Investment (Capital) Layer

Although gaming continues to be a growth area the two largest games publishers are seeing declining profits. At this layer investment is used to pay for development of new titles and these investors are looking for a return on their money, primarily through licensing.

This layer continues to be topical with economic problems and contracts between publisher and developers being controversial. Developers often receive around 20% of the profits with the rest going to the publisher. This balance may change in the future as publishers buy out developers and squeeze the profits for themselves. This relationship can be compared to artists and record labels within the music industry.

Software piracy and the illegal downloading and copying of games are as problematic as it is in the music industry. Digital rights management and copyright laws are often unsuccessful.

Many developers go it alone and setup small start-up companies, frequently, straight from University. These small companies still have to break in to the industry, particularly with regard to the main console manufacturers.

Licenses are required for developing games for individual consoles, publishing games for individual consoles and per title. Most individuals and companies look to have publishing deals in place before they start the costly development process.

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**Design and Creative (Production & Talent)**

The demand for high quality, complex games is at an all time high. The level of skills and sophistication in the development of these games has led to hugely increased costs for the publishers. To reduce costs, large publishers like EA, have acquired development studios and placed them within their own organisation. This layer includes designers, artists and developers.

**Production and Tools Layer**

The production and tools layer includes game engines, game development middleware and project management tools. There are a large number of tools available for games development including games engines for consoles, Mac and PC environments as well as middleware programmes and project management software. As games have to be created, produced and distributed in the most cost efficient way, project management tracks the timelines, tasks and resources, ensuring the investors, publishers and hardware vendors all receive a return on their investment.

**Publisher/Distribution Layer**

As distribution moves from the original methods – branded boxes, displayed in gaming stores – to the cloud, there is a shift from these traditional stores and distributors to publishers, like EA, selling directly to their customers.
Games Industry Value-Chain

Digital distribution, whether over the internet, or through mobile providers, is an attractive alternative due to the reduction in overhead costs. Although gaming stores and supermarkets will continue to sell our favourite big brand games, the online and mobile markets are the predicted areas of future growth.

This layer is where the publishing industry is involved in generating and marketing games for retail and online distribution. The largest publishers of 2010 were Nintendo, Capcom, Warner Bros, Microsoft Games Studios, Electronic Arts, Activision, Take-Two Interactive Software, THQ, Square Enix, Tecmo Koei, PQube and Atari. Carry out some research into these publishers and see which big title games they produced.

**Hardware Layer**

The industry evolution over the last ten years has seen a move away from PC as the main platform. This was replaced by consoles during the 2000s but fast emerging new mobile, interactive and cloud based digital gaming platforms are now surging forward in dominance.

The capabilities of broadband have allowed the market to expand and look outside the individual gamer within their own home.

This layer sees the providers of the underlying platform which may be console-based, accessed via online media or through mobile devices such as the iPhone take charge. The main hardware vendors are Microsoft, Sony, Nintendo and Apple.

**End-User Layer**

The behaviour and preferences of the end users (us, the players) will continue to see the games industry change and evolve. In 2010 over 70% of xBox, Wii and PS3 gamers used their consoles to play games online. This change in behaviour comes primarily from firstly an access change – online and mobile game can be instantly purchased or downloaded. And secondly due to the reduction in price; online games are offered at a far lower price bracket than traditional console games and often free to gain loyalty and establish software development houses.
Gaming is now classed as a leisure activity in the UK, with the average gamer being in their mid-twenties and usually male. Only one in four females play games, although the introduction of mobile and social gaming has seen a steady increase in this number.