Vertical Integration, Exclusivity and Game Sales Performance in the US Video Game Industry

Ricard Gil and Frederic Warzynski

Discussant: Angelo Mele

November 19th, 2010
NET Institute Conference Fall 2010
Summary

- This paper analyzes the relationship between vertical integration and video game performance in the US industry.
- Literature focuses more on network effects and pricing/marketing strategies.
- Here focus is on vertical integration and exclusivity.

Why can VI matter?
1. VI games are released in ”better” periods
2. Transaction costs/contractual frictions in development of games
3. Publishers market or advertise VI games better

Results:
1. VI increases Revenues, Sales and Prices
2. Exclusivity decreases Revenues and Sales, while increasing Prices
Data

- The paper uses data from NPD
- Good data
  - Sales
  - Revenues
  - Publisher
  - Platform
  - Genre
  - Collected data on identity of developer
  - Collected info on M&A
- What I would collect (if you can)
  - Consumer Ratings for games
  - Consumer ratings for consoles
  - Ratings from specialized publications (if you are concerned about endogeneity)
Demand Estimation

- Binary discrete choice problem
- Games are bought independently
- Utility of $i$ from game $j$ at period $t$ is

$$U_{ijt} = X_j \beta + \alpha p_{jt} + \xi_j + \gamma(t - t_j) + \phi_t + \epsilon_{ijt}$$ (1)

- Here you could include Ratings of game $j$ as explanatory variable (also interacted with age)
- Include age squared or other nonlinear specifications
Additional Questions

- VI for distribution is not possible at all?
- For PC Games (and now Mac) large part of the distribution from Steam

- Exclusivity implies that there is no PC version?
- What about substitution among console and PC?