers who bring sizable amount of total revenues (The SWRVE Monetization Report 2014). How true is this of the freemium games market?

SWRVE researchers counted total spending of every paying player in the month and put them into deciles. Decile is any of the nine values that divide the sorted data into ten equal parts, so that each part represents 1/10 of the sample (Lockhart Robert 1998). For SWRVE "it means that the bottom 10% is the 10% of users who spent the least in total - on the left, and move in 10% steps to the top 10% on the right." (The SWRVE Monetization Report 2014.)

There is a certain data which appears after this analysis. A 50% of revenue derives from the top 10% of payers. To add more context, "if it expressed that group as a % of total players they represent a mere 0.15% of that group. That number bears repeating: 0.15% of all monthly players contribute 50% of total revenue. Taking an even more granular approach, 13% of revenue comes solely from the top 1% of payers (not graphed)." (The SWRVE Monetization Report 2014.)

This data leads to the fact that developers of F2P games/app should answer the next questions:
- Have we found this group of customers in our business?
- Are we putting enough of an effort to reach this group of players?
- Do we understand where they come from, who they are, and do we position ourselves correctly according to this group?

4.4   New players spending patterns

As a next step on the way of monetization of Free-to-Play game or application busi-
nesses should consider another important factor which is how soon new customers
will bring revenue to the company (The SWRVE Monetization Report 2014).

SWRVE shows data in their Monetization report which proves that a big percentage
of buying activity is happening very soon after the game is first played. That helped to
calculate that an average time for the first purchase is approximately 24 hours.
SWRVE report also shows that 53% of new players are making another purchase,
and 13.7% of new players do more than 4 purchases in their first 14 days. (The
SWRVE Monetization Report 2014.)

Those 13.7% probably are heading to take a membership in top 10% of paying users.
This information proves that company should offer in-game purchase to the new cus-
tomers somewhere in between first access to the game and the following 24 hours.
(The SWRVE Monetization Report 2014.)

During the discussion session with Mr. Kiuru important question concerning the mon-
etization of the products was revealed. It was asked: What in expert's opinion are
things that customers can be charged for in a Free-to-Play product? As it was dis-
covered interviewee believes that none of this is the best way and there is actually no
way that can be named best with a confidence. Choosing of revenue model depends
on many different factors and can be totally different for almost same games. Howev-
er it is important to calculate everything and ask your future customers what they
think. This thought has generated question in survey that has been created for the
thesis and brought interesting results which will be revealed later in a research. Mr.
Kiuru also stated that initial proposition of Free-to-Play is that it is totally free for gam-
er what appears to be misleading since players spend a lot of money inside of a
game, but the main point here is that developer has to find a balance between free
and paid part where it is still exciting to play without donating but spending money will
make customer's experience way better. (Kiuru 2015).

5   CUSTOMER PROFILE

"No matter how amazing the product is, if it is targeted poorly it causes failure. The importance of the customer profile and finding of the target group is underrated and probably becomes one of the most popular reasons for apps to fail." (Kiuru 2015).

All the theory that was introduced before leads us to the fact that in order to create a successful marketing strategy it is highly important to understand who company is planning marketing to. Since high level proposition, strategic positioning, way of monetization, etc. will be picked according to target group which product is created for. This is where customer profile is stepping up. In this chapter five steps to create an ideal customer profile will be introduced and later on will be applied to create specific profile for the customers of F2P.

Step 1: Describe your customers

This step sounds obvious yet many companies spread their attention to the different customer groups and as a result losing the focus. Correct understanding of the customers' similarities can bring company to the better knowledge of what people want to get from the product. By using the following criteria customers can be split in groups: Demographics - their age, gender, income, etc.; Psychographics: their personality type, preferences, etc.; Behavior - their similar likes and dislikes, sport, hobbies, etc. (Goldenberg 2015.)

Step #2: Locate your customers

Find the places your customers are attracted to, whether a physical location or a cyber space where they gather. In this step, the following questions have to be answered: Where do they hang out? What do they read? (both online and offline) What do they search for online? (Goldenberg 2015.)

Step 3: Review the needs and benefits that make your customers purchase your product or service.

 Find out where customers usually look for the products that they want to buy. What they want to get from the product? Why would customers be interested in specific product that company is producing? (Goldenberg 2015).

Step 4: Connect with your future customers

Reach out to your ideal customers to gain additional insight into what would made them select your business over others. Conduct interviews, formally or informally. This step is probably most important in the process of creating of the customer profile. This is the first time company is directly contacting potential customers, yet without offering them products, but to find out what products customers want. That is why it is important to create the survey, conduct an interview, to collect the data from potential customers and get clear understanding of what customers want to see in the product. (Goldenberg 2015.)

Step 5: Create the profile

Make profiles that describe specific segments of your clients. It has to be clear and be able to give an answer to the question of what would motivate them to find your product. If there is more than one target group that was identified, create different profiles and start thinking of separate marketing activities for every group of customers. (Goldenberg 2015.)

These steps should give the company a clear picture of the type of customers they have to be targeting. Keeping this profile in mind will help to avoid wasting time and resources on unsuccessful marketing efforts. At the same time it will make it easier to connect with the potential customers and build better relationships with them. (Goldenberg 2015.)

6   RESEARCH ANALYSIS

Primary research

This work is implemented by means of both a qualitative and quantitative methods of research since it uses data collected from surveys as well as interview with an expert in a field.

Qualitative research is used to gain an understanding of underlying reasons and motivations, to provide insights into setting of a problem, generating ideas for later quantitative research (Given, Lisa M. 2008). Qualitative part of the research consists of the interview with an expert in the field of app development and Free-to-Play. The results of the interview are crucial for understanding the core concepts of the topic and generating ideas for the further quantitative research. Interview was conducted in Kuopio at 27 of March 2015.

Quantitative research is "the systematic empirical investigation of observable phenomena via statistical, mathematical or computational techniques" (Given, Lisa M. 2008). In this particular work quantitative method was used to collect and analyze data of two surveys that were created in Webropol. These questionnaires were extremely important to accomplish since the results of them gave valuable information on research matter, specifically on what customers are willing to pay for in a Free-to-Play app/game and who are the main customers of the Freemium model. Data collected by quantitative method were also used to prove a theory of the research work as well as to show that the information gained by professional research groups few years ago has not changed which proved that this data can also be used in research.

Secondary Research

"Secondary data can include any data that are examined to answer a research question other than the question(s) for which the data were originally collected" (Vartanian 2011, 3).

Certain part of the thesis is based on a secondary research. This data represents the theoretical part of the thesis, produced by Amazon, Savonia Library, SWRVE reports, and net articles.

Since the topic of the thesis is quite new, it is important to bring a light on the essential theoretical concepts of Freemium model to make it easier for the reader to understand the research work better. After the theoretical background, analysis of the results of questionnaires and interview will be described to prove theory that has been used.

6.1   Customer spending patterns and behavior

Short questionnaire was designed to prove some of the previous theoretical assumptions concerning customer behavior, spending patterns, and thoughts of the customers towards F2P products. It also gave valuable information that can be used in a creating of the customer profile. Almost 150 people took part in the questionnaire that was made using Webropol and distributed in Facebook and VK social networks. Main point that should be highlighted before detailed analysis of results is that the theoretical assumptions were almost completely true towards the respondents' answers.

First two questions are skipped in this analysis because they will be later used to create a customer profile and they aren't crucial in the explanation of the customer behavior and spending patterns.

Question number 3 shows that majority of the respondents (74,65%) use F2P products in their daily life. It proves the importance of the Free-to-Play applications for the customers.

Question number 4 shows that only 42 out of 142 respondents (29,58%) ever made in-app purchase, which is correct according to the theory which says that majority of customers never spend money in the F2P products. However, the statistic from SWRVE Monetization report shows that only 1,5% of the customers spend money in the Free-to-Play applications. As it can be seen the results of the questionnaire are significantly higher which can be explained by the group that has been used in it (which is primarily consisting of students) and the amount of respondents. Nevertheless both researches prove that the least amount of clients bring the profit to the company.
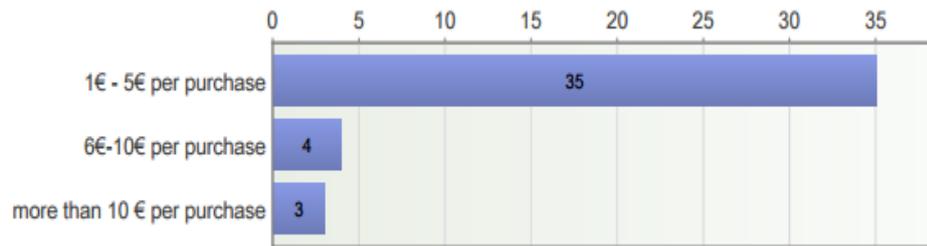
CHART 1. Amount of money spent per one purchase inside the app

Question number 5 was made for those 42 respondents who spend at least 1€ in question 4. Again it can be seen that results of SWRVE Monetization report has the same distribution of answers, and most of the purchases allocated in the price range of 1€-5€, 67% for SWRVE and 83% for the thesis questionnaire. However, SWRVE has an inside information for the sales profit of the companies and it is stated in the report that while (67%) of all purchases are in range from $1 to $5, they only bring 27% of total revenues. This information allows us to make an assumption that the least amount of customers (those who made a purchase with a value higher than 5€) bring more profit to the company.
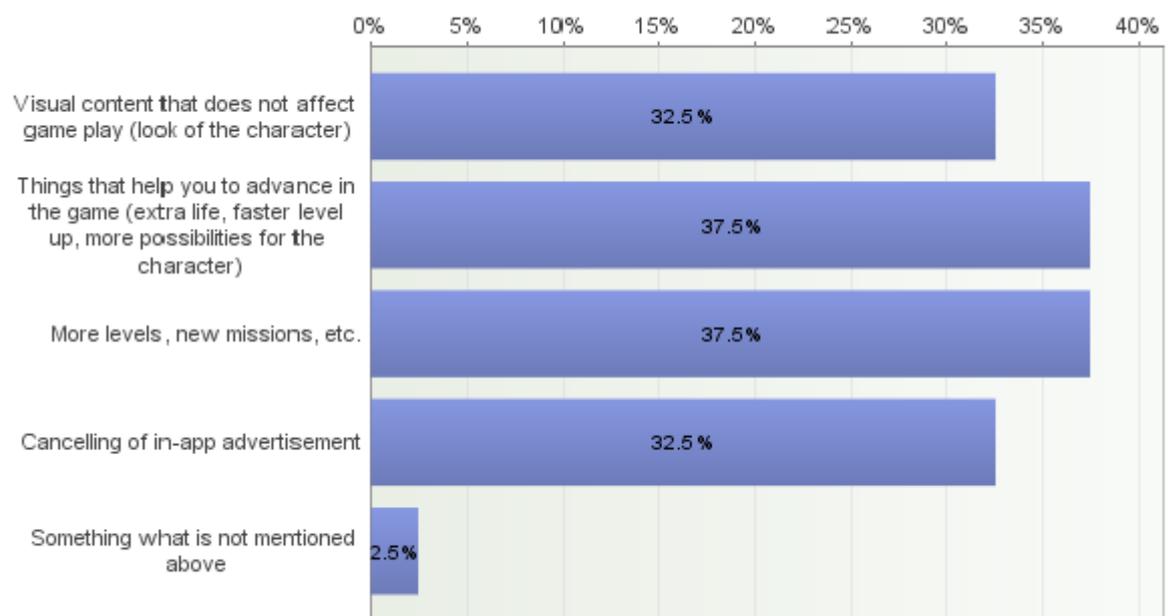

CHART 2. Customers' preferences in terms of paid services from Free-to-Play apps

Question number 6 is important to understand what customers are willing to pay for. Surprisingly answers were distributed quite close to each other, which makes every of suggested answers are equally valuable for the customers. It is important to state that every respondent could have chosen more than one answer. However, even though the distribution of the answer is narrow, it can be seen that gameplay content is more important for the customers rather than visual appearance. The options "Things that help you to advance in the game(extra life, faster level up, more possibilities for the character)" and "More levels, new missions, etc." allocated 37,5% of the answers. Options such as "Visual content that does not affect game play (look of the character)" and "Cancelling of in-app advertising" has got only 32,5% of the answers.

Question number 7 was "What are your favorite games/apps on the mobile device?" and has an open answer option. It was answered by 88 respondents and generated more than 100 different games and apps. However after analyzing of all the answers, 3 main groups can be selected.

- Endless Runners (Subway Surfers, Fruit Ninja, Into the Dead, etc.)
- Puzzles, Card games and Quizzes (2048, Quizz challenge, Poker, Solitaire etc.)
- Social apps (Facebook, Instagram, VK, YouTube, etc.)

First two groups show that customers are more likely to use simple and addictive "time killers" on their devices rather than playing in the game with a storyline. And the group number 3 represents important statement that nowadays people want to stay online all the time and they believe that using the applications on their devices is the easiest way to do it.

The last question was to find out whether customers prefer Free-to-Play or Paid Games. The results shows that majority of the customers (104) prefer to download games for free and have the possibility to make in-app purchases. This is important, since just 5 years ago in 2010 the results were an opposite and no one took F2P market seriously.

Through the questionnaire, ways of monetization were analyzed. It was found out that customers are willing to pay for more content in the game which is initially free, and

for increasing their chances of winning. The other ways of monetization such as advertising inside the app and paid canceling of it and visual content that does not affect gameplay seem to be important as well and can bring revenue.

Suggested ways of monetization

To sum up, there are number of ways to monetize Free-to-Play game or App. It includes: placing advertisement in a game and paid canceling of it; selling the additional visual content; selling the bonuses which assist gamers to advance; selling of a merchandize.

Based on the survey results and plenty of theoretical information as well as information about top companies in the industry, the suggested way of monetization for the Free-to-Play game would be selling visual content which does not affect the gameplay. This option does not ruin the balance among the paid users and players who did not donate money, yet it helps players to differentiate their characters from the others. Canceling of in-app advertisement and merchandize sales can only become additional part of revenue since they do not provide enough funds.

The thesis questionnaire proved the previous theoretical information, as well as generated plenty of data to work with. This survey will be used to create a questionnaire for the customer profile and provide even more valuable information on a customer behavior. What is important to say, is that survey definitely proved that Free-to-Play product has taken its market niche and became an important part of the daily life of modern society.

6.2   Customer Profile

There are many definitions of what customer profile is. Commonly it stands for a description of a customer or set of customers that includes all the characteristics of the customers which are demographic, psychographic and geographic, and any other factors that somehow affect a customer's buying behavior. (Goldenberg 2015.)

In this research work the discussed theoretical framework of the customers' behavior and the following charts and data collected from the questionnaire will describe typical customers of F2P products. Since customers of freemium products are differentiate greatly by the geographic areas it is impossible to include its location characteris-

tics, however demographic and psychographic characteristics will be discussed below.

Description of the questionnaire

Particular questionnaire was designed by using Webropol tools and had 6 questions. It was distributed using Facebook and VK social networks at 19 March 2015. Over 150 respondents completed the questionnaire. First question was: Have you ever made in-app purchase? (Buying something inside the game/app at your electronic device), with the answer options to be "Yes" or "No". For the respondents who choose the option "No" questionnaire was immediately over. Respondents who choose the option "Yes" proceeded to the following question. This move was designed to select a respondents' group who did at least one purchase of freemium products which turns out to be a little bit over 50 people or 34% of the total amount of participants.

The second question was: What is your gender? With the options "male" or "female". Results shown that out of 52 respondents 55% were male and 45% female, which allows making an assumption that spending patterns in case of F2P products do not correspond with the gender of the purchaser.

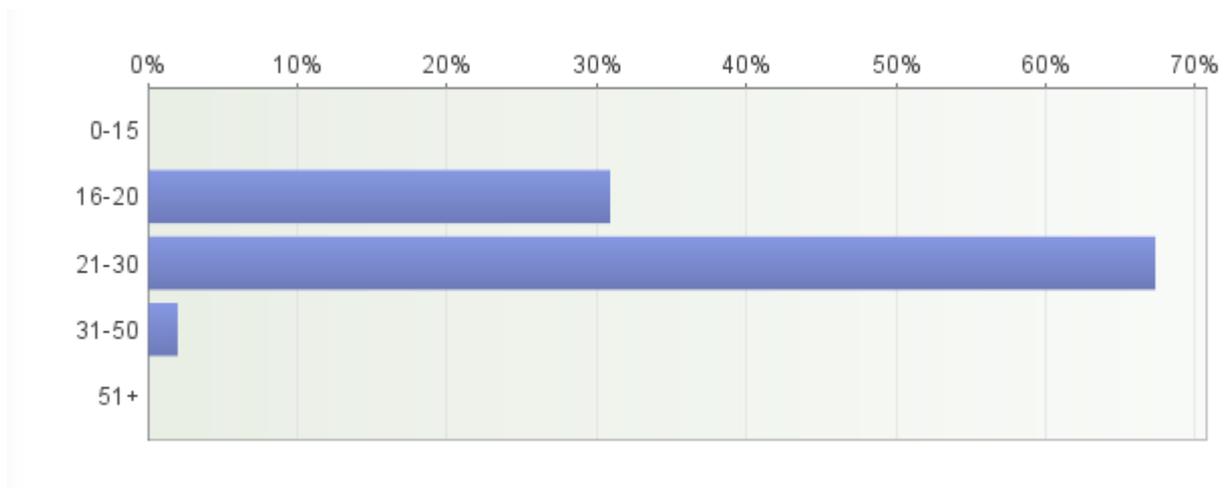The next question was: What is your age? And the following chart describes the age of respondents.

CHART 3. Age Differentiation of respondents (n=52)

The age range distributed mostly starting from 16 years old and until 30 years old. This question shows that the most active users of F2P apps are teenagers and young adults. However, since the questionnaire was distributed in social networks which are mostly used by the same age group, it leaves question of the age distribution not answered fully. Yet, taking into account that most of the F2P content is distributed via social networks and popular internet resources, it is still possible to state that the majority of the customers represent the age group of young adults.

The question number four was about the respondent's occupation and over 80% of participants choose an option "student", which can be explained by the previous question, since majority of the students are in age group of young adults.

To analyze the question number five which is: How do you prefer to spend a free time? Tool of comparing groups of Webropol was used. The distribution of the answers is illustrated in the following chart.
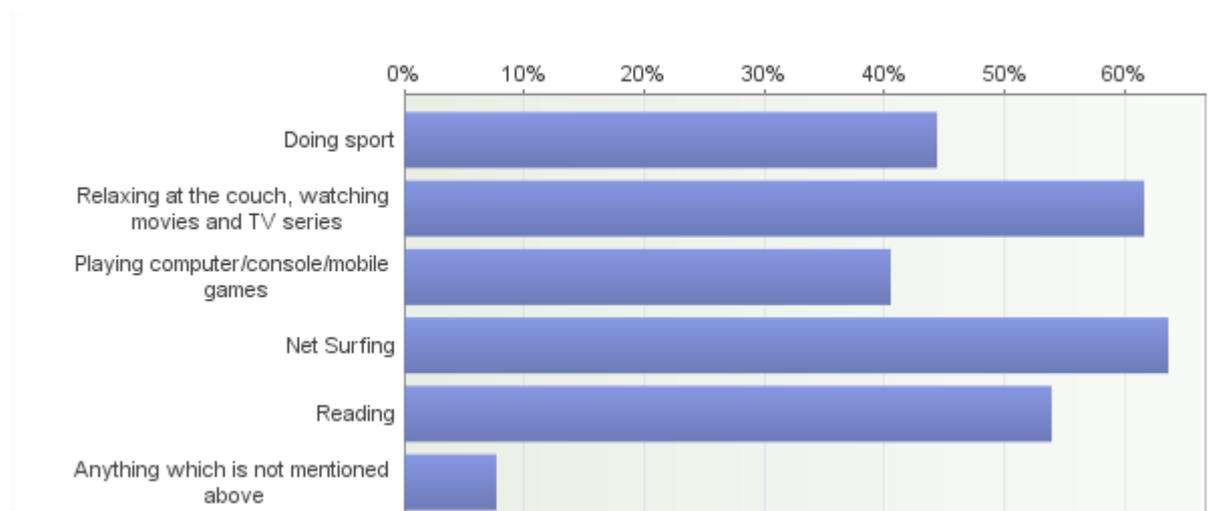

CHART 4. Spending time preferences of respondents (n=52)

As it can be seen, most popular answers were distributed in between three options "Net Surfing", "Relaxing at the couch, watching movies and TV series", and "Reading". These three options shows that customers of Free-to-Play apps/games prefer to spend their time by doing intellectual and less active things rather than doing sport.

The last question number six was designed to find out which career path is preferable for the customers of F2P.
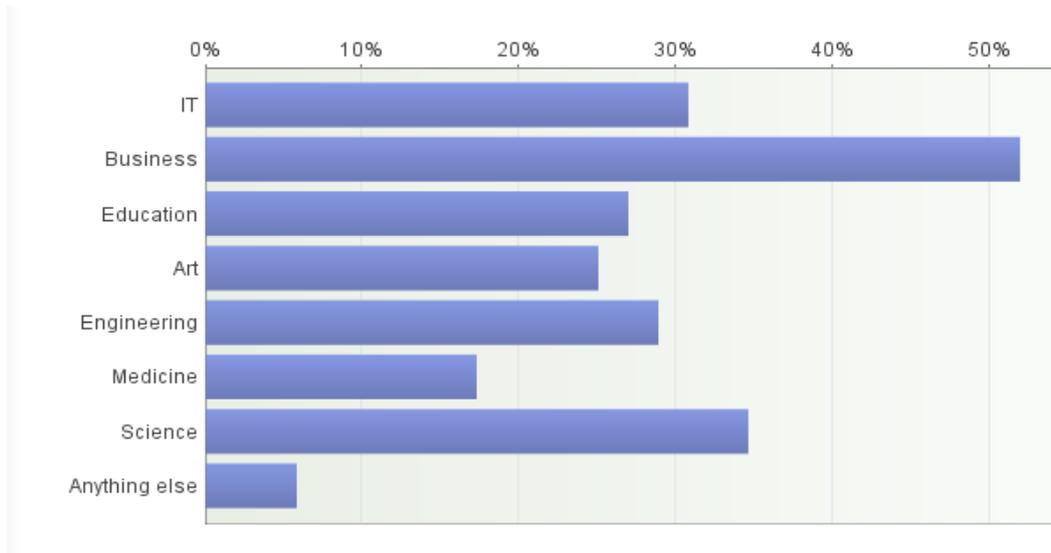
CHART 5. Fields of working interests of respondents (n=52)

In this question the biggest response rate (over 50%) had the option "Business" following by "Science"(35%) and "Engineering"(28%). However, the other options have a significant number of responses as well, which shows that in each field of working life, there are possible customers for the F2P products.

Summary of the Customer Profile

After conducting this short questionnaire and collecting the results, it has to be explained that this customer profile will represent the general target group of any F2P app/game and can be used as an example by developers who can adjust the questions being asked in the questionnaire according to their specific product.

After careful scanning of the results, potential customer of the F2P product has to be described. It is young adult male or female who is probably studying towards bachelor/master degree and spend plenty of time by preparing assignments for the school and worried about his/her education process, dreaming of building the career. He or she spend most of the time at home, doing net surfing or watching TV series (which is actually important to know since internet and TV series can be a platform where customer will see an advertisement of the product), and chatting with friends in Facebook, VK, or any other social network which is great way of sharing information with other people and very useful tool where customer who tried out the new game/app can immediately share it with the world.

7   CONCLUSION

The idea of the thesis originated about a year ago. It came from author's personal interest in marketing and Free-to-Play technologies. The main goal of the thesis was to collect and unite all the useful data concerning the Freemium model. After re-searching plenty of marketing books, websites, and reports, the most valuable theo-retical information was selected and was applied to create an example of the ques-tionnaires and interviews needed to conduct when Freemium model is acquired. All set objectives of the research work were achieved.

- Thesis has summarized theoretical information which can be used for launch-ing of Free-to-Play product
- In the part Monetization of F2P products it was proven that Freemium mar-keting strategy is worthy to acquire
- Customer profile was designed to describe typical customers (it was based on a questionnaire created specifically for this research work)
- After conducting the interview with an expert, and analyzing the results of questionnaire of customer behavior and spending patterns, as well as de-scribing the theoretical information on monetization of freemium products, ways of monetization were suggested.

Discussion

The objectives of the thesis are viewed as achieved. Thesis has brought plenty of useful data to work with and can be used for the future researches in the fields of Freemium marketing strategy, launching of apps/games on the market, building rela-tionships with customers.

One of the biggest challenges of the thesis was time management. Since the re-search work was independent it was difficult to follow the schedule. However, this issue was solved as research progressed. Another difficulty appeared during the time of creating questions for questionnaires and interview since it was important to ana-lyze what kind of data will each asked question generate and decide whether it is enough or additional questions has to be designed.

Despite the fact, that all set objectives were achieved, there is still room for improve-ment. Questionnaires could have more questions to provide more information on the

matter, and conducting additional interviews could be arranged to get more diverse opinion about the topic.

Validity and Reliability

Accomplished results are considered to be reliable since newest theory was used and quantitative questionnaires were distributed anonymously to provide trust-worthy data.

Personal growth

It was difficult to set clear objectives and follow them during the entire process as well as manage time spent writing, efficiently. These challenges were conquered and benefited author. However, probably most important personal outcome of this work, is amount of new information and knowledge gained during the process.

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