

Applying Porter's Five Forces to an indie top-down crafting-horror game

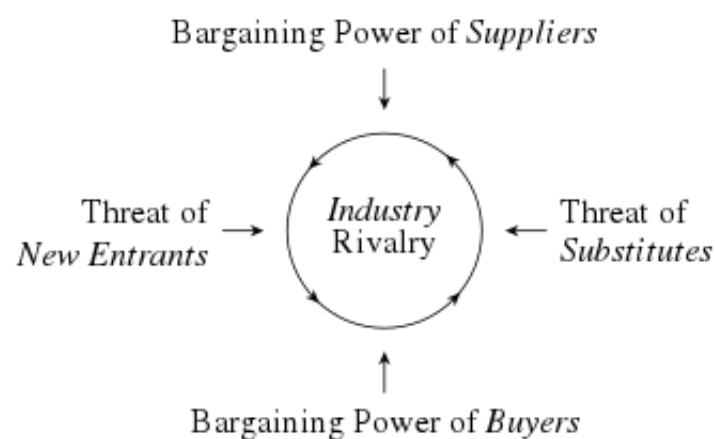
This document is a short review of the business segment of Kae Studios upcoming game, *Lost in the Murk*. The purpose of the segment is to provide a brief introduction to the most popular marketing model for interested views. The topic discussed are market analysis and proper utilization of available data. The author, Victor Kae, is an economist working with data analysis for video game start-up companies in an incubator environment. The images used are sourced from VG-insights and Wikipedia.

Porter's five forces

If you take any marketing course in business school, you'll quickly get introduced to Harvard University's Michael E. Porter and his quintessential Five Forces model. The acclaim is highly justified, as it is an excellent starting point for analysing the environment that any firm find themselves in.

The model should be used as a tool to thoroughly get an overview of the broader movements in the specific business environment. It segments various effects into groups and accurately explains their interactions. In this document, each force is briefly explained and then applied to Amalie's project. I would highly encourage the reader to seek out additional information on how to properly assess the model for your own purposes.

Visually, the model embeds the firm and the rivalry in the competition in the middle, with four forces applying a force towards it, as well as towards each other in a circular pattern. The rivalry is itself also considered a force.



Take note of the positioning of each force and which other forces it affects. Every force affects the firm and its rivalry. All but the rivalry force affects one other force. How and why will be explained for each point.

1. Potential of new entrants into the industry

In a traditional sense, an existing firm constantly needs to address new competition entering the industry. Some notable examples include, Yahoo Search failing to address the threat from Google, Facebook acquiring Instagram when it proved to become a replacement platform, and now TikTok disrupting the social media sphere.

For the purpose of Amalie - by definition, this is her! From the perspective of other already established titles, her game is a threat. Similar games might lose sales if they prefer her game to theirs (albeit video games seem to have very short shelf-lives as 'the new popular thing to buy'). It also means that once Amalie's game exists on Steam, newer games are a threat to her sales numbers.

Other notable examples in the industry includes the competitive scene of Counter Strike being threatened by Valorant, World of Warcraft dealing with Final Fantasy XIV and the new Riot MMO, etc.

2. Power of suppliers

Let's assume for a moment that we're a company who makes chairs and tables. We need some lumber to actually produce these, and let's suppose only two lumber yards can feasibly provide those materials. In this scenario, we would investigate each of the options and choose the one that is favorable. Some time passes and suddenly the prices we're charged for the lumber increases, meaning the options needs to be reassessed.

This scenario creates some intricate economic interplay where the size of our company and the lumber yard are vital. The threat of losing us as a customer might be devastating to the yard, so the prospects of us moving to their competitor can be used as leverage to secure better prices.

But what does this have to do with video games? Well, a lot! The traditional 'supplier' role is generally perceived as the marketplaces that provide an avenue for sales, such as Steam and the Epic Games Store. While others exist, these seem to be by far the largest. The fact that Epic Games have grown exponentially since the release of Fortnite has given Steam some competition, which in the analogy.

But how can Amalie use this information? Well, she cannot do much with it. It is just important to know that the cut varies by platform (Steam 30%, Epic Games 12%) and thus revenue per sale varies with this decision. It seems that a trade-off exists between how many eyes will see your game, and what percent cut of sales you get. For larger AAA releases, the cut might be negotiable - but this is private information between Steam and the studios, so we can only guess.

3. Power of customers

In the business world, this is more relevant in a B2B (business-to-business) environment, where large companies have other large companies as their customers. Thinking back to the lumber yard analogy, if we are purchasing more than half of all the lumber that the yard produces, we have meaningful bargaining power during negotiations. In a B2C (business-to-consumer) environment, the amount of customers are usually staggering. Importantly, these customers are usually not coordinated, and thus they do not have power to negotiate. In economics lingo, they're called 'price-takers', as their only available action is to take whatever price is presented. Note, however, that customer sentiment and satisfaction is important for any business, B2B or B2C. This is usually highly correlated with product quality, and failures can lead to disastrous amounts of complaints and refunds, such as with *No Man's Sky* and *Fallout 76*.

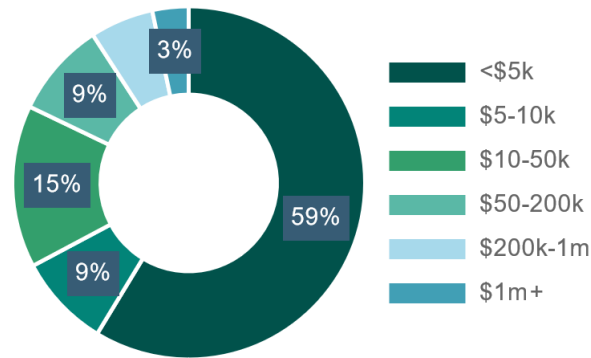
Regarding prices, the entertainment industry is curious. The value proposition and utility provided is highly subjective, and thus an accurate price measure is tough to pinpoint. For indie games, studios usually price themselves to competitors in order to not stand out, and be chosen on merit instead of price differences. Fun fact, a similar mechanism (Hotelling's Law) is the reason that you likely see new supermarkets or fast food chains geographically pop up right next to existing ones.

The absurdity of video game prices has been masterfully highlighted by videogame-dunkey in the video: '[Video Game Pricing](#)'.

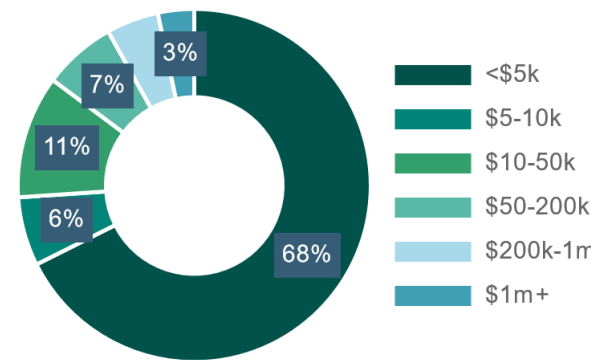
4. Industry Rivalry

This is exactly what it sounds like. What does our competition look like and who are our biggest rivals? This analysis is what Amalie directly references in *The Indie Game Leap*. While it is quite surface-level, it does show significant differences between tags and genres. Further, a deeper analysis would require data that we do not have access to, and the results likely will not change much in the game-making process. An analysis is only worth as much as it can change! For this segment, we use VG Insights to identify similar games. We show that odds are better using the specific tags, when compared to broad market available on Steam.

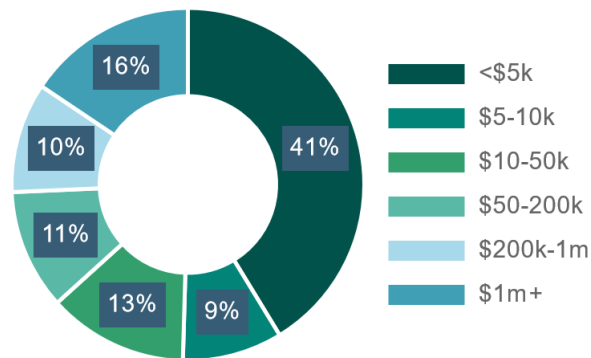
Below is an image of the projected revenue of all 55,215 indie games on Steam ('revenue of at least 1' filter applied). As seen, 59% never makes more than 5,000 dollars.



Bad news first. If we filter out the 3,675 'top-down' games, the distribution changes. Now, an even worse 68% never makes it past 5,000 dollars, while the other categories all shrink accordingly.

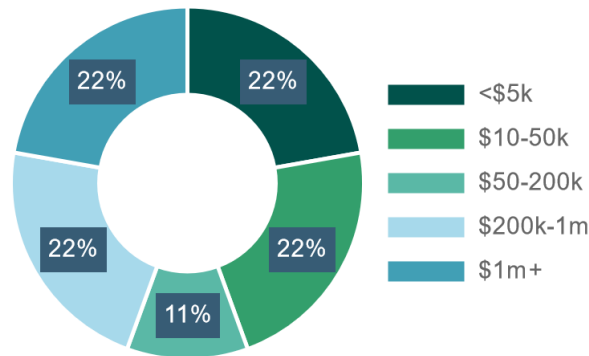


Removing 'top-down' and applying the 'crafting' and 'horror' tags, we get 109 indie games with the distribution below. The market now seems less risky with 41% being below 5,000 dollars. Further, 16% manages to breach the million dollar mark, up from 3%.



Applying 'top-down' to the filter alongside 'crafting' and 'horror', we end up with just 9 games (Ordered by revenue, the games are: Darkwood, Subterranean, UNDYING,

Frozen State, SKYHILL: Black Mist, Dap, The Last Cargo, A Lanterns Glow, Valley Knights). While the graph below seems excellent, the sample size is simply too small to have meaningful information.



5. Threat of substitute products

This force is the crux of video games. A substitute product is simply anything that can fulfill the same need. For most other products, this scope is quite narrow. If you want tomato soup, you need tomatoes - no way around that.

For games, however, the goal is to entertain, and a plethora of options exist for this purpose. To quote the legendary marketing Professor Theodore Levitt 'People don't want to buy a quarter-inch drill. They want a quarter-inch hole!'. What people are looking to buy from Amalie is not necessarily a 'top-down crafting-horror game' - they want entertainment, but likely have a preference towards that specific type of entertainment.

A good approach to this hurdle is to ask, what would people consume if your game does not exist? Perhaps the answer is another game, perhaps they go watch Netflix, perhaps they play tennis. All of those answers are potential substitute products.

As you're making a game, it's very easy to get caught up in games that looks like yours and only consider them as your competition. If this describes you, you need to understand what the customers need is.

All in all, this is just to say that the game does not exist in a vacuum. Meeting the customer's need is much more difficult when the need is vague. Tackling a task such as 'drilling a hole in the wall' is much more tangible compared to creating an entertaining game.

A final word of advice is this. Keep any and all analytical considerations and conclusions actionable. If something you consider does not or cannot change an action, spending meaningful time on it is inadvisable.

And thank you for making it to the end of my ramblings! Feel free to ask me any questions - the easiest way to reach me is through Amalie's Discord server. :)