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Console Gaming

An analysis of how digital sales can be increased from both an industry and consumer perspective

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The purpose of this thesis is to research how digital sales of video games in the designated console industry could be improved. The industry is highly dependent on technology which is why it's conflicting that the digital distribution is behind in sales when compared to similar industries. As such, the question of the research was defined as "why do the digital sales lag behind the sales of physical copies of games?".

It was decided that quantitative research would be the optimal way to to gather data. Online questionnaire was chosen as the primary source for data and as secondary source interviews were conducted with 2 people who are aquainted consumers of the industry, as well as various literature sources, articles and previously conducted research were used. The questionnaire resulted in 92 responses that helped to map out and analyze the consumer views about the industry.

The research revealed that there's genuine concern about online safety, hardware restrictions, value creation and price when it comes to buying video games in a digital form. The physical copies were thought to have more value as they could be resold, loaned to friends or returned to the store for discounts on other games. The physical copies were also tought to have more flexibility to when it comes to pricing and discounts. In general, the digital distribution of video games was thought to be more appealing because of it's ease of use, comfortability and availability of games and most respondents predicted that the digital distribution would be the dominating channel for selling games in the future.

Keywords	Video games, consoles, digital distribution, consumer behaviour

Metropolia

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1 Introduction

Since the release of Pong, which is considered to be the first commercial video game in 1972, console gaming and sales has increased drastically and is now a multibillion industry. The industry has had it's crashes in the early stages due to poor standards of games, but was revived due to the establishment of several monitoring authorities and quality assurance methods. From the year 2000 to 2014 the computer and video game sales increased from USD 5.5 billion to USD 15.4 billion in the united states alone. (Statista, 2016)

The development of technology and introduction of online gaming increased the market for consoles in the computer dominated industry. The inability to upgrade hardware in consoles is one the reasons for the PC dominance, and where PC gamers had the ability to play online from the introduction of internet, online gaming was introduced to consoles first in 2005 with the 7th generation. Inability to upgrade hardware has led to long lifespan for consoles with the last generation lasting for 8 years. (Smith, P: 2015)

The current 8th generation of consoles utilizes cutting edge technology such as: Blu Ray, motionsense technology, virtual reality, HD quality video and online functions. Though having all this technology, the sales of actual games is practically done the same way it was done in the beginning, buying physical copies from brick-and-mortar stores. PC and mobile phone games have developed easy to access online markets, whereas the sale of console games seems to be in a standstill when talking about innovations. In the golden age of one click or flick purchases, walking into a store, waiting in line and paying cash does seem a bit impractical when other entertainment industries have applications such as Spotify, Netflix and iTunes. (Davidson, L: 2016).

To understand the industry, motivation of the consumers and marketing, several theories are researched which some are already several decades old as well as newer theories derived from the originals. Theories from Philip Kotler, Richard M. Ryan & Edward L. Deci, Abraham Maslow and Everett Rogers are used to understand marketing and consumer motivation.

2 Console game industry

During the following chapters, the research is going to provide general information about the console gaming industry. Firstmost the difference between console games and other platforms must be distinguished as this research is exclusively focusing on consoles. Console gaming devices are commonly referred to as *video games*. The player interacts with the game by using a special controller or joystick. Sound and video are produced from the television. Examples of various modern consoles are: Sony Playstation, Nintendo Wii U and Xbox One.

Each console manufacturer have their own established online markets, which can be accessed using the specific console, where consumers can buy digital copies of games. Usually these markets offer special deals for some games and have summer sales etc, where many game prices are lowered. Problem with these markets are that they don't take in consideration the age of the game, and that by the time the game is 2 months old from its original release date, the desirability and value has decreased. For example you can buy the Lego Marvel super heroes video game from Playstation online for 59,90€ although the game was released in November 2013 for the Playstation 4. Retail price of the game is 20€ in a finnish brick and mortar video game store VPD. (Playstation market: 2016; vpd.fi: 2016).

2.1 Industry history & development

To get to the point of how to evaluate the console games market, one has to understand how the actual hardware market has developed. Earlier console generations for example had few games which were sold along with the console and there weren't a lot of options for buying new games. Also since console manufacturers pretty much introduced digital marketing only during the 7th generation, one has to start from the beginning to know how games were sold and distributed at first. (Langshaw, M: 2011).

The biggest difference between computer gaming and console gaming is that once console is bought, its hardware cannot be upgraded by adding or changing aftermarket components. As such consoles are upgraded by their manufacturers by releasing new models on a timely basis. The jump from old to new console is called a generation as new models take the place of the old ones. At this point the old console is at the end of its lifecycle, as updates and new game releases are limited. The first commercial consoles released in 1972 are regarded as the first generation. Before this generation consoles required massive computers and separate vector displays making them out of reach for the mainstream consumers. The first generation consoles such as the Magnavox Odyssey changed this as they were possible to be connected to a regular TV. Although the Odyssey was really complicated to operate, as it had several switches that were used to play the games, it was considered relatively successful selling 200.000 machines. The release of Pong made consoles more popular and several manufacturers released their consoles meant solely for playing it. (Wolf, M. 2007: 17).

The introduction of microchips allowed the consoles to be run by a single chip, meaning that the production of consoles and entering the market for new companies was much easier and cheaper. The market introduced several new companies such as Atari and Coleco. At this point the different manufacturers introduced their own consoles which only varied by their exterior, but basically used same games as rest of the consoles. The console industry began to develop after the introduction of better hardware and entering the second generation. The second generation showed much promise with Space Invaders becoming a huge success and single handedly promoted the sales of Atari’s console, the Atari 2600, leading to Atari dominating the market in the early 80’s. However due to home computers becoming more common and the console market being flooded by identical consoles, as well as poor quality of games, made the consumers lose their faith in consoles. All these aspects led to the console market crash of 1983 which almost destroyed the industry. (Wolf 2007: 41-58)

The industry was evidently revitalised by a newcomer Nintendo. They introduced their Famicom system which differed from earlier consoles with front loading cartridges and with Nintendo having third-party developers releasing games. Nintendo however had strict quality qualifications for the developers, quotas how many games they could release per year and forbid them to release games for other consoles. This led to games being of high quality and insured Nintendo’s dominance in the market. Famicom was released in North-America as Nintendo Entertainment System or NES for short. It became one of the most sold consoles in history and completely changed the console industry and Nintendo’s Mario from super mario bros became a worldwide phenomenon. (Nichols, R. 2014: 36). For comparison most sold console of the second generation, the Atari 2600 sold approximately 30 million consoles while NES went on to sell over 61 million consoles. (Statista, 2016)

The console market continued growing steadily from generation to generation with few big players dominating the market. The biggest players from the 3rd generation to 5th were Nintendo and Sega, which competed with sales of consoles as well as their most known brands, Mario vs. Sonic. Introduction of the 5th generation meant there were new players who entered the market. For example Sony, a globally known company with well established brand recognition. At this point other companies were pushed out of the market and 3 companies (Sony, Nintendo and Sega) remained to dominate the market. Sony Playstation 2, released few years later became the most sold console of all time with over 155 million consoles sold (Nichols 2014: 40). The same year introduced one more major player, Microsoft. The market today is a tug of war between Sony and Microsoft as Nintendo has backed out to different segment since they are now more focused on casual gaming and handheld devices. The market revenue in hardware and software sales has grown by $18 billion from 2012 to 2015. (Statista, 2015).

The next chart shows how the the sales volume of consoles has increased since the first generation.

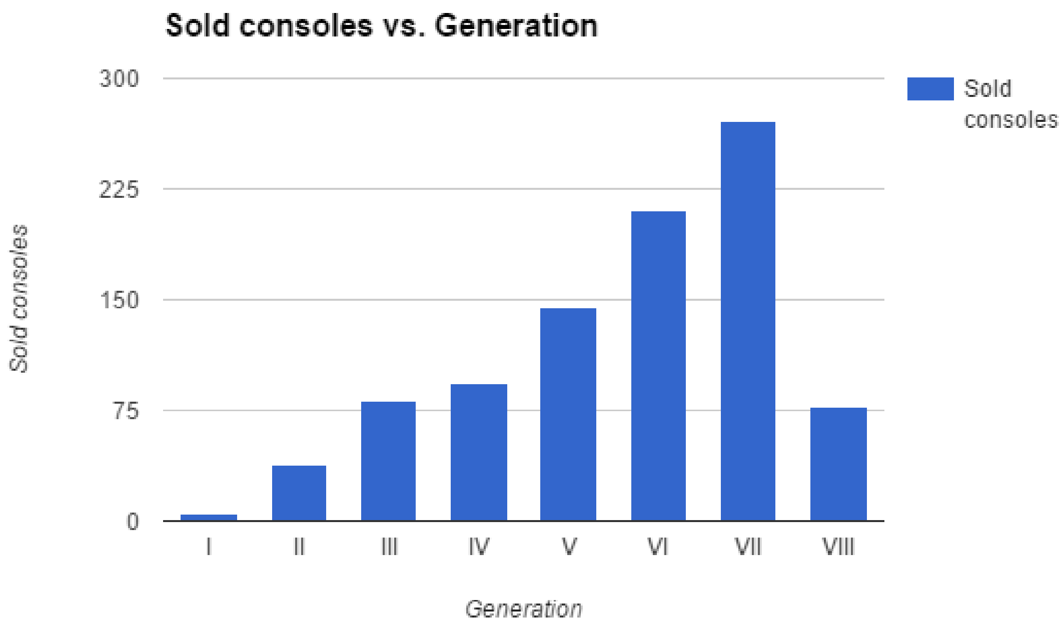

Figure 1. Consoles sold per generation in millions

The chart consists of data gathered from several sources and the volumes for the earlier generations are estimates due to lack of quantifiable data found. However as can be seen from the chart, volume of consoles sold has been increasing from generation to generation. Reasons for this is that in the first generations prices were quite high compared to modern prices, which has led to the technology being more available for everyone. Generations 3 and 4 introduced also high level marketing from companies, and branding their mascots (Mario and Sonic) made the characters known worldwide. The chart shows the sales of 8th generation consoles as where they are at the moment. When analysing the chart one must take into account that the 8th generation is in the middle of its lifecycle as the new consoles were introduced in 2013. Modern fad is also to release improved models of existing consoles throughout their lifecycle to increase the lifespan and allow future applications to be used. Latest industry news indicate that both Sony and Microsoft will be releasing improved consoles which can handle 4k screen resolution and virtual reality technology (Tech Insider, 2016).

2.2 Major players

After the 5th and 6th generation of consoles, Sony and Microsoft entered the market, which was dominated by Nintendo and Sega in the past. Sony took the jump during the 5th generation and Microsoft in the 6th. The massive companies that had already well established brand recognition and revenue pushed other companies out that had been in the industry for decades. Sega tried to struggle with the Sega Dreamcast but the console sales failed compared to the other three manufacturers and evidently Sega stepped away from the console hardware manufacturing. Sega still have their most known licenced products that they use to create game titles. (Wolf, 2007: 167-168.)

In the market today, Sony and Microsoft clash against each other on hardware power, whereas Nintendo took another route and tried to reinvent the gaming industry. Nintendo had the Wii console that introduced the motionsense technology and was a huge success due its family friendly games and appealing more to casual gamers. Casual gaming however has been a declining fashion as competitive online gaming has been on the rise. This is why Sony and Microsoft are controlling the market as competitive gaming requires powerful hardware and massive game titles, which both Nintendo has failed to produce (Nichols, 2014: 34-36). As of July 2016, Sony is ruling the market with having over 54% of all console sales, Microsoft is second with 28% and Nintendo third with 17%. On the other hand Nintendo is controlling the handheld devices market as Microsoft haven't released one and Playstation Vita having only 20% of the market. There is an downside for handheld devices though, as mobile gaming is becoming more and more popular. (VGChartz, 2016)

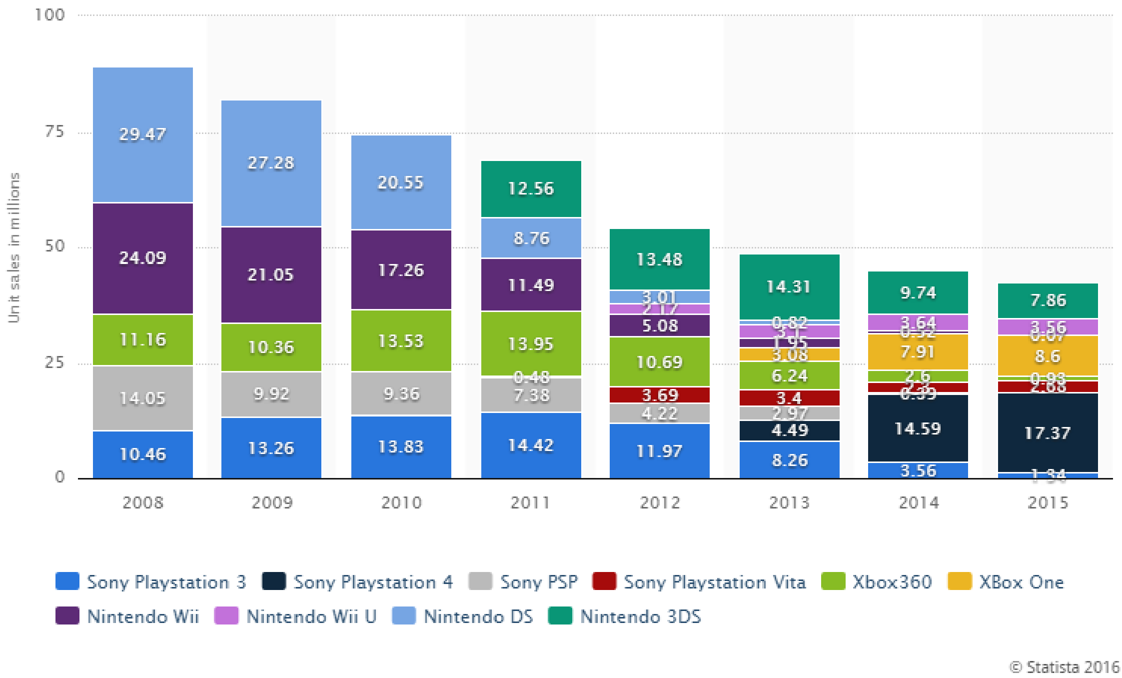

Figure 2. Sales figures for modern consoles

The chart above shows the sales of several modern consoles from 2008 to 2015. The graph visibly shows the lifecycle and generation switch of different consoles. For example one can see that from 2010 to 2011 Nintendo DS sales dropped by 12 million units after the release of newer 3DS model. The same phenomenon happened in 2013 when Microsoft and Sony introduced their new generation consoles, Playstation 4 and Xbox One. In 2013 PS3 sales dropped by 3.7 million and Xbox 360 by 4,4 million units. One can also see from the chart the decline of casual gaming which was mentioned before as Nintendo Wii sales declined by 19 million sold units from 2008 to 2012 and the new Wii U never reaching the same success as its predecessor. (Statista, 2016)

2.3 Videogame sales development

Videogame sales became a factor in the industry during generation 3 when NES revitalized the market. Of course hit games factored in the success of earlier consoles: Pac-Man, Space Invaders and Pong influenced on the sales of consoles, however during that era there wasn’t really any competition. This paper is going to focus on newer generations of consoles since digital sales weren’t established until after the introduction of PS3, Xbox 360 and Wii.

First hit games included easy access, score based gaming which is why before mentioned Pong, Pacman and Space Invaders have become early pop cultural icons. After the market crash of 1983, Nintendo and Sega’s branded their mascots Mario and Sonic and games based on these characters were the leading the sales. Later on when Sony and Microsoft entered the market, games became more action, competitive and narrative based. Both companies have launched several console exclusive title series which by the release date are familiar sight on the top selling lists. (Wolf, 2007: 167-168.)

These exclusive titles have become such a big deal in the industry that many consumers constitute their purchase decision on which console they end up buying. The most sold console in history, the PS2, did so well because by the time it launched it had secured many exclusive titles which have become the most successful franchises in the history. Titles such as Final Fantasy X, Metal Gear Solid and GTA. (Stuart, 2013)

These days online competitive gaming has become the largest segment for publishers and games such as FIFA 17, Call of Duty and Battlefield rank in the most sold console games. There has been few exceptions as GTA V launched back in 2014 became the most sold entertainment item in the history. (Statista, 2016)

3 Literature review

The purpose of the literature review is that it should provide a framework for the question in hand and provide an analysis of the theories discussed (Gould, S: 2011). To be able to understand accurately the mind set of consumers in this particular industry, it’s important to review the whole industry and variable factors that affect consumer behaviour.

This paper will analyze different theories by well known publishers and some newer theories derived from the earlier works. As the industry is rapidly evolving, newer studies and articles will be discussed to provide a more accurate picture about the state of the industry and how it’s developing.

3.1 Hierarchy of needs

To begin with the research on consumer behaviour, the paper is going to focus on the theory of needs by Abraham Maslow.

Abraham Maslow’s theory of needs was first published in 1943. Maslow theorized that people have certain wants that need to be fulfilled. He later on continued the theory and suggested that these needs are in an hierarchical order. Maslow stated that when one need has been fulfilled, the second level of need arises. The theory has been used in several different situations to describe human motivation. For example managers can examine employee motivation or marketers can view motivation behind consumer behaviour. The hierarchy can be examined through the figure below. (Adair, J: 2007)

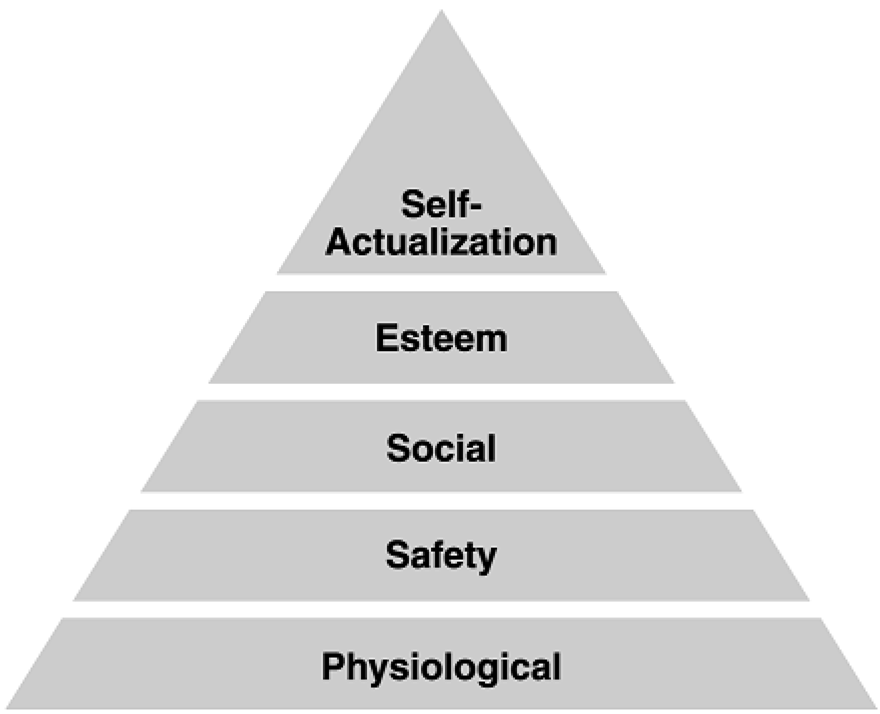

Figure 3. Hierarchy of needs

First level of need is the physiological needs. These needs are the most basic that humans mainly need to survive: Food, water, sleep. A humans need to eat or sleep surpasses other needs. (Adair, 2007)

Next level of need is correlated to the feeling of safety. When other needs are mainly satisfied, people tend to be concerned about their safety. The most basic instincts can be viewed in infants such as: fear of the dark, loud noises, flashing lights, pain and inadequate support. For adults similar fears relate to employment and safety conditions. (Adair, 2007)

If the first two needs are met, the need for social interaction, love and fellowship become the centre of motivation. The person affected is longing for romantic relationships and offspring. This level of needs is called social needs. (Adair, 2007)

The fourth level of need that arises after the needs before it have been fulfilled is, the need for esteem related needs. This level is affiliated to the need for self-respect or self-esteem. The desire for adequacy, compentence, strength, status, attention and status. (Adair, 2007)

The last level of the hierarchy is the need of self-actualization. This means that people want to be fulfilled by expressing theirselves using their strenghts and doing what they are most fitted to do. People find restlesness if they are denied the actions that they find that they should be doing. (Adair, 2007)

Maslow’s theory has been around for seven decades and as such, there are new theories that have been derived from the original. One of these theories is the self determination theory.

3.2 Self determination theory

There have been many theories that have derived from Maslow’s theory, such as self determination theory by Richard M. Ryan and Edward L. Deci. In this theory Maslow’s ideas have been modernized with new applications and it has been used to describe what drives and motivates individuals in doing certain actions. It has been used to analyze motivation behind athletes and people playing video games.

Self determination theory (SDT) focuses on motivation and what factors are affecting our behaviour, both intrinsic and extrinsic. In its early stages, SDT focused more on intrinsic factors or motivation that one gets from inherent satisfactions resulted from their actions. According to SDT, intrinsic motivation is the essence of motivation that one gets from play and sport (Ryan, R, Deci, E: 2000) and it’s similar to the motivation related to playing video games since the element of acceptance and not seeking for rewards is also visible with people playing sports.

The first physical need that SDT proposes, is that actions which promote individuals autonomy and competence, factor to the individual's development of intrinsic motivation. Whereas factors that diminish autonomy and competence undermine intrinsic motivation. Autonomy within the SDT concerns the feeling of voluntariness or willingness to do something for personal value or interest, which accordingly leads to the perceived autonomy to be high. Ability to choose, get rewards and having a non-control environment, compared to controlled behaviour, all enhance the sense autonomy, and in the end intrinsic motivation. Subsequently performing in a controlled environment, actions and choices that devalue the sense of choice, diminishes the intrinsic motivation. Also when one feels that they are being controlled on pursuing certain activities or how they are going to accomplish them, their sense of autonomy is being smothered and therefore leads to loss of motivation. (Ryan et al, 2000)

The second need within the SDT, is the need to feel competence, a need to be challenged and be effective. The factors that improve the feeling of competence, proposed by the SDT, could be things such as acquiring new skills, having to overcome challenging situations and receiving positive feedback, which in turn enhance intrinsic motivation. (Ryan et al, 2000)

The paper has now discussed about the need levels of which might affect the purchase behaviour as well as what motivates gamers in playing games through the SDT. Next section will move on to cover the marketing basics.

3.3 Marketing

As games marketing is part of the overall marketing theory, it’s appropriate to review the basics of marketing.

Marketing as a function has served an important function in the business world for ages. It helps to understand the market and its actors to give insight on what is it that the potential target groups really need. By understanding the market is how competitive advantage is realized. Modern day marketing has evolved greatly due to advantages in information technology, allowing more diverse set of people to be reached, there is more prosperity in the market, different set of age groups have variable preferences and online shopping allow people to shop anywhere at any given time (Molenaar, C: 2012).

The utmost basic thought in marketing is that people seek to fulfill their intrinsic needs throughout the day. These needs can be categorized as physical, social and individual needs. To fulfill these needs, people need to consume. More oftenly, how and what people consume is not derived from most basic impulses, but they are the result of cultural and personal experiences. For example people from different parts of the world want different types of dishes for their breakfast. (Moore, K, Pareek, N, 2009: 10).

To take these variations into account, market segmentation can be applied to separate the population into groups on the account of their characteristics. To distinguish different characteristics, market research needs to be conducted. Market research is a tool used by managers that includes systematic and analytical data to help in decision making. Segmenting the market helps marketers to recognize different groups within the market and thus allowing to focus on the groups that are most attractive. These groups are called the target market. The target market is then the focus of several marketing strategies which are called the marketing mix or the the 4 p's of marketing. These are: price, promotion, product and placement. (Moore et al 2009: 11).

Marketing mix or the 4 p's

Next the paper will discuss about the 4 p's of marketing or the marketing mix and how the different elements of it affect marketing strategies

Product

Product can be a multitude concept than mere single object with a single function. Product can cater into physical, psychological and experiential benefits that can satisfy many needs of the customer. To evaluate the benefits of the product for the customer is not an easy task as one might think and it requires precise information on how and why purchases are made. (Moore et al 2009: 82).

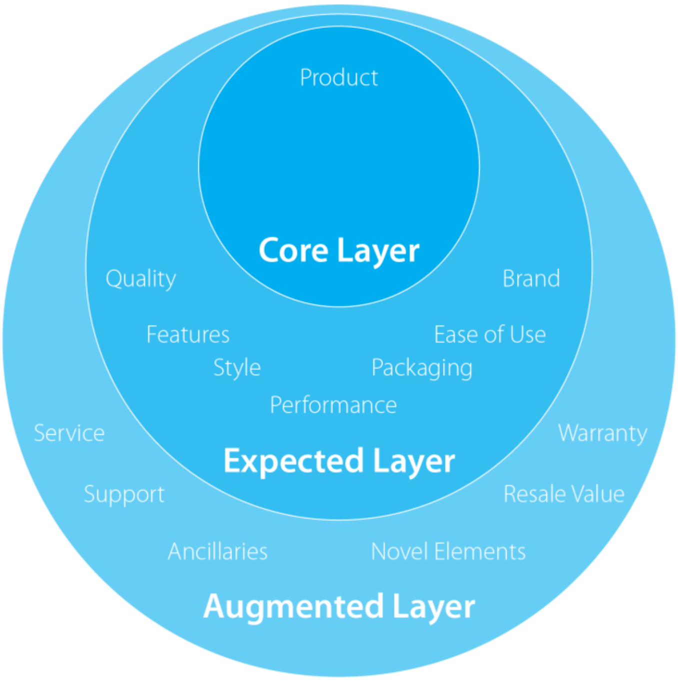

Figure 4. Customer value hierarchy

One theory suggests that the functions that benefit the customer, has a hierarchy of 3 levels. This theory is called customer value hierarchy theory. The theory states that, the more levels to the product, the more value it creates for the customer. The three benefit levels in the theory are core level, expected level and augmented level. The first level, which is the core level, means the core function of the product. The parable which Moore and Pareek use is with televisions. This means that the customer buys a television because they want desired entertainment in accessible manner and the core function of a television is to provide that. That is not where the value creation ends however. The second level is the expected level. The expected level is the style, brand, quality and packaging of the product. After taking into consideration the core and expected levels, the augmented benefit level provides customers with after sales services such as promise of free delivery, technical support, warranty and installation. (Moore et al 2009: 82).

The purpose of the theory is to more accurately provide information on how to design the product to appeal and create value for the customer. Meaning that whatever the product category is, the product that can create most value for the customer in the long run will be the most successful. (Moore et al 2009: 83).

Placement

Placement is one aspect that needs to be taken into consideration since manufacturers seldomly sell their products straight from their product lines to the customer. This is why manufacturers have created marketing channels or channels of distribution. Marketing channels are third parties which connect the manufacturers to the end customers. They are interdependent organizations which are involved in the process of production and distribution of goods. The channels take time and effort to build but if chosen correctly, are one source of competitive advantage. (Moore et al 2009: 88-89).

Price

When the right segments to target have been identified, the manufacturer must decide a fair price what to charge from their customers. There are many theories to what constitutes a fair price and defining it, is not something that can be easily measured. The most basic idea that can be agreed upon is that the price should be such, that the producer will cover the cost of producing the product, but after that the amount of profit that should be gained can be debatable. Question can be asked, that if the cost of production is mere dollars, is it morally justifiable that the retail price is hundred dollars? Or is it abusing market power and charging too much? The question however doesn’t take into consideration the brand loyalty and peoples desire for premium high-quality products and technology has allowed that the asking price can be determined by the brand loyalty of customers. (Moore et al 2009: 104-105).

Promotion

Promotion is one the toughest parts of marketing, but being succesful in it can create more possitive attitude towards the company as well as affirm the existing brand equity of the companies products at a high level. Purpose of promotion is to convey information about a product or a company using six key types of promotion, also called the promotion mix: advertising, sales promotion, public relations, personnal selling, direct marketing and online marketing. Every element in the mix has a different set of approaches to interact with new or existing customers. Although all the elements communicate differently with the customer, the message should be coherent with the company strategy regardless of the communication channels used. (Moore et al 2009: 130).

4 E's

The original marketing mix of 4 p's has been around since the 60's. Many of the assumptions and suggestions by the original version can be considered to be outdated because of the more fragmented and global marketing audience today. Because of the change in the marketing environment, Mr. Brian Fethestonhaugh revised the model, so that 4 p's have changed into 4 e's. (Fetherstonhaugh, B: 2009)

Product to experience

Nowadays having a long lasting product advantage is a rarity or completely impossible. The features that gave the advantage for a product could last for years in the past, but now, last for only few moments. That is why instead of focusing on the product features, companies should be focusing more on the whole experience and who/what influences on the buying behaviour of their customers. (Fetherstonhaugh, 2009)

Place to everyplace

Before, marketers had to consider about the places and ways how their product can find the consumer, but now consumers have created their own ways and methods of finding the products they want. Which is why marketers have to think about all the new ways of reaching people. This means that the customers attention has to be caught at the best possible time for the customer and by new innovative ways. (Fetherstonhaugh, 2009)

Price to exchange

In the past, cost effectiveness was king and all everyone was concentrated on was how to keep production costs low so that they can offer more affordable products. Today the focus is more on the value, what it takes for your customers to give their attention and time, the value of the whole exchange process. What are marketers willing to offer in exchange for their customers attention? (Fetherstonhaugh, 2009)

Promotion to evangelism

Creative and persistent marketing used to be sufficient for promoting products. Nowadays creating powerful brand experiences invite customers to engage with you and share their experience with others. By having passion and heart in what you are selling, one can create emotional contacts with the customer. For example Dove's Real Beauty campaign, in where they used real women instead of models to show that all women are beautiful, created a world wide phenomenon and bolstered the companies sales and reputation. (Fetherstonhaugh, 2009)

Digital marketing

As was concluded in the previous section, nowadays consumers find information about products more accurately by themselves using online applications, reason why marketing has shifted more towards the digital kind.

Digital marketing is the use of modern online channels to promote products or services, which differs from traditional marketing channels as they can be actively analyzed. This means that marketers can view how certain aspects of the channel are working, for example how many clicks does a certain link create. Usually digital marketing is closely associated with the internet, however other channels such as mobile applications, podcasts, digital television and radio are becoming more and more popular. (SAS, 2016).

Marketing is no longer about how and what information marketers provide for the customer. Instead digital media has become so penetrative, that customers can use different digital channels to find that information whenever and any place. Now that everything can be accessed digitally, from shopping to social interactions, customers are exposed to information about brands from other sources. This means that having a strong digital presence is important, since more often than not, the customers are more likely believe their friends and other customers, rather than the information given by the company. People crave for companies they can trust and that can provide personal offers that are most suited for them. (SAS, 2016).

Digital marketing is an ongoing process as it is not enough to just know your customers. Everything from how, where and when customers can be reached is imperative to convey the message. To do that, marketers need constructed view of preferences by the customer across every channel. By analyzing what is working and what is not, can the customer be diverted to sources that they want more accurately. Doing this can the companies anticipate and create more experiences for the customer, that can move the customer along the buying cycle. (SAS, 2016).

The paper will now continue on the theme of marketing as to discuss how video games are marketed and what qualities of games marketing differ from the marketing elements discussed before.

Games marketing

Often marketing is misconceived with only regarding advertising, as if it is some process you bring along after creating a product you want to inform people about. Of course advertising is part of marketing, however this kind of thinking reduces the applications of marketing into bits of knowledge and reduces the impact that it could possibly have. Marketing can be described as several activities, institutions and processes for creating channels of communication for those involved, whether it’s customers, partners of the business or the society. In short, marketing is about creating value. As this can be said about marketing, the marketing approach depends on the product. Video games, like movies, are considered to be cultural products as they have symbolical value, aestethic value (graphics), emotional value etc. Marketing cultural products is quite different from products that are quite basic in our everyday lifes, such as toilet paper. It’s imperative to understand this difference when applying marketing tools and philosophies. As already mentioned, video games contain more symbolical meaning and messaging than other products, which means that video games by nature are closer to art than they are anyt-hing else, as are movies and music. (Zackariasson P, Dymek M, 2017: 12)

Video games have been around for almost 40 years and the industry has been growing rapidly for 25 years now, surpassing music and book sales and rivalling the movie in-dustry in revenue. However it has not been the focus of academical studies for long. During recent times it has created more interest in the academical society, although mar-keting scholars still show far less interest in the industry compared to other entertainment industries. To understand the marketing in the industry, first one must understand the framework of how value is created. The framework (figure 5) indicates the different com-ponents and the relationship between them, including biggest players, products and channels. The vertical path in the framework dictates the ”gaming environment”; the main actors in the industry such as content providers (i.e. Activision), platform providers (i.e. Sony) and also consumers and the interrelationships between all of them. The horizontal path refers to communication and distribution channels. The fact that the industry has two sides, content and platform providers, make the whole structure unique as the two parties live in coexistence heavily relying on each other. (Marchand, A, Hennig-Thurau, T: 2013)

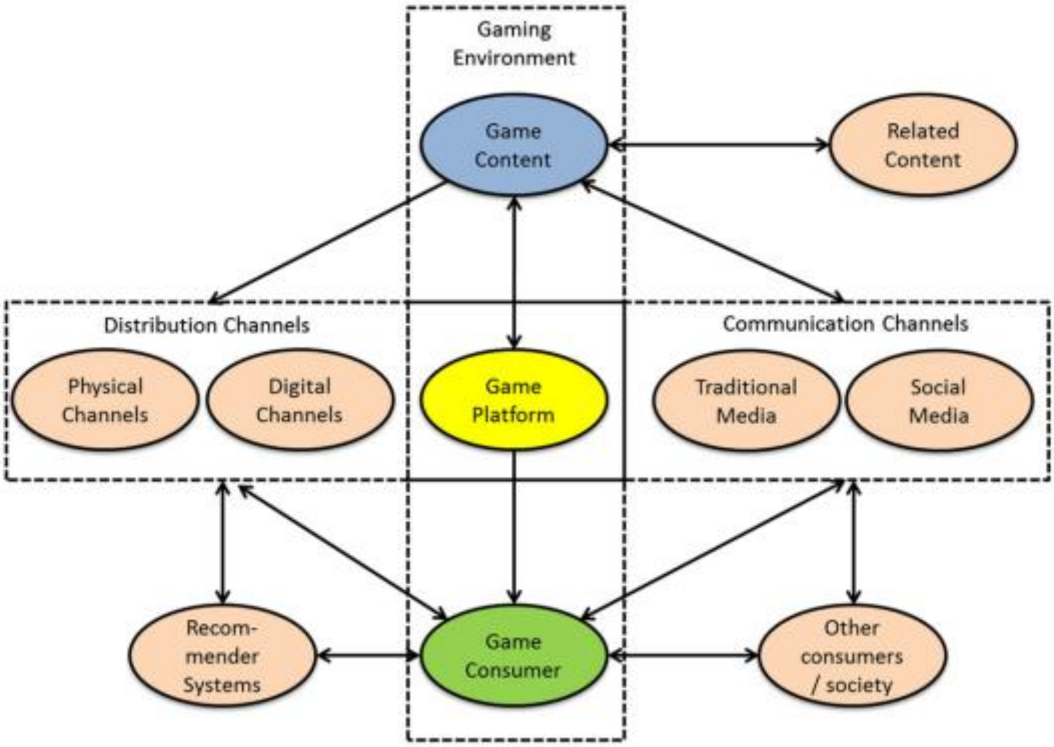

Figure 5. Conceptual framework of how value is created, source: Marchand et al 2013

The framework also acknowledges three other factors that influence value creation in the industry. Firstly other industries such as the movie industry generate ”related content” i.e. games made from movies and vice versa (e.g. movie adaptation of the popular online video game, World of Warcraft). Second factor is about value created from the industry infrastructure. As each platform has ever growing list of game titles, automated recommendation systems have become important sources for finding the ”right” game for the consumer. Lastly the impact of other consumers influence on buying behaviour (e.g., recommendations, word of mouth) or the adaptation of games as a result of network effects. (Marchand et al, 2013)

The framework suggests that video games are a ”cyclical industry”, meaning that the performance of any game title is heavily dependent on the platforms technical capabilities. Each platform, or console in this case, has a lifecycle and as each game title is designed for specific platform, the stage of the lifecycle affects sales of each title at that period of time. (Marchand et al, 2013)

Video games are comparable to movies also because both are considered to have experience created value, meaning the consumers don't know whether they like a game or not until they have actually played the game. Video games are high priced compared to movies or music and being experiential by nature, they possess high risk for the consumer. Thus the price has high influence on decision making. These factors have influenced to the industry to become heterogenous content wise, as people have created preferences in which type of games they play. Preferences have led to content providers making certain genre games more as these genres create more attraction from the customer base, although little is known on drivers that influence buying behaviour in game sales compared to other media industries. When first glancing at drivers which influence game sales though, there is suggestions that the influence of major publishers and professional reviews factor in to the decision making. Other factors that have been noticed to have affect are mature age ratings, sequels, non-expert reviews (e.g., Amazon.com reviews, steam reviews) and the platform hardware side. (Marchand et al, 2013)

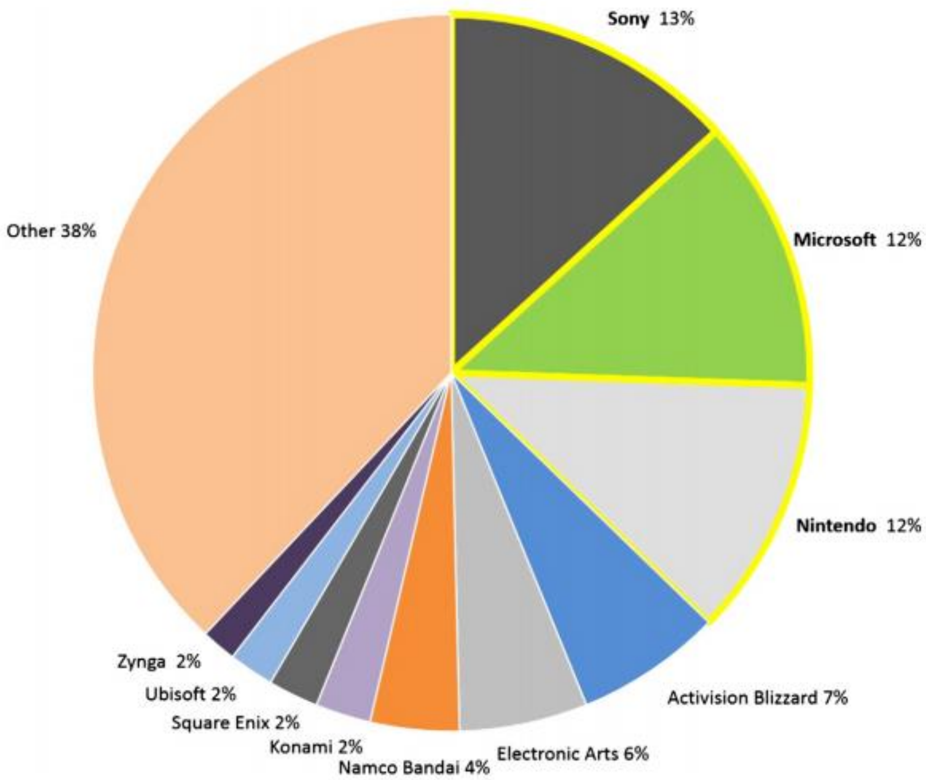

Figure 6. Software market, source: Marchand et al 2013

There are several studies discussing about the indirect network effect in the gaming industry connecting platform (hardware) and game content (software). There is also relationship between indirect markets and the two-sided market, as the effects of indirect network effects are usually two-sided. In the gaming industry, the two-sided benefits can be noticed in the fact that Sony, as a hardware manufacturer, gains revenue by selling consoles to the customer market and also by selling game licenses to game producers. Respectly, the game producers and hardware manufacturers both benefit from the platform having more gaming titles available for the customer, as this increases interest toward that platform. This leads to game producers getting attracted to make their games for the platform with the highest customer base as this means more possible sales. The same goes for the hardware manufacturers as more game titles bring more customer interest. There is debate if it is the quantity of available titles which increase attractiveness or the quality of the titles, however the end result is the same as high quality producers are also more compliant to make games for the platform with best technical provess and larger customer base. (Marchand et al, 2013)

The amount of input to marketing depends on the level of the game. As mentioned before, the AAA rated games have the biggest spenditure on marketing. Although these AAA rated games publishers spend more on marketing, it doesn't mean that smaller releases can't be profitable. Smaller releases are said to be either ”value titles”, which is a game that's produced with excessively smaller budget, or they can be called independent games with even lower budgets and that are released without the help from major publishers (Egenfeldt-Nielsen et al, 2016: 23).

As Hollywood has showed that small films with minimal budget can be highly succesful i.e. the blair witch project in 1999, also the gaming industry has showed such cinderella stories. Minecraft in the beginning was just a one man project that after profitable introduction on the different internet channels has grown massive. It started as Markus ”Notch” Persson was inspired by other similar games and wanted to create something unique. After the early sales showed promise, he started his own company Mojang and continued on building the game even more, hiring few other employees to help him. In the end Mr. Persson had developed a gaming sensation that has now tens of millions of players and evidently sold the rights to the game to Microsoft with an incredible $2.5 billion, making him a billionaire in an instant (Dejan L, 2012). Nowadays independent games can be even funded by the gamers through several crowd funding channels. Now this can be debated if it is a good thing or not, since several games that were crowd funded never got released. (Schreier J, 2015)

3.4 Consumer behaviour

Consumer behaviour can be categorized into 4 different segments: Consumers emotions, knowledge, behavioural and enviromental factor. Emotional factor is how the feelings of consumers are influenced through effective marketing as positive feelings toward products is the aim. The knowledge factor affects the reason and opinions of consumers as new products most often need to be educated to the public. The behaviour aspect of consumers measures the decision making when it comes to buying products. Do I buy the product from a general store or a specialized retailer? Do I pay with cash or credit card? Lastly the enviromental aspect contains the factors that affect the buying decision of the consumer, which the consumer has no influence on such as: Nationality, social class, peers and commercials. (Olson, J & Peter, J, 2005: 22)

The process of making a purchase is often described with the AIDA model. AIDA is acronym for attention, interest, desire and action. The AIDA model can also applied to the decision making process of games consumers. The model proposes that the process goes as such: Firstly the consumer becomes aware of the product through marketing of the product, word of mouth etc. Then they create interest through research towards the brand as they found out the benefits and how the product is suitable for them. After interest is created, the consumers begin to develop a positive attitude towards the brand start to desire for them. Lastly action is taken when the consumer forms a decision of purchase or intent. This model can also be applied to gamers as the awareness towards the game is usually created from online interactions or game trailers. Interest is created by reading professional game reviews or by recommendations from friends. The product becomes desirable when the product benefits become favorable. Lastly the gamer makes the decision whether to try out the demo for the game or actually buy it. (Olson et al, 2005: 198-199.)

3.5 Diffusion of innovation

The technology adoption life cycle is a sociological model created to understand the consumers way of adopting new technologies and innovations. The cycle also shows how the profit margins develop as the product matures. This is especially relevant to the technology industry (video games) related to this paper, since technology compared to other products usually acquire adapting one's behaviour. For example, if you're using the same toothpaste producer and they promise that their new toothpaste will make your smile whiter, doesn't mean you have to change the way you brush your teeth. This is called continuous innovation. Continuous innovation means that even though the product has changed somehow, you don't have to change or learn new ways to use it. This is in controversy to the technology industry since the new options and products usually require you to change your way of using them. For example smart phones, people had to learn a new way of operating their mobile phones by using touch screen technology or when people are switching from petrol cars to electric ones. This is called discontinuous innovation and one of the reasons why the technology adoption life cycle is highly important to the technology and video games industry. (Moore 2002: 10)

There are also some elements that work against innovation. One of such elements is risk, whether it is social or financial. When new innovations emerge there is usually concern about the future success of the product. For example when CD emerged, early buyers were worried about how much use it would gain before it would surpass the 8 track. Whether it was moving from 8 track casettes to CD's or one video game console to another there is always risk of picking the wrong option, this affects to the launch of a product and how well it is received, the more complicated the product, the more risk there is. (Perner, L: 2010)

One of the modern gaps between formats was when the Blu-ray technology was introduced, leading to a leap from DVD to Blu-ray. The movement from DVD to Blu-ray was not obvious, as similar HD-DVD format was released at the same time. It is now well known that Blu-ray won this war and the success of Sony's PlayStation 3 had a huge role in this battle, since it used the Blu-ray technology from the start. Opposed to Sony and Blu-ray, Microsoft supported the HD-DVD format with their Xbox 360 by selling separate players for their console. (Drawbaugh, B: 2008)

4 Methodology

For the purpose of this paper, a research method was chosen in order to provide answers to the questions defined in the beginning. The definition of research is the search for facts. There can be used different methods in the search for answers. Arbitrary method relies on assumptions and impressions, and as the purpose of this paper is to provide precise conclusions, the scientific approach was chosen. Few aspects of a research is that the evidence provided by the research should be empirical in nature and that it should have an objective. (Krishnaswami, O, Satyaprasad, B: 2010).

There are several types of research methods that can be used that dictate the strategy of the research: These types are exploratory, explanatory, descriptive and predictive.

The exploratory method is used to see what happens in certain situations, to find new angles to existing phenomenons and to create hypotheses. Exploratory method is usually a qualitative research.
Explanatory method tries to find explanations to certain problems using causal relationships (cause and effect).
Descriptive method tries to propose exact descriptions about people, events and situations by documenting the most interesting aspects and the key phenomenons.
Predictive method differs quite from the others as it tries to forecast events by examining the players that might affect, or might be affected by a certain phenomenon. (Hirsjärvi, S, Remes, P, Sajavaara, P, 2015: 139-146)

As the purpose of this paper is to find answer to a problem using causal methods (cause and effect), explanatory method was chosen.

4.1 Quantitative data collecting

Quantitative research was chosen as the research method for this paper, because this paper is studying a group of consumers and tries to find the motivation and explanations on why they act as they do. More conclusively this paper is looking at gamers and why they purchase or do not purchase video games digitally.

Quantitative research has been called with many names and the roots of it come from scientific research. Quantitative research is especially used in sociology and social studies. It follows the universally accepted laws of cause and affect. What are the beliefs, events and actions that have led to this phenomenon? How are the different factors relating to each other? In the background of this theory is the realistic oncology that reality is build from true facts that one can objectively observe. (Hirsjärvi et al, 2015: 193-212)

The key aspects of quantitative research are:

- There are conclusions derived from earlier research
- That there are theories conducted before about the subject
- The concepts used should be defined clearly
- Plans for gathering research material and that the observable data is based on quantitative, numerical measuring
- The sample groups should be clearly defined
- The results should be in an easy statistical form
- Conclusion should be derived strictly from the results and viewed objectively

(Hirsjärvi et al, 2015: 193-212)

4.2 Questionnaire

One way to gather results is by conducting a survey. Survey means gathering information in a standardized way and where the respondents form the sample group. Standarized way means that if wanting to know something specific about the respondents i.e. occupation, everyone are asked in the exact same way. The positives of conducting a survey are that it can be used to reach a large group of people in short time and gather a vast amount of data. It also allows for many questions to be asked at the same time. Conducting a survey is also time saving, since it does not require lot of management. If the material has been designed carefully, the results can then be easily stored and analyzed by computer. (Hirsjärvi et al, 2015: 231-232)

There are also some weaknesses with the survey method as the data collected can be thought shallow and the study as theoretically modest. Other weaknesses can be: impossibility to judge how seriously people have responded, no quarantee of how well the given options were understood by the respondents, no information about the knowledge of the given subject to the respondents and in some cases, the tendency to not submit answers can be big. (Hirsjärvi et al, 2015: 231-232)

Given the positives and negatives of survey type research method, it was chosen as the preliminary method of gathering results for this paper. The main reasons were that by conducting a survey, a large group of people can be reached in order to gain a clearer picture of what are the possible reasons for people either buying or not buying console games in digital form. The survey is also easy to manage since after the material has been well designed, it requires little to none effort before the actual analysis of results.

The questionnaire was divided into several sections that all serve specific purpose. Section 1 of the questionnaire focuses in on identifying the gamers with a qualification question. Section 2 focuses in on basis demographics questions to identify consumer segments. Section 3 aims to describe the gamer behavior on buying video games. Section 4 concentrates in on the marketing aspect of games towards the gamers and section 5 focuses in on the decision making process. Section 6 focuses in on how digital distribution is viewed among the gamers.

There were few limitations for the questionnaire such as:

- Niche target audience: The research is focusing on consumers in the video game industry or ”gamers”. This means that for the respondents to give feasible answers for the questions, they should have some experience of the industry or buying video games. This can be problematic as games are not products one uses everyday, if at all, compared to for example food or water. As such, respondents need to be found from industry related channels. This lead to the next limitation.
- Difficulty to obtain respondents: This was made clear when posting the questionnaire to several sources, the most respondents from that channel came within the first few hours and even then it would mean dozen replies at most. The highest amount of respondents was aquired when a Facebook channel spesialized on video games, shared the questionnaire on their Facebook feed.

4.3 Interview

To further explore the responses from the questionnaire, few interviews were conducted to create a clearer picture about the issues on hand. Interviews are mainly correlated with qualitative research methods and as the main research method for this paper was quantitative, they are considered as secondary research.

The benefits of conducting an interview is that it enables asking clarifying questions, it can be regulated regarding to the situation and it could be in line with the interviewees. Positives with the interview is also that if the need arises, the interviewees can be easily approached in the future. There are also negatives with interviews: to go through the topic thoroughly takes time, more than 30 minutes or else there would be no need for an interview, the same results could gained from an survey. (Hirsjärvi et al: 2015)

4.4 Reliability and validity

During the research, any and all mistakes are prevented from occuring, however this means that there aren't going to be any. For this reason all researches are evaluated by their credibility and can be done so using variable measurements and studies. The reliability of the research means the ability to give non-randomized answers or in other terms, quantifiable and repeatable results. There are several ways to measure if the results are repeatable, for example if two researchers come to the same results, it can be stated that results are realiable or by conducting a similar research that ends up with similar results. (Hirsjärvi et al: 2015)

Questionnaire was chosen as the primary tool for research as it allows the gathering of many answers. Secondary methods chosen were interviews with customers in the industry, and previously conducted studies are used to support the primary findings. The amount of respondents support the reliability of the research.

The other concept that's taken into consideration when talking about the evaluation of the research is validity. Validity means the ability of the research method or measurement tool to accurately measure what is meant to be measured. For instance, the responses are acquired to the questions in the questionnaire, however the way that the respondents interpret the questions may vary from what was initially intended by the researcher. Therefore, if the researcher processes the questions based on their original model of thinking, the result can not be considered as true and valid (Hirsjärvi et al: 2015).

5 Findings and analysis

The research was conducted by publishing an online questionnaire to various social media outlets as well as few forums concentrated in video games. The questionnaire was online from 7th of February to the 13th of February. During this time, 92 responses were gathered. To gather further information on the subject, interviews were carried out. The persons interviewed describe themselves as gamers as they spend over 8 hours a week playing video games. They were chosen to be part of the interview as they buy new video games frequently, are quite well aware of the hot topics in the industry and have used digital and conventional channels to purchase games.

5.1 Identifying gamers

Research done by the the ESA (Entertainment Software Association), the average gamer is 35 years old and 48% of households in the U.S. own a dedicated gaming console. The average age of most frequent game purchaser is 38 years. 95% of console owners buy games for them. Most of the consumers who buy games are male (60%). Biggest age group that play video games is between the ages 18-35 representing 30% of all gamers, surpisingly almost on par with the second biggest age group 18 and under with 27%, is the oldest age group 50 and over with 26%. The difference between male and female gamers is quite small, since male gamers consist 59% of the gaming population as female gamers make for the rest 41%. The average number of years that gamers have been playing is 13 years (THEESA, 2016).

The next figure shows the amount of gamers compared to their respective choice of device.

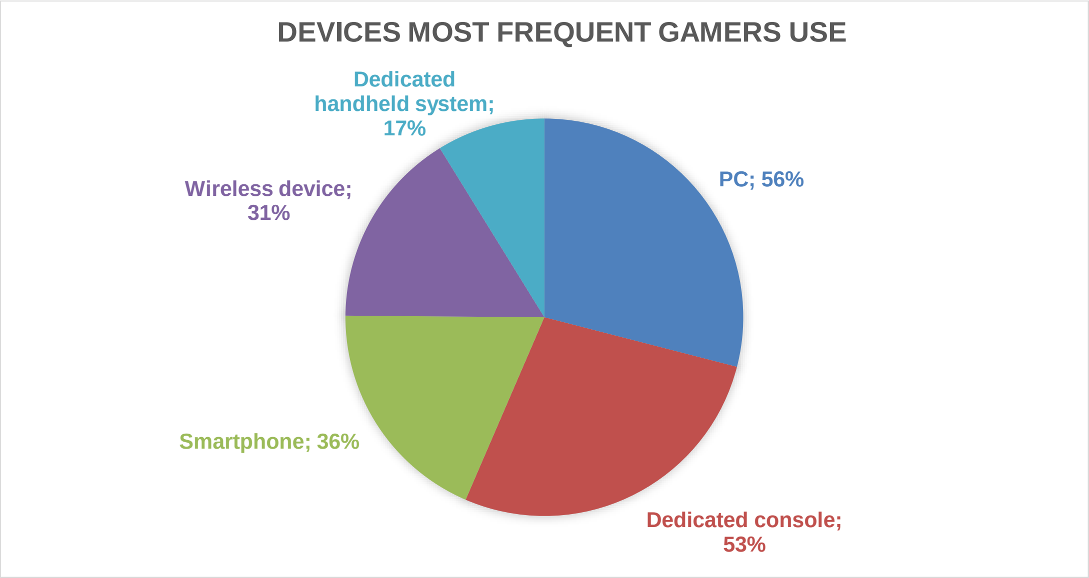

Figure 7. What devices are most used by gamers.

As can be seen from the chart, PC is most used by frequent gamers as their choice of device. This means that when most people play games, they prefer to use the PC to do so. (THEESA, 2016)

The chart below explores even further the difference between devices.

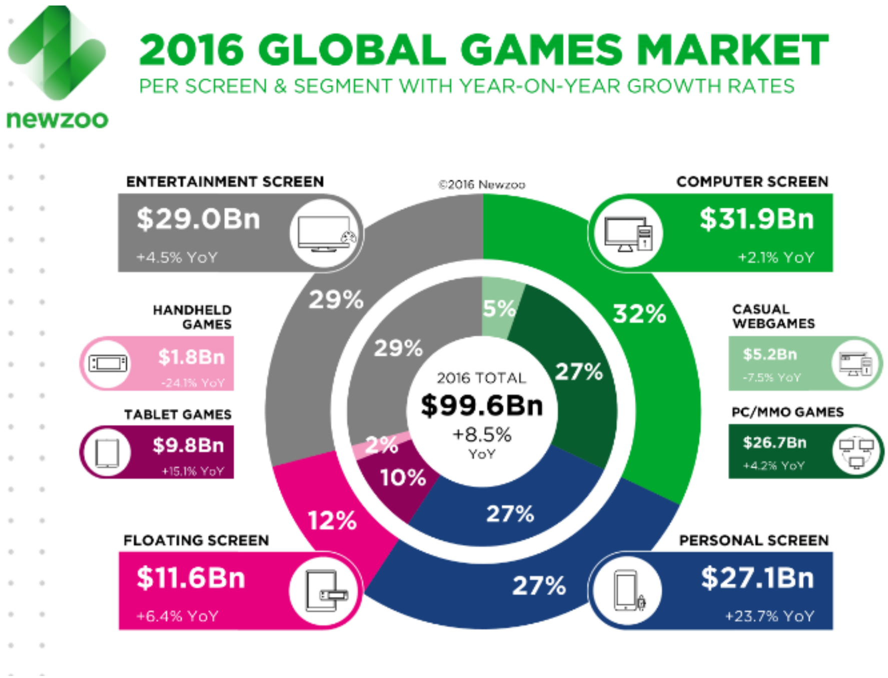

Figure 8. Global games market revenue between different platforms (Newzoo, 2016)

As the figure 7 shows, PC is the most used device for gaming. However when inspecting figure 8, one can see that the difference in global revenue between PC and dedicated consoles is quite small and that in fact if casual webgamers were excluded from the equation, gamers playing on entertainment screens (consoles) trump PC's when it comes to revenue (Newzoo, 2016).

The first question in the questionnaire was chosen as a respondent separator, since the topic researched in this paper can be said to have a niche target audience as not all people buy or play video games, opposed to if the research was done about food, the audience would have been much wider. The question was ”Have you played video games on a console or PC? The purpose of this question was to reduce the amount of false responses. Out of 92 respondents, only 1 had chosen no as the answer, meaning 98,9% of the respondents had previous experience of playing video games. Choosing the option ”no” for the question would result in the questionnaire to conclude as the target audience were people who have experience about the industry.

The two biggest age groups of respondents were ages from 23-27 and 28-32, with both having 33% share of the whole group. Third largest group was ages 18-22 with 12,1% and shared fourth largest groups were the ages 33-37 and 38-42. The largest age groups can be explained by the channel to where the questionnaire was published as it was the personal facebook feed of the author where most of the responses came from and that most contacts in this channel are around the same age, which is 29. However this is on par with the findings from THEESA, since their study showed that the biggest age group that play video games is 18-35.

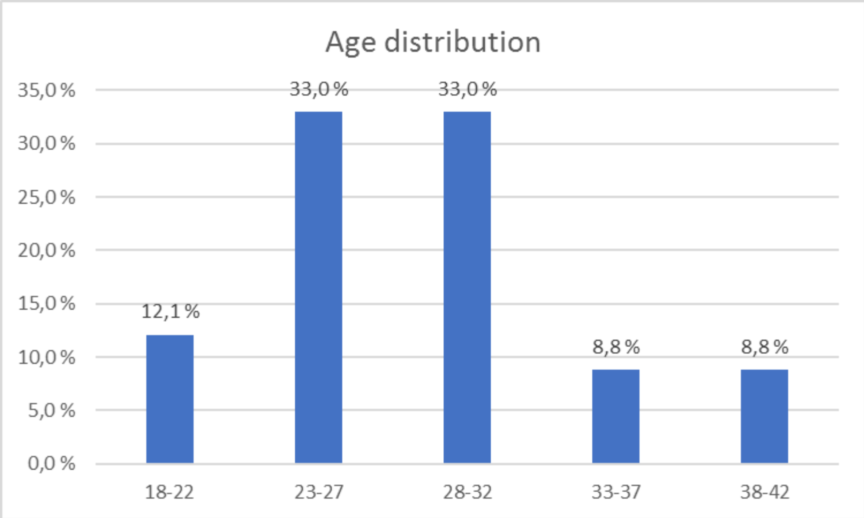

Figure 9. Age distribution

The results of the questionnaire that differs greatly about the target audience demographic is the division of female and male responses, compared to findings from ESA. Their study showed that 60% of gamers are male and 40% female (fig 9). The findings in this research however showed a huge gap between male and female responses, as 87% of the respondents were male. This could be the result of the channels used being dominated by mostly men.

5.2 Consumer segments

As the research is focusing on video game sales with consoles, the next question was to clarify how many of the respondents play games on a dedicated console, PC or both. The question also differs from the first question as it asked have the respondents played video games before. This is to distinguish that eventhough the respondents have played video games in the past, they may not do so anymore but may still buy video games for someone else. Majority of the respondents said that they play video games using both console and PC, while the second largest group said that they use only a console. Combined the results show that 80% of the respondents do play videogames mainly on a console or both PC and console (fig 11).

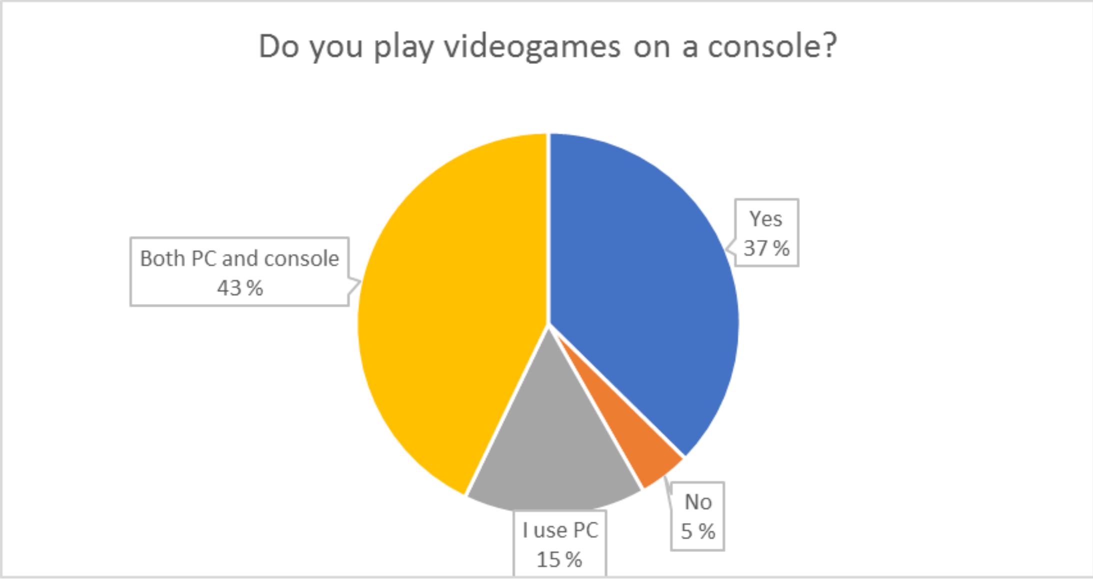

Figure 10. Do you play video games on a console?

The amount of time used to play video games does not vary much among the respondents. The option to choose mobile phones as a platform was added to give the question more variation between hardware. Mobile phone option had low replies as the most time consuming platform, which could be the result having several limitations for gaming, such as battery power and not having long lasting narrative gameplay. The mobile option was also added for possible future research to show if in the future mobile gaming would increase time wise. Difference between PC and console was not distinctive, which could be the result of both platforms having similar game titles.

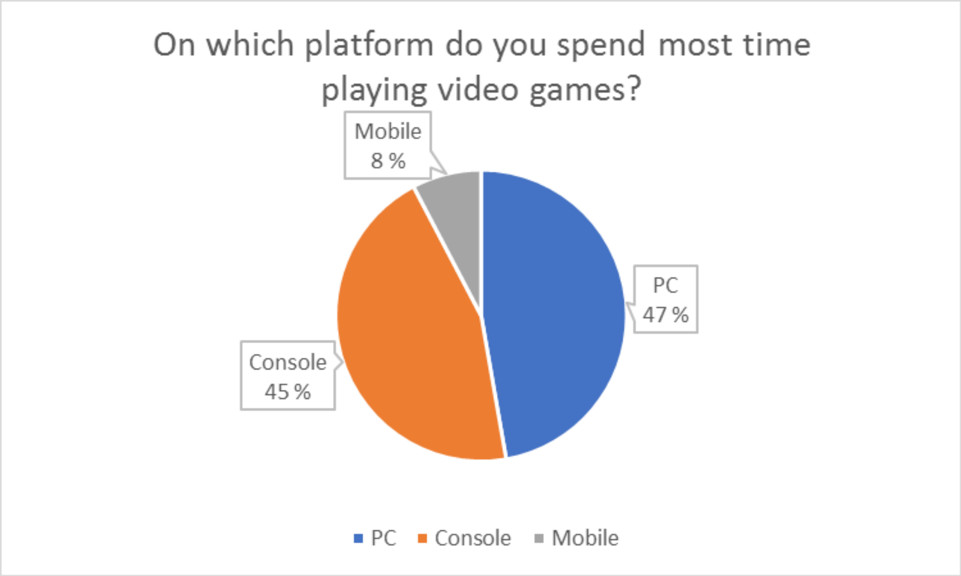

Figure 11. On which platform do you spend most time playing video games?

To furthermore research the console aspect of gaming, the respondents were asked which consoles do they own. This was to find out that which hardware manufacturer has been most successful in their marketing campaign and if the findings support the recent sale statistics. The question was formatted so that there could more than one answer as many can own more than one console. From 91 respondents, 103 answers were submitted, meaning there were several persons who own more than one console (fig 13). The most owned console was the Playstation with 64% of respondents having it. This is in uniform with previous findings as Playstation 4 at the moment is the most sold console of the newest generation. There is some difference with previous findings as Playstation owners constituted 64% of all respondents and Xbox only 19%. The current sales of Playstation 4 consoles is 54.12 million units sold vs Xbox one 28.04 million (VGChartz, 2017). The amount of Nintendo owners compared to Xbox owners was similarly different from previous findings as the the amount of replies both consoles had were almost identical. This differs because Xbox sales have topped Nintendo sales with great numbers. The reason why there are as many Nintendo owners as there are Xbox owners, could be because the new Nintendo consoles have been more affordable compared the two other hardware manufacturers, which is why most owners who own more than one console probably own one of the two other manufacturers and a Nintendo. Nintendo is also quite diverse with their game offering as they have many of their own original game titles, which could be one reason for people to having one. There were no responses for having other consoles than the 3 major hardware manufacturers mentioned before, showing how the market is dominated by only a few players.

The indirect network effects of the industry are influenced by communication as it’s used to manage customer expectations as to which hardware is going to win the ”standard war”. Therefore signaling convincing arguments to the customer regarding the superiority of their platform is critical. Other highly important factor has shown to be the time of release for the hardware, as being the first to release hardware can be helpful to obtain substantial installed customer base before other actors enter the market. This pioneer tactic has been succesfull in the past, but also had some negative side effects as newer generation consoles tend to cannibalize the older generation revenues. (Marchand et al 2013)

The most closely industry associated with the gaming industry is the film industry, as both have high production and marketing costs. Also both industries have their ”block-busters” meaning that 90% of the revenue created by the industry comes from 10% of the releases. In the gaming industry these blockbusters are called AAA games or triple-A games. This AAA rating is given to the games with the biggest budgets that are expec-ted to be the highest selling games of the year. (Egenfeldt-Nielsen, Smith & Tosca 2016: 22)

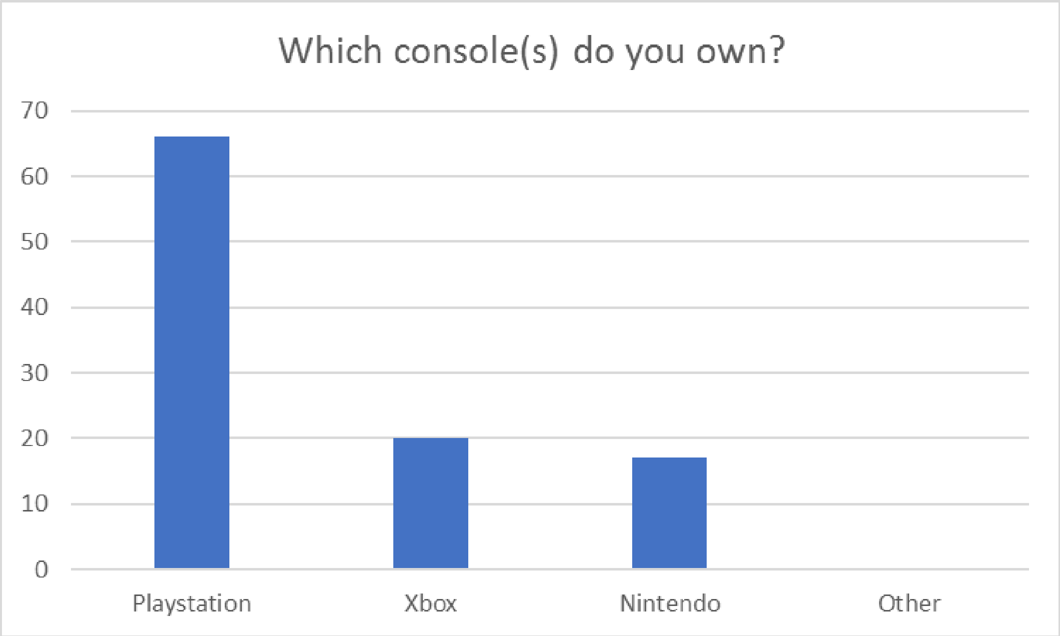

Figure 12. Which console(s) do you own?

5.3 Consumer behaviour

There were 3 questions in the questionnaire to clarify the behaviour of respondents on buying video games either physically, digitally or at all. Firstly the questionnaire distinguished the people whom have never bought a game for a console. From 91 respondents, 92% have bought console games at some point (fig 14). This means that 8% out of 91 having never bought video games on a console device before, which could be the result from 15% of respondents previously saying that they only play video games on a PC. However playing video games exclusively on a PC does not exclude the possibility of having bought video games for a console device i.e. having bought the game for someone else.

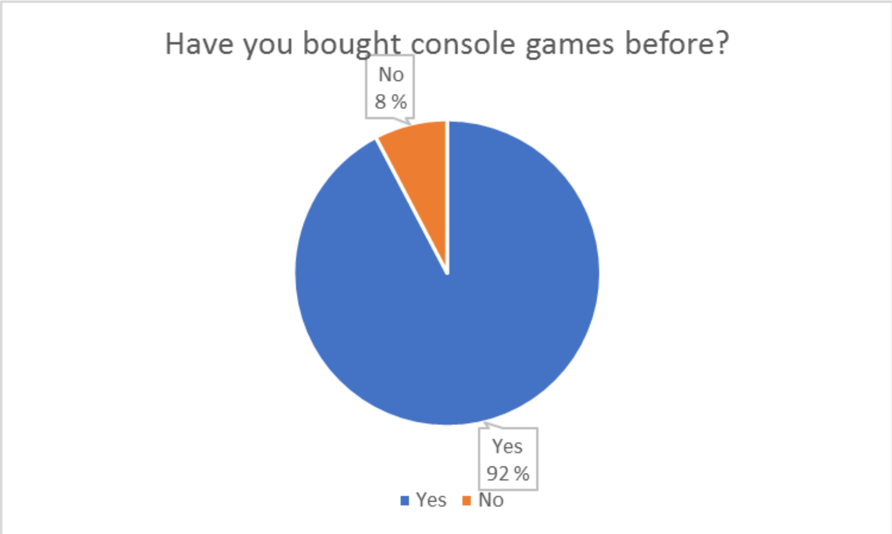

Figure 13. Have you bought console games before?

Respondents were also asked if they had bought games digitally before. From 91 responses, 88% said that they have bought games digitally (fig 15). The results are in line with previous findings as most PC and console owners have bought games digitally at some point in their life. However compared to sales volumes with physical copies and digital copies, there is noticeable gap with these results. The reason could be that eventhough 88% of the respondents have bought digital games before, they do not do so on a regular basis. To clarify this difference, the respondents were asked which medium they buy more often.

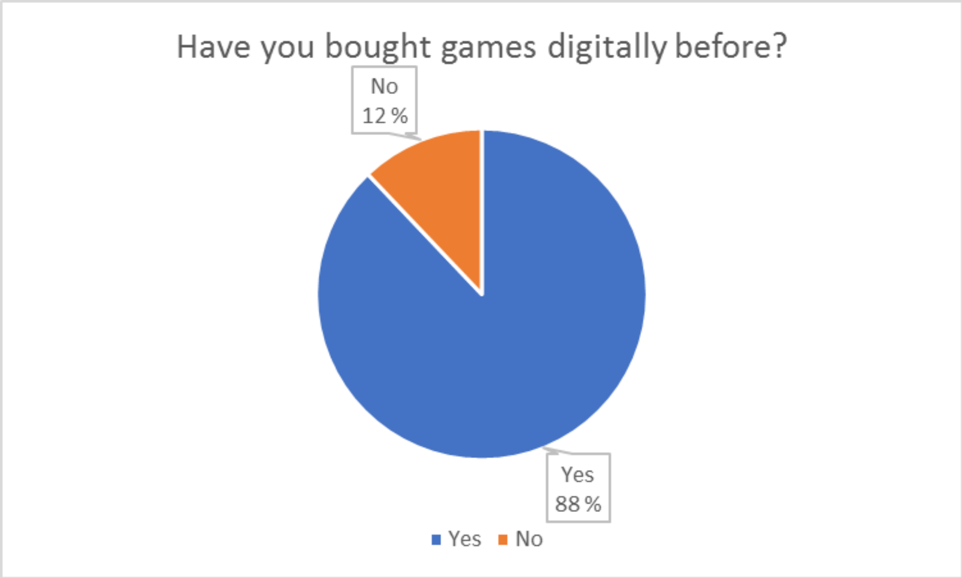

Figure 14. Have you bought games digitally before?

As stated on the previous question, the fact that the respondents have bought games digitally before doesn't mean they do so frequently. To give more insight on the paper asked the question about which copies they buy more often, digital or physical copies. This is where the difference on behaviour started to separate as 66% said that they buy digital copies more (fig 16). Meaning that 33% of the people still use physical copies as their prefered way of purchase method. The findings in this section are different compared to the findings from PwC (Statt, N: 2015), as their statistics show that console game sales on disk were $19,6 billion globally compared to digital sales that were estimated at $5,6 billion in 2015.

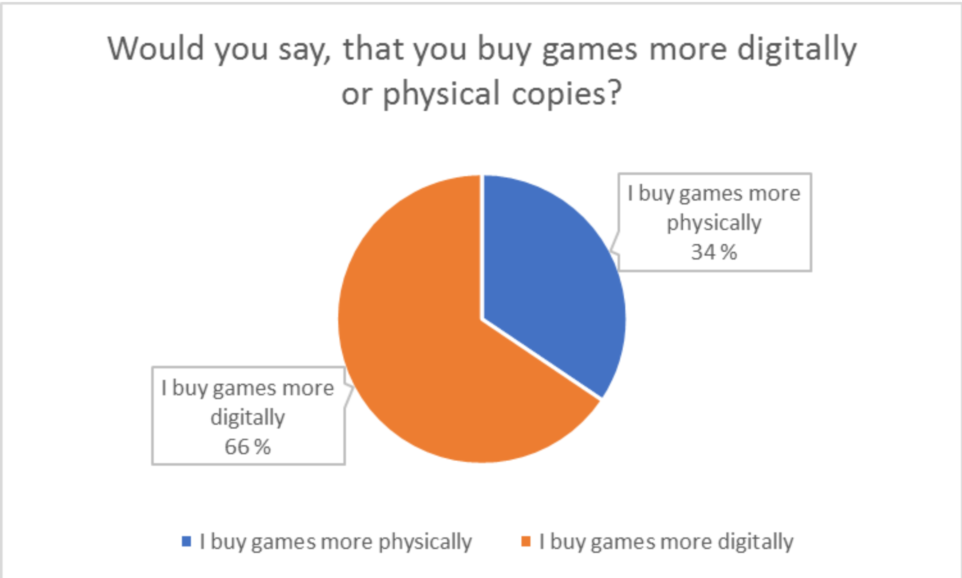

Figure 15. Propensity on buying games digitally or physically

5.4 Marketing

To find out which digital channel are more common, the respondents were given few of the largest digital channels on consoles to choose from as their most used ones (fig 17). The options given are the respective digital channels from the largest hardware manufacturers, however they're not the only ones. The respondents were given the opportunity to choose several options if they have used more than one channel. From 86 respondents, 128 options were chosen, meaning that some have used more than one of the channels to purchase games digitally. Not uncommon was that the most used channel was the Sony's Playstation store, since it was noted earlier that Playstation was the most owned console among the respondents. The 2nd most chosen option was the ”other” channels. This could be explained by the PC users among the respondents as PC has well established digital channels that are quite popular (I.e. Steam) that could be included in the option. This subject will be further explored subsequently in the open ended questions section.

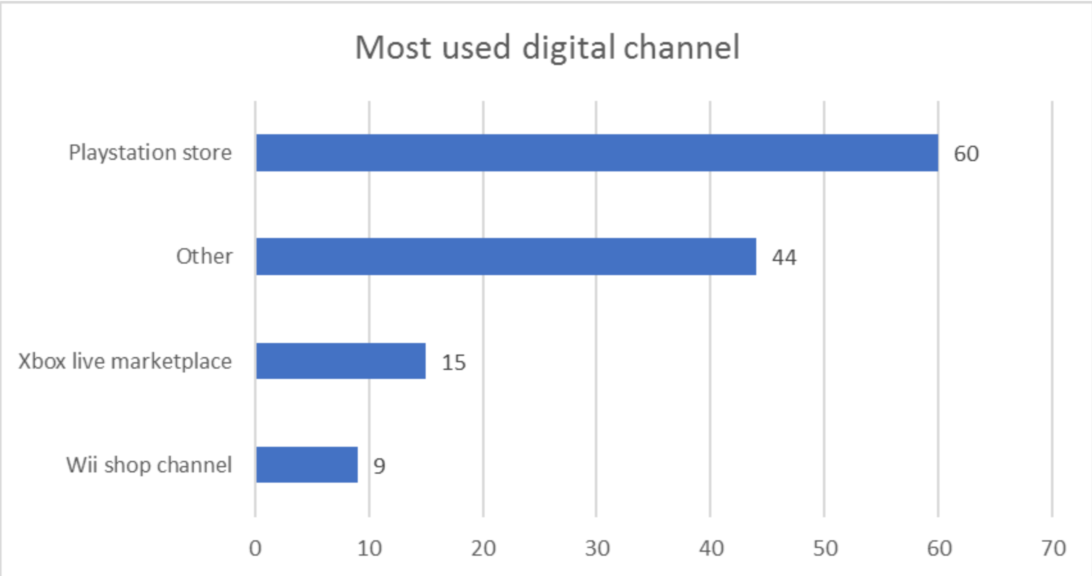

Figure 16. Most used digital channel

The respondents were asked where do they find information about the games they purchase. The respondents were required to choose 2 of the most suitable options for them. The results are displayed as amount of responses and percentage of overall responses. As is noticeable from the figure 17, word of mouth from friends got the most responses.

This could be related to what was discussed earlier in the paper how games are closely related to experience and how it affects purchase decision, as respondents clearly value the oppinion of their peers over other options. Second highest option is nothing unusual as trailers and tv-advertisement are really important marketing tool for the industry similar to other media related industries. To the game industry however, the importance of industry related conventions regarding game trailers is nominal as most AAA games are published during this time. For the movie industry, similarity can be found in the seasons when biggest blockbuster movies come out (I.e. summer season, Christmas). The third highest option was the advertisements in the digital channel that the respondents use. This underlines the importance of digital visibility in these channels as most blockbuster games are highly promoted in the games market section.

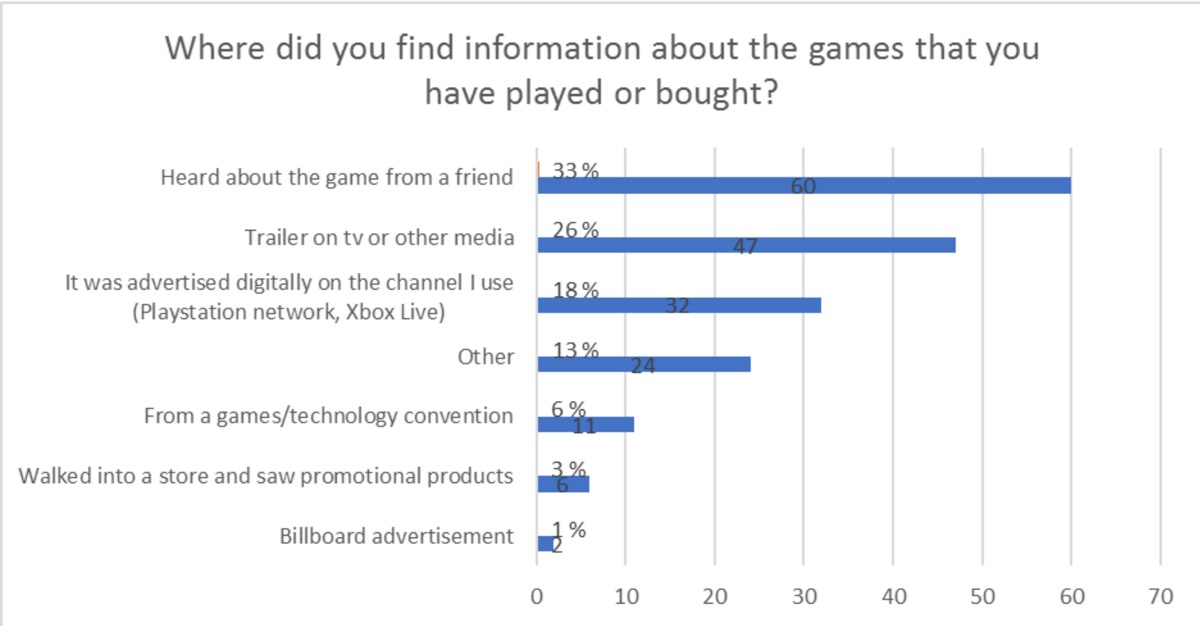

Figure 17. Where information about games is found

The research has already established that digital marketing, as a way of finding information about games people buy and play, is highly important. The findings in figure 18 show that there is some consistency with the digital aspect of how games are marketed. The paper has discussed before how recommended media has huge impact on what customers purchase or consume, (I.e. recommended movies on Netflix, products on Amazon) this effect could be viewed to have impact on respondents of this questionnaire as 45% have bought a game based on their recommended media.

There have been several succesful marketing campaigns in the gaming industry and some that differ from each other quite significantly. For example, Minecraft received huge success although it was mainly marketed through the word of mouth on the internet chat rooms. Other end of the spectrum is Grand Theft Auto V, which is said cost $265 million to develop and market. GTA V broke several records when it was launched after it made $800 million in just 24 hours and breaking seven Guinnes world records, such as becoming the swiftest entertainment product to gross $1 billion (Best marketing degrees, 2014). Marketing has 4 p's and sometimes being strong in one can compensate for the other. GTA V did excellent product and promotion exceeding customer expectations which lead to consumers flocking towards the product and telling others about it. Nintendo decided to turn away from the hardcore gaming experience as they could not compete with the big 2 hardware manufacturers by going down the graphics route. So they decided to go after a totally different segment with different requirements.

Most market campaigns in the video games industry have similar aspects to them such as: billboards, tv-advertisements and tv-trailers. One thing that is a given for in the gaming industry, is the importance of gaming conventions. One of the biggest and most noticeable is the Electronic Entertainment Expo, or E3 for short, is arranged every year in the United States. It's governed by the Entertainment Software Association (ESA). The purpose of this expo is to showcase the biggest innovations, games and gadgets. There are several other similar expos and these are the crucial part of any marketing campaign as all of worlds gaming populations eyes are on them. These gaming expos have several stages where biggest publishers demo their games and announce new titles that are being developed. Most of the expos can be watched via streams on YouTube and the E3 for example, has had attendance of over 50000 people on the year of highest attendance (Starkar, S: 2016).

Figure 18. Buying behaviour based on recommendations

5.5 Decision making process

The respondents were also given multiple questions with statements that would influence on the willingness of respondents to buy games more digitally and what factors actually do influence their decision buying games in the first place.

Why people buy specific games consoles is quite easily judged since there is little comparison. People buy Playstation for graphics, Xbox because of brand loyalty and Nintendo for fun (Nielsen: 2015). But what are the factors that influence what games people buy? There are many more reasons for buying certain games but the variation is also much larger. Studies show that the biggest reason for buying a certain game is other reasons which constitutes of 22% of the answers. Next reasons for purchasing specific games behind other reasons are: price, interesting story, graphics and word of mouth (THEESA, 2016).

First question in this section was to find out how much certain factors affect in the decision of buying a game (fig 20). The factor that gained most positive responses was related to the story of the game, which could be interpreted that the respondents show positive attitude towards games of high quality and with good narrative. The second factor with most highest positive responses was recommendations from friends, which has been established earlier is really important when it comes to getting information about games or what factors to the purchase decision. Recommendation from friends becoming second most valued factor is consistent when looking at the previous findings, however what makes it unexpected is that it drops price factor to the 3rd most valued factor. This could mean that buying games isn't revolved entirely around cost, as people value high quality products and other peoples opinions over price. This could leave more options when it comes to digital distribution and new methods of how people buy games in the future.

The factor that created least positive responses was about age ratings, which is contardictory with the findings from Marchand et al, as they listed mature age ratings as one the factors with most impact. This could be interpreted that the age rating of the game isn't something that people look for when they decide on which game they want to buy. Especially since it was rated really high on the negative side with 64 responses out 91 saying that it doesn't matter at all. The second and third highest factors with least positive responses were: additional content and recommendations from social media. The fashion of releasing additional content after the game has been released, could be seen to not get much support among the respondents. Publishers tend to release downloadable content, or DLC for short, to increase revenue and to prolong the games lifespan. There are said to be advantages by doing so, with increased attention towards the games and better retention from ”hardcore gamers” (Xicota, D: 2014). However, when looking at the results it could be interpreted that these positives are from the publishers point of view and that the customers don't value DLC as much. Recommendations from social media was shown as one of the least positive factors as well, which is quite surprising, since before was established that recommendations from friend was among the top most positive factors. As the two are quite closely attached, it could be seen that while friends opinions are highly valued, the same can't be said about other contacts. This is quite peculiar as social media as marketing tool has been increasingly growing in popularity among marketers to target their audience. (Paquette, H :2013)

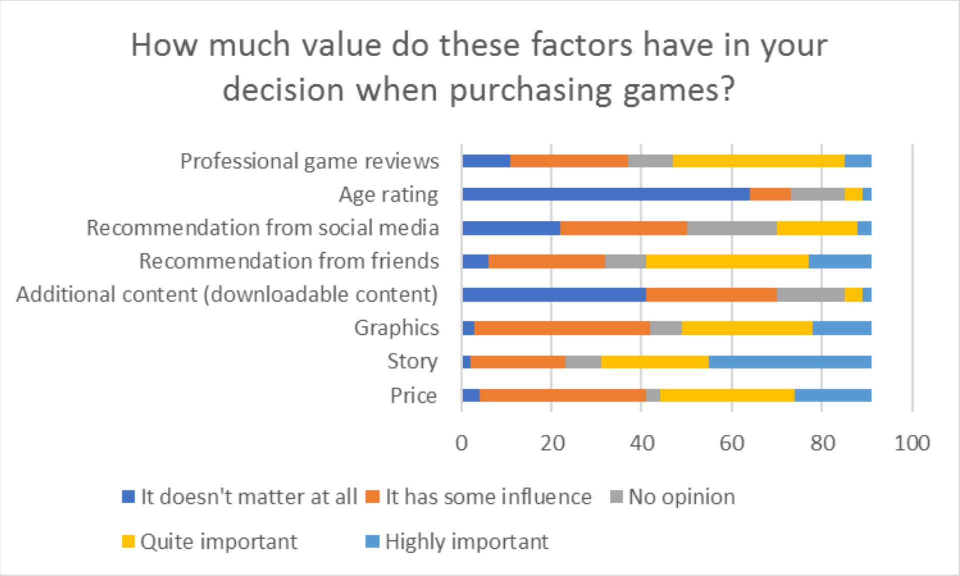

Figure 19. Factors that affect decision making

One aim of the questionnaire was to find out what statements, that had come up from the literature review, would have positive/negative reactions among the respondents about buying games either physically or digitally. Next question had statements regarding both digital and physical aspects of buying games, thus it could be evaluated which positives have most reaction. As can be seen from figure 20 below, the statements regarding digital sales had the most positive reactions. The statements that got distinctively most positive reactions were: Ability to download the game without leaving home and ability to download the game on the day that it's released. The two statements that got most negative reactions were about the traditional physical media: Ability to interact with the store personnel and owning a physical game collection. If compared, the two staments with most positive reactions to the two that had most negative reactions, it could determined that customers believe in the digital media and that it gives more benefits compared to the physical media. Brick-and-mortar stores aren't as attractive places to learn and discuss about games as they would have been several years ago. The paper also discusses that one of the biggest obstacles for the growth of digital sales is the used games market, which makes it strange that possibility to return old games for a discount had third most negative responses (Tach, D :2015). This could mean that the used games market is only as massive as it is, because there are still so many physical copies in the circulation. However as the digital sales are increasing this could evidently lead to the market becoming obsolete.

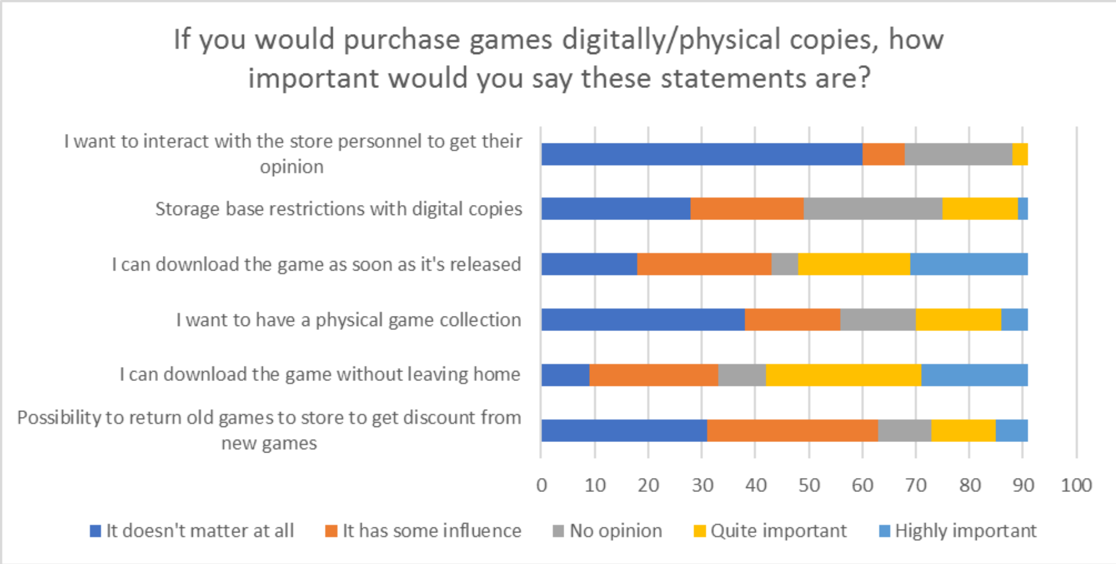

Figure 20. Statements regarding buying games either digitally or physically

The respondents were asked about several statements and how they would influence respondents in buying games more digitally. Some of the statements are facts that are in place and some are not yet true. The purpose was to already find suggestions for the digital distribution and how it could be made more appealing towards the customer. The figure below (fig 22) shows to no surprise that the statements regarding price had the most influence among respondents. Why is it not surprising? The digital and retail prices differ greatly at the moment as retail prices are lower than their digital counter part. What is the reason then? The answer consists of several aspects that all are taken into account when the prices are lowered. Firstly, the full game download with consoles is relatively new, although the new PS4 and Xbox One improved this with much storage space than their predecessors. By contrast, PC has better established digital markets and much smaller physical presence and this makes the games for it more reactive. Secondly, companies discount retail prices before digital versions simply due to stocks. Meaning that companies would rather decrease the quantity of their retail store stocks before discounting digital versions. This leads to the last reason, which is that digital game versions become more dynamic as the game becomes more sparse in the retail store, meaning that the interest towards the digital version increases as the game is not found anywhere else (Tach, D :2015).

One of the statements that created high positive responses was the ability to store your downloaded games into a cloud service. The release of new generation of consoles drastically increased the size of the space for saving games as the newest consoles have 1 terabyte of hard-drive space. This would allow for dozens of games to be installed on to the console, however the current social media instalments allow the sharing of video clips from the console which also require space, meaning that in the end 1 terabyte isn't enough for most. The ability to store in games in a cloud service is something that could be in high demand in the future.

One question that divided the respondents was the ability to sell downloaded games. It was seen as mildly interesting as the responses were spread almost equally among the options. In advance the author expected this to be one of the most positive options because of the size of the used games market that will be covered subsequently. There is also clear interest from the industry side as Microsoft have conducted their own survey on the matter (Makuch, E: 2016).

The console game industry has showed resilience on maintaining physical copies as the primary source of game sales. This is quite odd for a industry that relies mostly on cutting edge technology and things aren't going to change anytime soon. In the end of 2015, global sales of digital games supplied over the internet estimated sales were at $5.6 billion, showing a steady growth of 14% compared to previous year according to study made by PricewaterhouseCoopers (PwC). As the study shows, digital sales are on the rise, however the sales on disks were still at $19.6 billion showing small decline (Statt, 2015).

There could be many reasons for physical copies remaining the main sales vehicle as one suggested is purely the space requirements for downloading the game. For example one of the biggest selling hits, Call of Duty from Activision, having downloaded would require 55gb of storage space, meaning it's as sizeable download as 16 of Disney's Frozen movies. Size of games is one obstacle but the real reason at the moment is far more compelling. The size of the used games market (Statt, 2015).

The used games market allows consumers to return their used games which they no longer play to retailers such as Gamestop. When returned, depending on the demand and age of the game, consumers would get a small refund for the price they bought the game, which at launch tops at 60$. The price is the same whether you download the game or buy from a retailer. One of the aspects of owning a physical copy is the ability to take the game wherever you are going, meaning the ability to play it at your friends house. One of the advantages of buying the game over the internet is that you can do so as soon as the game has launched, however thanks to retailers such as Amazon, you can have the game disks shipped to your home on launch day as well (Statt, 2015).

5.6 Digital distribution

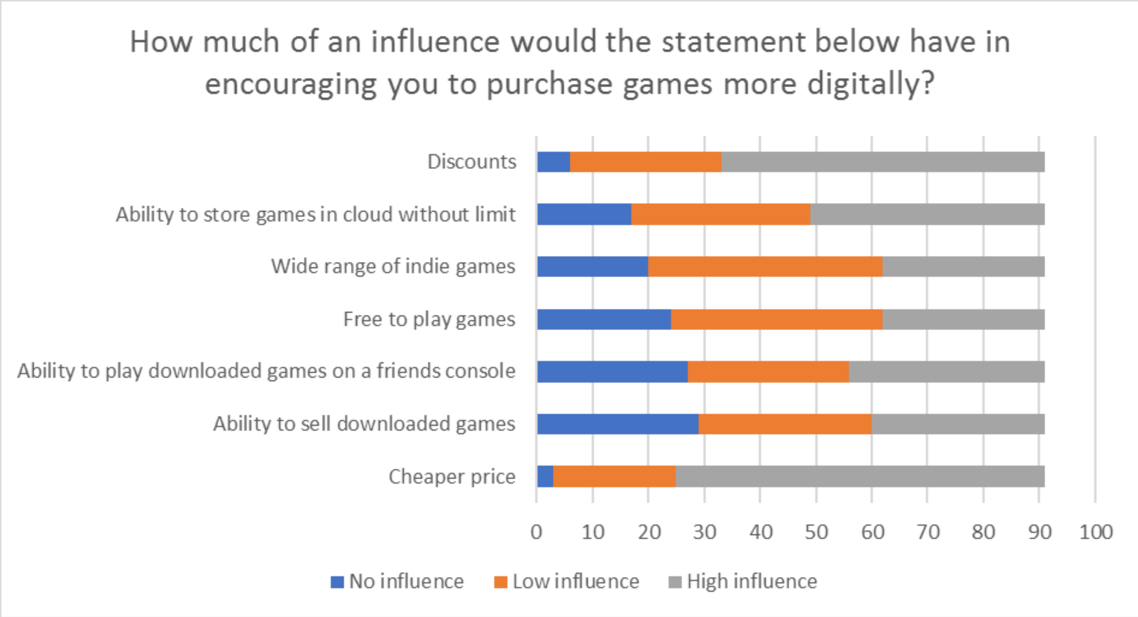

Figure 21. How much influence would these statements have for you when buying games more digitally

The questionnaire gave the respondents several statements that consisted of possible solutions for the digital sales in the future and future of the digital media in general. The respondents were most confident that digital distribution will be the most dominant channel in the future with approximately 73% agreeing with the statement, which is supported by the fact that 63% agreed that they will buy most of their games digitally in the future. This can be interpreted that the consumers have strong trust in the digital channel, but the industry itself might not be ready to support them yet. The respondents were split in their opinion about wanting digital games to have more content compared to physical copies. Quite much support from the consumers gained the option of a solution that where games could be played freely for a monthly fee. This statement was chosen from examples of similar industries. This could be interpreted that the most of the consumers would be open for new payment methods when it comes to buying games.

The ability to loan downloaded games wasn't seen highly attractive option as 25% would like the option and 42% wouldn't. Online multiplayer games have become most popular form of gaming as 72% of players play online (NPD, 2013), loaning games to friends doesn't seem to be an issue anymore. Finally, the respondents were uncertain about the industry needing a new solution for buying games as 66% responded either ”yes” or ”maybe”. Maybe answers consisted 47% of the total answers, which could mean that the respondents would be open for new solutions, but are uncertain as they don't know what the option would be. This could be researched more to give more options for the consumers and see how they would respond if they knew more.

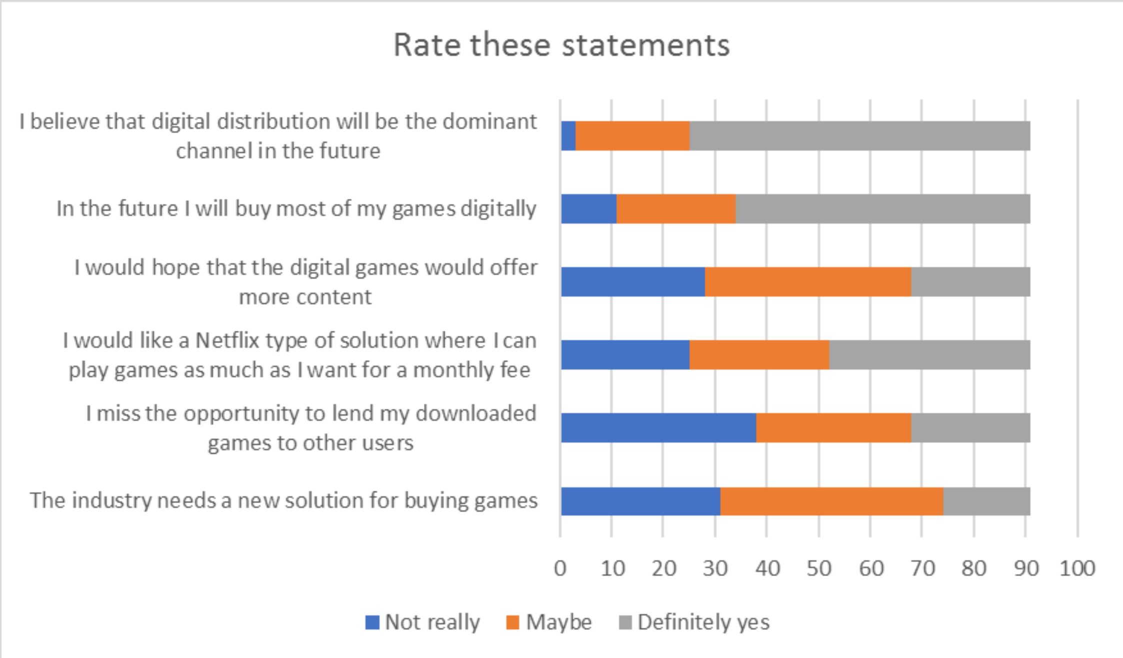

Figure 22. Rate these statements

The last section in the questionnaire was a set of open ended questions. There were 4 open ended sections in total. The first open ended question was about possibilities with the digital market that would make it more desirable. The theme that came up most in this question was about price. Most respondents stated that they wanted the same price for the digital version as the retail ones. Some where wondering why digital games are more expensive since there are no production costs for the materials (discs), no logistics cost and no middlemen. Other themes that were quite popular concerned about the possibility to sell/return your downloaded game or that owning the digital game would offer any additional value after purchase. The overall theme of the answers was that respondents find the physical copies having more value compared to the digital download.

To follow up on the first question, the questionnaire asked about what disadvantages the digital channel poses opposed to the retail market. The answers for the question were quite unanimous as most showed concern for hacking, privacy issues or corporations gathering personal information and selling it to third parties. Also the issue if having separate accounts for where you buy the games was seen as problematic since these services could be down due to maintenance or malfunction meaning you're not able to play your games. In general, owning physical copies was seen as the safe option of the two.

The questionnaire also aimed to find out what positives the digital channel offers and would the positives outweigh the negatives. Most noticeable answer was that digital shopping is convenient, fast, game can be played on the release date and that games are easy to find. As was found out before, the majority of the respondents stated that they will more likely buy games digitally. It could assumed that although there is much concern about privacy issues and price, that most still prefer the ease of digital channels over going to a retail store.

The final section of the questionnaire was that it gave the respondents the possibility to give comments and suggestions freely. As this section concluded the whole questionnaire, the responses acted accordingly. There were some really good suggestions and the most popular was that respondents would like a service where you can buy games for any platform whether it's PC or a console. This type of service would probably be highly problematic to provide as all the biggest publishers and manufacturers push their own services to the customers. Other comments were regarding with price as most said that they would be happy to use digital media more often if it would be cheaper. This is something that the industry could think of, that maybe it could abandon completely when it comes to physical media and just jump to strictly digital. PC has already went almost fully digital so why not the consoles? According to NPD group, PC digital sales surpassed physical sales already in 2010 (NPD, 2010), much of the credit going to the success of Steam and other digital services.

5.7 Interviews

The interviews were conducted to get more insight about the results gained from the online questionnaire. The interviews were done by email conversations with two male respondents who have good knowledge of the industry. Purpose of the interviews was to ask questions related to possible new pricing options and how the price would change if all games in the future were digital.

The two respondents were quite similar in their buying behaviour and responses, with only the amount of time they use to play games being the biggest difference. Both of the respondents were about the same age (average of 29 years) and have spent almost the same amount of money for games within the period of 8 months (average of €240). The respondents both agreed that the digital channel is their prefered method of buying games because of it's easiness and accessability, however both said that the average of how much they've spent on either digital or physical copies was 70% physical to 30% digital. One of interviewees stated that they buy digital games because ”The comfort of not having to leave your home. Physical copies are more 'durable', which is why I tend to buy them from time to time”. When asked what they mean when they say 'durable', the interviewee replied ”When you have the game in your shelf, you tend to return to it more often than if you had the game in a digital form simply because I personally forget that I ever owned the games once I have deleted them from my hard-drive”. The interviewees disagreed on the pricing of digital games as one said that ”Digital products are overpriced since they are cheaper to produce” and the other said that they haven't really thought about the issue, as they buy the game they want from where they can acquire it with most ease. Both of the interviewees had something they would improve about the digital channel. The biggest issues were with the storing capacity of consoles and that there isn't enough information about the games on the channel that would allow for impulse purchases.

The interviewees were on the same line that in their opinion, digital distribution will surpass physical within 5 years. The interviewees both agreed that if in the future all games are sold digitally, leading to lower production and distribution costs for the publishers, it would be odd if the price stayed the same as it is now. One of interviewees stated ”I would probably pay the same price, but reluctantly”. Both agreed that the industry still would need a way to continue the revenue from the games as they do now with the downloadable content, however both had ideas of how to charge the similar price as they do now. For example, they suggested that the asking price could be similar but this would mean that the developers could offer some extra content free of charge or that the industry could offer cloud services for saving downloaded games. In short, it was seen unfair to charge the same price without offering anything new to the table.

Lastly the interviewees were asked would they be interested in a service that would allow them to try all new games for a short period of time for a fee, allowing them to make a informed buying decision. One of the interviewees stated that this would be an interesting service, however they wouldn't want to pay much for playing demos and maybe this could be incorporated to the existing online fees that some of the consoles have. The interviewees were also asked would they be willing to pay for a service that would allow them to play older games indefinitely. They agreed that paying for such service would be agreable, however it would depend on the age of the games in the service.

6 Conclusion

The digital distribution is seen mostly positive for the convenience of use and easily available products. The are still some major concerns among consumers whether it's the better option at the moment from the physical medium. The main issues were seen with the safety of use with digital media as there has been several occurences of hacking and information leakage. Sizeable amount of responses also regarded the used games market. As the market continues to be a big part if the industry, most of the consumers view that the digital copies of games don't hold as much value compared to physical copies, which can be sold and loaned. This is something that could be payed attention by the hardware manufactures who have established their own digital markets. Seeing as the digital copies costing the same or more than physical ones and physical ones having monetary value after purchase is clearly an issue. There is clear tenacity from major companies operating in the physical market to hold on to the sales of physical products, as Amazon promises to deliver games to your door on the release date and Gamestop buying used games, although at a major discount. Without the used games market, one could assume that the time of brick-and-mortar stores is history, which is what Gamestop has also realized by differentiating to sell video game merchandise along with actual games. What was found out from the questionnaire and interviews was that people have high hopes for the future and digital distribution, but it seems that the industry itself isn't ready for the big change. There is positive signs for change as Microsoft has also surveyed the possibility of selling digital games for store credit, meaning that there would be a possibility for a used games market on the digital side as well.

There is also clear demand for cloud based services for saving and playing games, which is natural as in the future games will become even more sizeable due to 4K resolution and virtual reality options. From the interviews was found out that the capabilities of even the newest consoles is seen lacking in storage space. The hardware manufacturers could take this into notice when designing their newest models as it could lead to an advantage over competitors, however the resources to do so would be undoubtedly significant.

The questionnaire has also touched on the issue of price when it comes to digital sales, since it's closely related to the used games market. The issue of price in this case is quite multidimensional as there are many moving parts that affect the situation. At the moment it seems that the digital channels don't offer much besides the comfort of not leaving home, ease of use and availability of games. For example the respondents and the interviewees stated that they prefer digital channels over physical ones, but there is legitimate concern about buying the game digitally because it has less value.

To sum up, the digital channel is seen as the most convenient way of buying games, but it possesses more risk for the consumer as the product has less value. Games are products that can't be evaluated by the customer if they like or not until they have played the game, thus if the customer buy the game for $60 on the release date digitally and after few hours of playing don't like it, they have no way of getting refund for their money. Opposed to buying games physically you have the possibility to sell it to someone else, lend it to your friend or return it to the store for store credit. There is also more competition with the brick-and-mortar stores between prices than the digital channels as all hardware manufacturer have their own established channels. The prices with newest games can vary from €49,90 to €69,90 when comparing between brick-and-mortar stores, opposed to the price within the digital channels that usually goes around €60 if there's no special sale. To improve the value for cost in the digital channel, there should be a way to get reimbursement for your purchase, for example possibility to get your money back within a time limit if you don't like the game or have the possibility to sell your game for store credit which Microsoft has already looked into.

As the digital channel was seen promising, there was also concern about the threats that it possesses. Credit card fraud, personal information leakes, hacking, services crashing and hopes for alternative paying methods were the topics that came up the most among the respondents. There's been several major cases that show that these are still issues that should be improved. Looking past the threats, there was demand for a cloud based service where you can save your downloaded games. If the hardware manufacturers can't provide this, there could be third party possibilities that spread across platforms.

There’s already applications for Netflix and several other that companies that all platforms support, thus there should be the possibility for third party cloud services. This could be done in a library form where it’s possible to find all your games easily.

To further more study and research the digital sales of console games, a suggested study would be to analyze existing channels that have established working customer oriented services such as Steam. Also the study that would focus on research involving the major players in the industry would be suggested. This could bring both sides (gamers and companies) together to create a working solution for consoles regarding digital sales that would be beneficial for both and easy to use. This could mean interviewing industry leaders and their views on how current limitations would be possible to overcome and how consumer expectations managed efficiently.

The weaknesses identified with this research paper was the fact that keeping up with the facts was increasingly difficult due to the rapidly changing industry. There were some information that was discovered earlier and that had already been written in the research, that had to be changed due to the information becoming old and obsolete.

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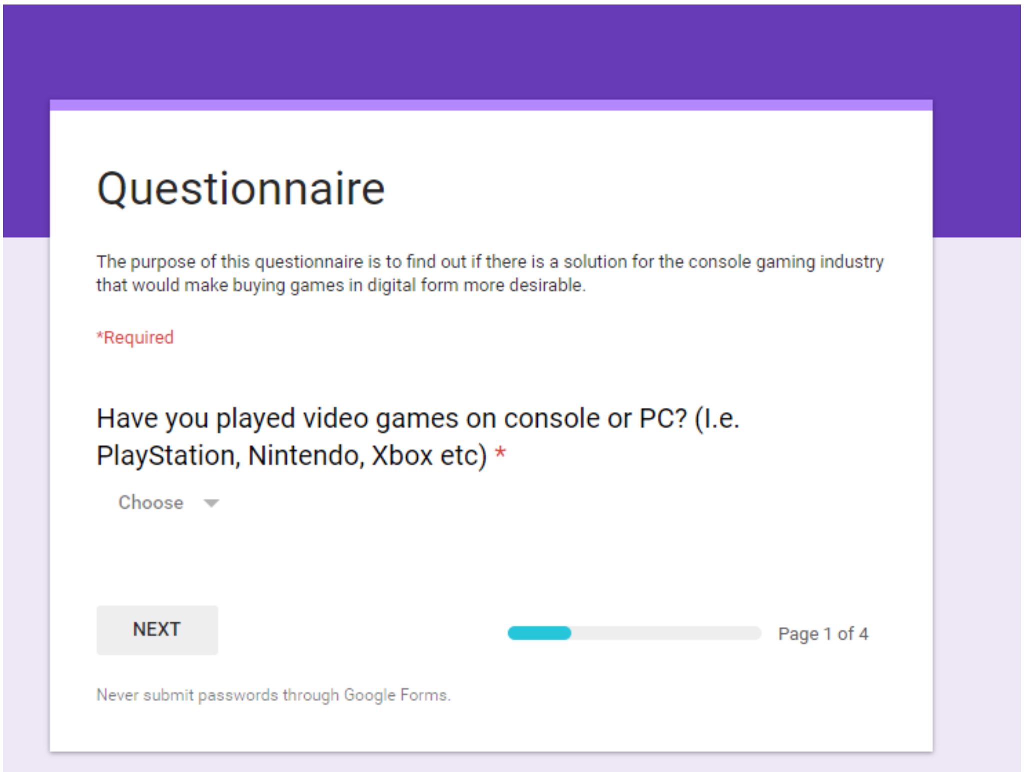
Appendix 1. Online questionnaire


Questionnaire

The purpose of this questionnaire is to find out if there is a solution for the console gaming industry that would make buying games in digital form more desirable.

*Required

Have you played video games on console or PC? (I.e. PlayStation, Nintendo, Xbox etc) *

Choose

NEXT

Page 1 of 4

Never submit passwords through Google Forms.

Questionnaire

*Required

Age *

Choose

Gender *

Choose

Do you play video games on a console? *

Choose

On which platform do you spend most time playing video games?

- ○ PC
- ○ Console
- ○ Mobile

If you play on a console, which console(s) do you own?

- ☐ Playstation
- ☐ Xbox
- ☐ Nintendo
- ☐ Other: ____

Have you bought console games before? *

- ◯ Yes
- ◯ No

Have you bought games digitally before? *

- ◯ Yes
- ◯ No

Would you say, that you buy games more digitally or physical copies?

- ◯ I buy games more digitally
- ◯ I buy games more physically

Which digital service(s) have you used to buy your digital games?

- ☐ PlayStation store
- ☐ Xbox live marketplace
- ☐ Wii shop channel
- ☐ Other: ______

Where did you find information about the games that you have played or bought? Pick 2 of the most suitable for you. *

- [ ] Trailer on TV or other media
- [ ] Billboard advertisement
- [ ] From a games/technology convention
- [ ] Heard about the game from a friend
- [ ] Walked into a store and saw promotional products
- [ ] It was advertised digitally on the channel I use (PlayStation market, Xbox live)
- [ ] Other:

Have you bought a game before because it was your recommended media based on your previous purchases? (I.e. "recommended to you because you played this game")

- ◯ Yes
- ◯ No

How much value do these factors have in your decision when purchasing games? *

	It doesn't matter at all	It has some influence	No opinion	Quite important	Highly important
Price	◯	◯	◯	◯	◯
Story	◯	◯	◯	◯	◯
Graphics	◯	◯	◯	◯	◯
Additional content (downloadable content)	◯	◯	◯	◯	◯
Recommendation from friends	◯	◯	◯	◯	◯
Recommendations from social media	◯	◯	◯	◯	◯
Age rating	◯	◯	◯	◯	◯
Professional game reviews	◯	◯	◯	◯	◯

If you would purchase games digitally/physical copies, how important would you say these statements are? *

	It doesn't matter at all	It has some influence	No opinion	Quite important	Highly important
Possibility to return old games to store to get discount from new games	◯	◯	◯	◯	◯
I can download the game digitally without leaving home	◯	◯	◯	◯	◯
I want to have a physical game collection	◯	◯	◯	◯	◯
I can download the game as soon as it's released	◯	◯	◯	◯	◯
Storage base restrictions with digital copies (Not enough room to store all your downloaded games on your console)	◯	◯	◯	◯	◯
I want to interact with the store personnel to get their opinions	◯	◯	◯	◯	◯

How much of an influence would the statement below have in encouraging you to purchase more digital games? *

	No influence	Low influence	High influence
Cheaper price (lower distribution costs, cheaper games)	◯	◯	◯
Ability to sell your downloaded games	◯	◯	◯
Ability to play your downloaded games from your friends console	◯	◯	◯
Free to play games	◯	◯	◯
Wide range of indie games (Cheap small studio games)	◯	◯	◯
Ability to store downloaded games in the cloud without limit	◯	◯	◯
Discounts (Black friday etc)	◯	◯	◯

Rate these statements *

	Not really	Maybe	Definitely yes
The industry needs a new solution for buying games	○	○	○
I miss the opportunity to lend my downloaded games to other users	○	○	○
I would like a Netflix type of solution where I can play games as much as I want for a monthly fee	○	○	○
I would hope that the digital games would offer more content	○	○	○
In the future I will buy most of my games digitally	○	○	○
I believe that digital distribution will be the dominant channel in the future	○	○	○

Is there any possibilities in the digital channel that in your opinion would make it much more desirable?

Your answer

What disadvantages would you say the digital channel poses compared to traditional channels?

Your answer

What positives would it offer?

Your answer

Comments or suggestions for the digital distribution

Your answer

Interview questions

1. Could you introduce yourself?

2. Do you play video games on a console?

3. On average, how much do spend time weekly playing video games?

4. How much would you estimate spending on video games during the last 8 months?

5. How much of that amount has been physical copies vs. digital copies?

6. Which channel would you prefer to use, digital or physical? Why?

7. What do you think about the pricing of games between physical copies and digital?

8. What would you improve in the digital market that would make it more appealing for you?

9. What do you think the situation will be with game sales 5 years from now?

10. How do you think digital sales could be improved?

11. In the future, if the sales of games would be almost completely digital and this would lead to lower production costs for gaming companies, would you be willing to pay the same price for a game as you do now? Why?

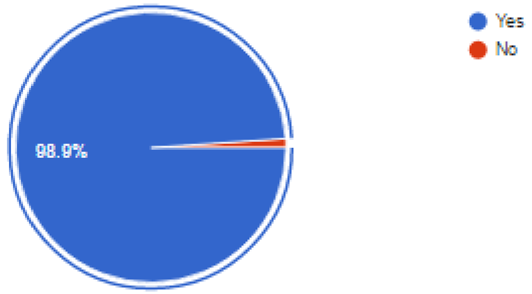
12. What if the price would be the same, but you would get additional content free of charge in the future for the game you have bought?

13. How much would you be willing to pay for a service that would allow you to try games i.e. for 5 hours, during which you could make an informed decision whether you want to buy the game or not?

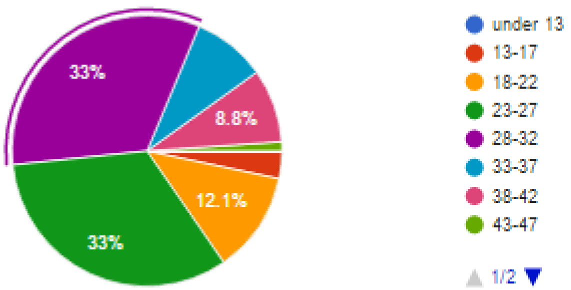
14. How much would you be willing to pay for a service that would allow you to play older games as much for an unlimited time?

Appendix 2. Questionnaire data

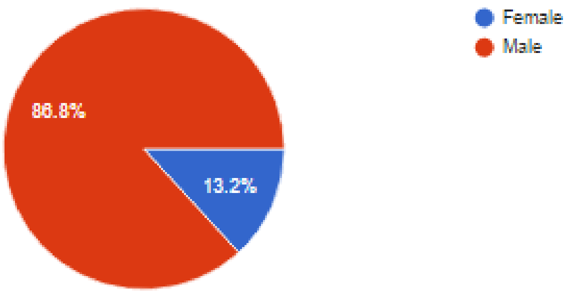
Have you played video games on console or PC? (I.e. PlayStation, Nintendo, Xbox etc)
(92 responses)



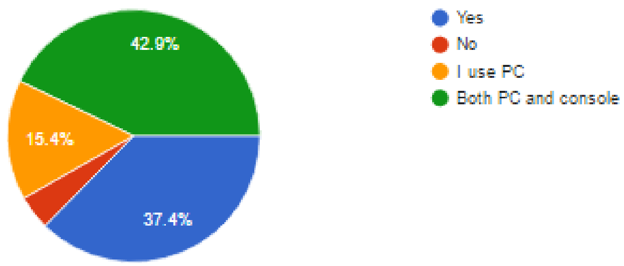
Age (91 responses)



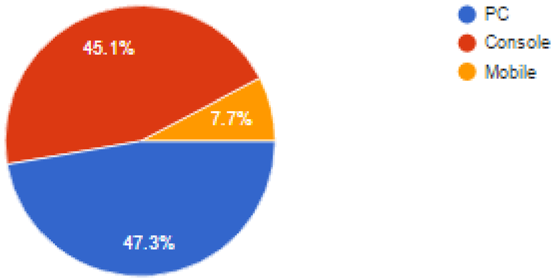
Gender (91 responses)



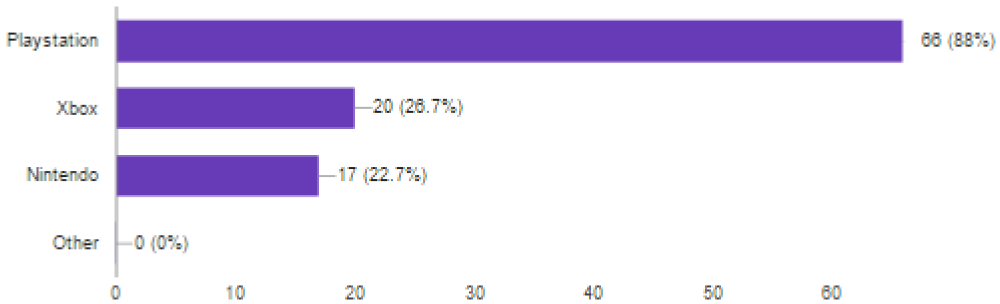
Do you play video games on a console? (91 responses)



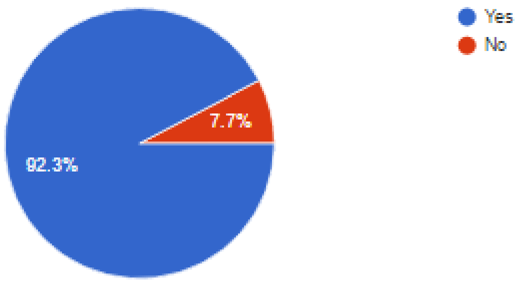
On which platform do you spend most time playing video games? (91 responses)



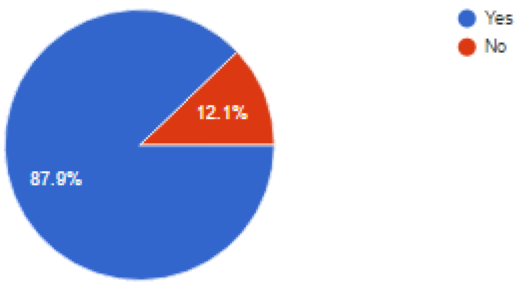
If you play on a console, which console(s) do you own? (75 responses)



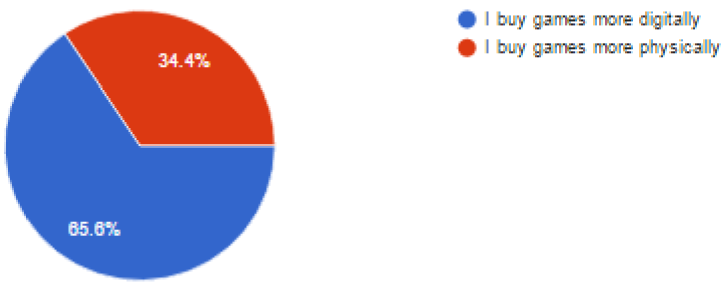
Have you bought console games before? (91 responses)



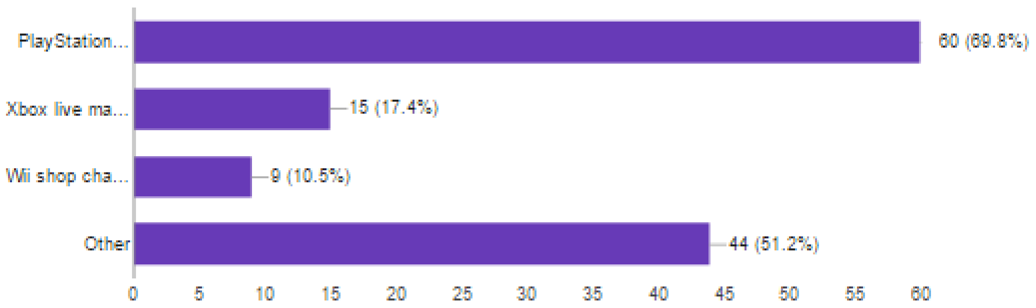
Have you bought games digitally before? (91 responses)



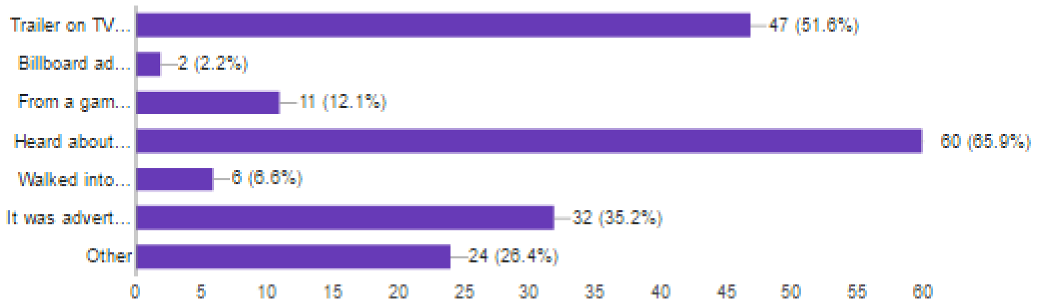
Would you say, that you buy games more digitally or physical copies?
(90 responses)



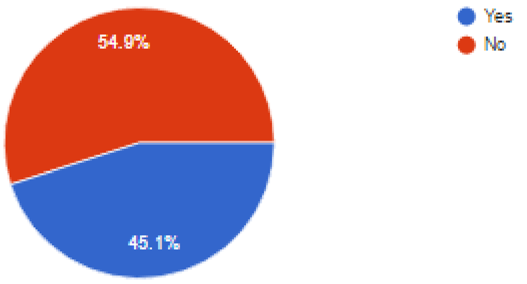
Which digital service(s) have you used to buy your digital games? (86 responses)



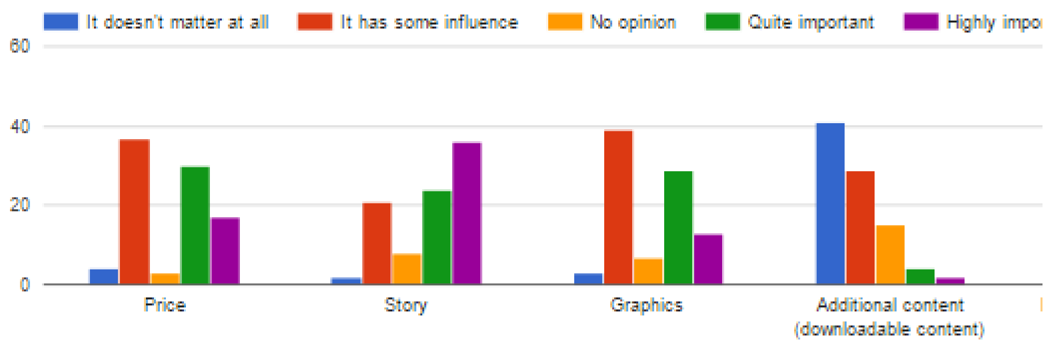
Where did you find information about the games that you have played or bought? Pick 2 of the most suitable for you.
(91 responses)



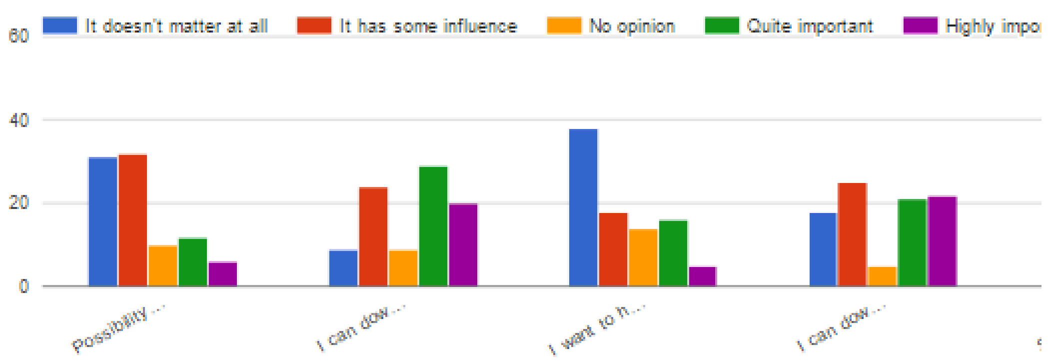
Have you bought a game before because it was your recommended media based on your previous purchases? (I.e. "recommended to you because you played this game")
(91 responses)



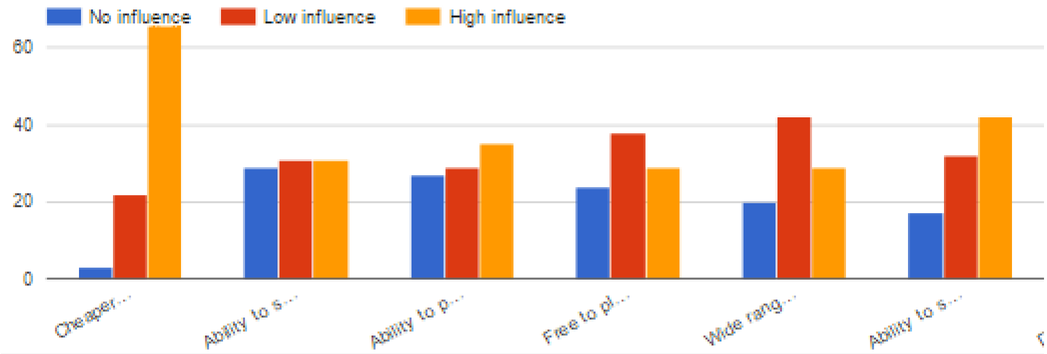
How much value do these factors have in your decision when purchasing games?



If you would purchase games digitally/physical copies, how important would you say these statements are?



How much of an influence would the statement below have in encouraging you to purchase more digital games?



Rate these statements