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Porter's Five Forces Analysis on a Video Game Company

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Playfull Interactive is a video game developer that specializes in single-player role-playing games for PC and consoles. The company's main headquarters is in Austin, Texas with plans of expansion to other neighboring states. Playfull Interactive currently employs 10 video game developers and writers to work on different projects. Four of these developers are members of the original team that started the company and released the top-selling "Bit King's Lot" video game. After the success of Bit King's Lot, Playfull Interactive was able to expand and establish a respected brand.

Playfull Interactive earns most of its profit from selling virtual and physical copies of its video games. The success of Bit King's Lot resulted in active support from the gaming community which increased the market's interest regarding the company's products. Aside from video game sales, Playfull Interactive also earns a portion of its profits from collectibles (figurines, Funko Pops, booklets) sales, website traffic, sponsor affiliation, and their Youtube Channel. Currently, Playfull Interactive's main competitors are video game companies from other genres.

Since Playfull Interactive is a new competitor in the video game industry, conducting analysis regarding Porter's Five Forces can help assess the company's competitive position. The analysis will help the company's managers identify the external factors that will greatly affect business operations and marketing capability. Porter's Five Forces analysis will also allow the company to develop effective plans and adapt to the threats surrounding the industry.

Bargaining Power of Buyers

Playfull Interactive's target market is any individual that likes to play single-player role-playing video games. However, due to the volatile market behavior, the company

can expect to receive customers that prefer a different video game genre. Currently, the bargaining power of these buyers is high due to the collective behavior of the gaming community. The video game industry's market is active in social media platforms like Facebook, Reddit, and Youtube. Their active roles allow for the quick spread of news which highly affects the market's behavior towards a video game developer. For this reason, video game companies prefer to garner positive perceptions from the gaming community to ensure a good reception for their products. This preference and the multiple alternative products that other companies offer give the buyers high bargaining power.

The gaming community showcased this bargaining power during the release of Bethesda Softworks' Fallout 76 in 2018. Years before the release, the market was disappointed with Fallout 4 (2015) due to its failure to meet expectations. Since then, the market's interest in Bethesda Softworks products decreased which resulted in the low unit sales for Fallout 76 (2018). The game has only sold 2.46 million copies since March 2020 which is low in comparison to Fallout 4's 13.51 million units sold and Fallout 3's 9.94 million units sold (Clement, 2021). The low sales of the game were due to the negative perception of the market and the continued bad reviews from players. The gaming community scrutinized the company and social media platforms were filled with posts celebrating the failure of the game.

The bargaining power of the buyers will also force Playfull Interactive to release its products on specific platforms. The majority of the market uses the Steam platform to purchase, store, and play video games. Playfull Interactive currently releases its products on Steam and the company's website. However, some of the company's

games are only available on the website which can result in lower sales. Since the market prefers to use the Steam platform, Playfull Interactive will need to release its products with Steam compatibility features to better reach the buyers.

Bargaining Power of Suppliers

Video game companies can find the materials they need for developing games from businesses that offer tech supplies. Playfull Interactive obtain their materials from companies that offer software, hardware, network infrastructure, and intellectual properties. Video game development relies more on coding and digital designs, unlike traditional businesses. This means that Playfull Interactive does not need to regularly purchase operating materials for its product development. The company's main requirements are stable network infrastructure, medium to high-end computer hardware and software, and high-quality digital assets. Due to this, the bargaining power of most suppliers tends to be lower. Playfull Interactive can find various companies that offer high-quality hardware and assets. Since experts can easily customize computer hardware, video game developers can easily replace or fix malfunctioning PCs, thus lowering the need for expensive purchases from suppliers.

While hardware suppliers' bargaining power is low, companies that offer software products like game engines have higher bargaining power. This is because software products are unique and hard-to-replace materials. Materials like game engines will dictate the programming language and limitations of a video game which means that Playfull Interactive cannot replace the product without affecting the development process. Epic Games exercised this high bargaining power through their Unreal Engine. The company allowed developers to release games in the Epic Games Store without

additional fees which increased the developers' profits. This led to game developers persuading their customers to buy their games on the Epic Games Store (Hall, 2019). Some games that used the Unreal Engine even became exclusive to the store limiting the games' potential to sell on other platforms. Epic Games gained this bargaining power due to their ownership of the Unreal Engine and its terms and conditions.

Aside from computer hardware and software, Playfull Interactive will also require materials for the physical video game copies and collectibles. These products require the company to find suppliers of discs, cases, and raw materials for art pieces. The company will have many supplier options which lower the bargaining power of this kind of supplier. Playfull Interactive can easily find alternative sources for the materials and the artists they need for crafting figurines and other artworks. However, the company may benefit from maintaining good relationships with existing suppliers and reduce overall material costs.

Threat of New Entrants

Playfull Interactive began as a four-man team of video game developers without an official office. Despite this, the company was able to release a top-selling game which allowed them to expand and compete in larger markets. Playfull Interactive was able to accomplish this due to the low barriers to entry in the video game industry. There are even individuals that created top-selling video games alone and became an icon in the industry while others challenge themselves to develop a video game within a single day. This concludes that the video game industry has a high threat of new entrants since any skilled programmer can develop games and sell them.

The gaming community's active support for indie game developers plays an active role in the high threat of new entrants in the industry. The market perceives indie game developers as passionate individuals and tries to reward them for their efforts to contribute to the industry. This support allows indie game developers to compete with the larger markets and quickly climb the competitive ladder. Playfull Interactive is an example of an indie game developer that was able to expand due to the support of the community. As more individuals learn video game programming and attempt to develop new products, new entrants in the industry can compete in larger markets.

The main barrier to entry for new entrants is their limited capacity to consistently release products. AAA developers and other established companies have multiple offices and employ hundreds of employees to work on different projects. These developers tend to annually release different video game titles that provide profits for the company. New entrants will not have this ability, especially teams with few members. However, the market has noticed that most AAA developers tend to rush their games which results in bug-filled products. This is one of the reasons for the community's support for indie game developers as their products tend to be more polished and creative.

Threat of Substitutes

For Playfull Interactive, the threat of substitutes does not come from video games in the single-player role-playing genre. The video game industry's market has a unique buying behavior that does not promote brand loyalty. The threat of substitutes comes from the other video game genres. Since most of Playfull Interactive's products are in the role-playing genre, the threats will come from shooter games, real-time strategy

games, and simulation games. This is because an individual that likes to play role-playing games will prefer to buy products from the same genre. This is true for other individuals that like shooters and simulation genres. Currently, the threat of substitutes is high from the first-person-shooter genre due to the popularity of the game Valorant (2020). The product is a free-to-play game and even non-gamers have begun playing the game.

Aside from the threats of other genres, the different gaming platforms can also provide alternatives. Most of Playfull Interactive's products are available on PC while only a selected few are on PlayStation and Xbox. Video games available on PlayStation and Xbox will pose a threat to the company's products since individuals who like the platforms will prefer to purchase games from their store. This will divide the market between PC, PlayStation, and Xbox and affect buying decisions. The gaming platforms like Steam, Epic Games Store, and Uplay may also contribute to the threat of substitutes. Playfull Interactive's games are unavailable on Epic Games Store and Uplay. Individuals that prefer these platforms over Steam will not have the chance to purchase any of the company's products.

Account sharing and digital piracy are issues that pose the threat of substitutions.

An individual with a game account or physical copy of a game can lend the product to their friends and family members. This act allows individuals to play a video game without purchasing a personal copy. This is a common practice, especially inside households where siblings share PCs and consoles. The issue of piracy also poses a threat since hackers can create pirated copies and upload them online for free. In most third-world countries, pirating video games and other media are common practices due

to the ease of access and low risk. Video game companies develop software to combat piracy, however, hackers are still able to infiltrate the software and create copies.

Industry Competition

The video game industry's competition relies heavily on current market trends and product quality. When there is a trend in the industry, such as the high demand for open-world games, most developers will begin to create products in that genre. This is because brand loyalty is not a significant factor in the video game industry. Individuals looking for video games will purchase products from different brands as long as they offer the preferred genre. Currently, open-world, competitive, and role-playing video games are some of the in-demand genres. This gives Playfull Interactive a competitive advantage as it specializes in role-playing video games.

Product availability is also a contributing factor in the video game industry. Free-to-play video games like Valorant (2020), Apex Legends (2019), and League of Legends (2009) dominate a significant portion of the market. Free-to-play products allow consumers to play without purchasing the game. Companies still earn from free-to-play video games through their sponsors and in-game purchases (Tenbusch, 2020). This availability attracts a wider market since individuals with low budgets can still play.

Aside from the financial availability, popular video games tend to be playable on different platforms such as PC, PlayStation, Xbox, and smartphones. Cross-platform availability attracts more consumers and provides ease of access.

Conclusion

This Porter's Five Forces analysis indicates that the threat of new entrants and the buyer's bargaining power pose a larger issue to the company's growth. The buyers

possess high bargaining power due to their collective behavior which can force Playfull Interactive to strictly follow market demand. The low barrier to entry allows small developer teams to compete in the larger market against established companies. The company must address and adapt to these forces to ensure stable growth and a competitive position. Also, the forces of supplier's power, the threat of substitutes, and industry competition can affect Playfull Interactive's operations but not at the same level as the previously stated forces. The company must aim to continuously impress the market with its product quality and be aware of the market trends within the industry.

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