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The videogame market: features of a competitive market and implemented strategies. Analysis of a Korean business: "Pc-Bank". Development of a Business Model and DCF analysis to replicate it in Italy

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Ai miei genitori, senza i quali ciò non sarebbe stato possibile.

A Eleonora, per un viaggio insieme appena iniziato.

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Introduction

In 1972, the market assisted to the creation and launch of the first console for video games. From that moment, there have been forty-four years of continuous improvements, with the possibility to live a virtual reality thanks to the last accessory realized by Sony. It is understandable as the videogame sector has realized important results, and it has been able to satisfy each type of customers' need in this long period. Three main competitors now characterize the market: Sony, Microsoft and Nintendo. These three companies have spent these years to compete, trying to acquire more and more customers. Obviously, the products offered, especially from Nintendo, are so different from the other ones; anyway, the main segment to attract is probably the same. Today it is important to remember as the different opportunities, meant, as different experiences that you can try, have attracted more customers, curious to discover new beautiful virtual experiences. The idea of this work is to start with a presentation of the sector, trying to analyze and describe the important steps of these years, going from 1972 to the last console launched on the market. This thesis would analyze the strategies used by the different companies, underlining for example as Nintendo has been trying to attract a different type of customers, offering a product able to conquer the whole family, from grandparents to children. At the same time, strategies used by Sony and Microsoft will be explained, stressing how they have tried to differentiate their products, with the aim to increase the value offered to customers. Discovering all features of this sector, there will be also the opportunity to explain the importance of the network; the development of the online mode, became essential element to choose a console instead of another one. Furthermore, in the first chapter, there will be an introduction to new possible competitors, as Apple and Google. Finally, there will be a focus on a specific game, become an incredible phenomenon, able to capture time and attention from millions of people all over the world: Pokémon Go.

The second chapter will focus on the concept of Business Model. There will

be an analysis to give a complete portrait, trying to reassume and consider any type of Business Model definition presented in the literary field. In fact, the Business Model concept will be considered under different point of views, seeing it as an instrument to innovate, a tool to classify or focusing on its direct relationship with the value creation concept. The main part of the second chapter will include the most famous tool offered by the literary world: the Canvas Business Model. The model will be deeply analyzed, considering each element, trying to give a clearer explanation thanks to the usage of examples. Considered any theoretical element needed, it will be possible to start with the second part. Everything will be focused on the possibility to replicate a specific business in Italy, became so famous in some countries of Asia, especially in South Korea. Having had the possibility to spend one semester in Seoul, capital of the Asian country, I have discovered this business, so appreciated both by local and foreigner customers curious to live this new experience.

In Seoul, but in general in the whole country, it is possible to see a "Pc-bank" in each corner of the street. This type of store is characterized by a high number of "designed stations" each one equipped with a computer, a comfortable chair and a pair of headphones. Each computer has the availability of both the native language and English; in this way each person, could come and play. Obviously, each computer has a perfect Wi-Fi and LAN connection, to share and play with the other gamers in the room and from all over the world. The possible games available are usually about 10 or less, chosen considering the customers' preferences and their demand. As a matter of fact, despite of the large number of titles, the most appreciated are usually the same for everyone. The price is very low, about 2000 Won (the exchange rate Euro/Won is now 1234.55) for one hour, and also for this reason, the demand is very high, with "Pc-banks" totally full in each moment of the day. In any one is possible to find free water container (this is a common practice in the country), chips, ice creams and other possible snacks to eat during the play. In South Korea "Pc-banks" are very common, but from some years, it is possible to find also "PS-banks", so stores dedicated

completely to gamers of PlayStation. The stores are similar, with only some differences with “Pc-banks”. In fact, the only main visible difference is represented by the level of conversations between players and the volume of their voice; elements that justify a high level of sharing where any designed stations could be used by two or three people. To analyze the Korean business, I have realized a survey, aimed to collect more info as possible. The survey has been submitted by about 150 people, and thanks to their collaboration has been possible to obtain important information about the business at issue; the survey is composed by 30 questions and each one will be shown into the third chapter, thanks to graphs and tables deeply explained. The last chapter of this work represents a business model project, based on the idea to replicate this form of business in Italy. Using the Canvas Model, the first element considered has been the value proposition, in which the aim presented will be to recover the past “Arcade” model, trying to re-introduce it with different elements and characteristics that could be appreciated immediately by the market. The aim is to propose a “concrete model”, trying to consider any type of practical aspect related with the business. For this reason, the Korean model will represent an important benchmark to consider essential features to replicate in Italy. Thanks to a work organized for Canvas Business blocks, there will be analyses and hypotheses about expected costs and revenues. To conclude the analysis, the last paragraph will be dedicated to a Discount Cash Flow Analysis. There will be the identification of any tool needed, as for example, the required return computed thanks to the CAPM, and the time horizon considered will be a three annual based. At the end, the results should give a clear portrait about the effective possibility to re-introduce the “Arcade” into the Italian market.

Chapter 1: The videogame industry: characteristics, actors involved and future trends.

1.1 History introduction

The videogame industry could be identified as a young one. The industry will celebrate its first sixty in the next year. In fact, otherwise the first game machine produced for the whole market has been launched in the 1972; the first prototype of videogame machine has been introduced some years before, on 1958. It was born in a strange situation; Wally Higginbotham, a government nuclear research, decided to create something able to attract people. The idea was a game of tennis projected thanks to an oscilloscope. The only limit was represented by the Wally's choice: he decided to not patent his invention.

Before to arrive on 1972, there is another step to consider. The year was 1962, Steve Russel, the inventor. At that time Russel was a graduate student in an engineering university. He was able to program a game called "Spacewar" using a computer accessible in the school. The game was really appreciated and able to spread quickly into other schools. Also in this case, the invention was not dedicated to the entire market; for this reason was only on the 1972 that the videogame industry started its development. Magnavox produced the machine, and the name was Odyssey.

Picture 1.1: the picture represents the starting point for an industry able to generate a huge amount of revenues.



The real innovation was represented by the possibility to play with different games. The concept was the one still valid today: to use the same machine with the possibility to insert diverse titles inside. To explain perfectly the history of this sector, there is another important step to underline and introduce. The protagonist in this step was Nolan Bushnell. A graduate student very interested and motivated to innovate the videogame industry thanks to its lovely experience with "Space war". He decided to found Atari, and the first game proposed was a new version, an advanced one, of the tennis game launched on 1958. This step is really important, in fact, Atari represented the first real market leader, thanks to the introduction of Atari VCS too. Atari will represent also the first failure in the market at issue, due to the incapacity to manage in a proper way its invention. So, starting from the Magnavox idea, it tried to use contents realized by other companies. The problem was the poor quality of them; for example "Pac-Man", so famous today, wasn't able to guarantee a suitable revenues level to Atari. The market was so surprised by the company's situation, and the idea was that the videogame markets hasn't had a long and prosper future. About ten years later, the situation changed again, thanks to the Nintendo arrival in the market. The Japanese company put in the market a new innovation air, thanks to machines, better realized than the previous ones. The Nintendo situation represented the really turning point in the market: the idea was that with a good organization and a constant boost to innovate there was a real possibility to obtain profits. For this reason new companies decided to enter in this new profitable market: Sega and Sony. They were the first one to realize a large amount of sales during the 90s.

Their history is important to introduce a new central element. Actually, after Atari, Nintendo and Sega suffered by the same negative development. There was a clear route: a good success able to transform the company in the market leader, followed by a terrible failure, due to a power mismanagement and an abuse of it. The real problem was represented by the fact that the market was always developed to guarantee "vital space" only to one or two actors. To explain the concept, the Nintendo's case could be suitable.

Nintendo was brought to a failure due to its limits to realize innovation and for the incompatibility between the contents created with other consoles. The strategy to produce contents available and useful only for one machine could be a good idea, and a profitable choice, but could be dangerous if other consoles arrive in the market. For this reason the videogame market could be considered as an oligopolistic one, where to acquire a broad market share could be fundamental. “Loyal” people were obligated to accept the contents proposed by the company, at their price and conditions. This situation was a problem for all the subjects in the markets, Atari and Nintendo first, followed by Sega and Sony.

Table 1.1: Market shares by Console Manufactures from 1995 to 1999¹.

Firm	1995	1996	1997	1998	1999	2000
Nintendo	0 %	31,9 %	42,5 %	61,5 %	28,4 %	26 %
Sega	34,7 %	19,1 %	0,5 %	–	28,6 %	18 %
Sony	65,2 %	48,9 %	57 %	38,5 %	43 %	55 %**
H-H Index*	0.546	0.377	0.506	0.526	0.347	0.403

* The Herfindahl-Hirschman Index is the sum of the squared market shares for each firm. Numbers over .18 are typically considered indicative of a highly concentrated market, .10 to .18 is considered moderately concentrated and < .10 is considered unconcentrated (Litman 1998).

** Includes both PlayStation (41%) and PlayStation2 (14%).

The table presented is useful to reassume the problem exposed and the history of first ages. It is clear, as the market is capable to accept only few companies. Look for example to year 1996 and 1997, there is the Sega decline, due to Sony and Nintendo’s development, with an increase in their market share of about 10 percentage points. The same Sony viewed its market share going down, due to the Nintendo’s success, which reached the 61.5 per cent of market share. The same company only one year later, during the 1999 was able to lose his leader position, granting the Sega’s return and an increase in the market share of Sony, new leader with the 43 per cent. According to me this numbers are important to justify the categorization of the market as an Oligopolistic one, and to understand how important could

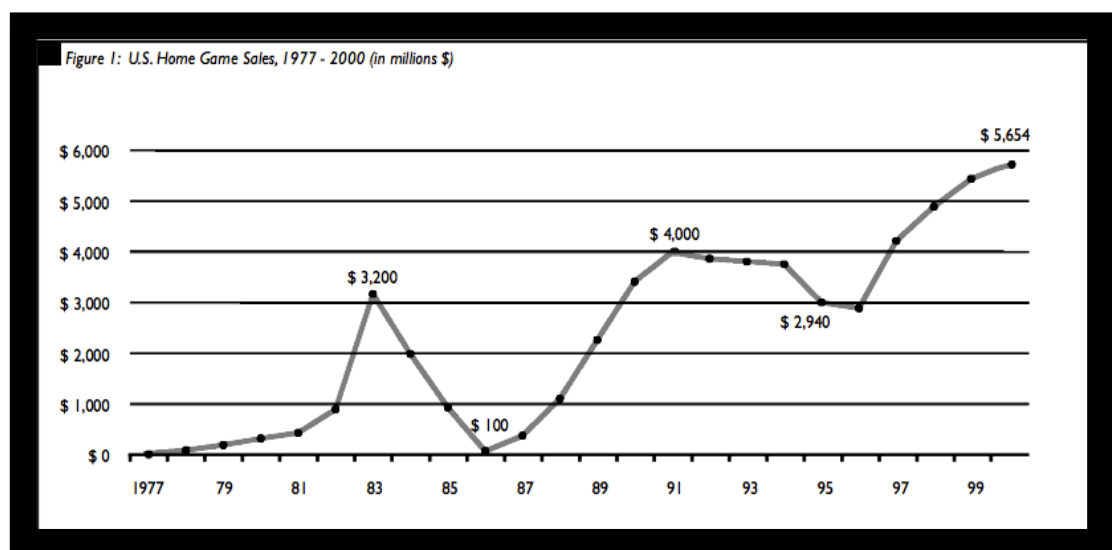
¹ Source: PC data and NPD Group.

be the continuous innovation and attention to the market desires, to maintain the market share and so the right level of profits.

To conclude the brief history introduction another actor should be considered: The “PC”. The Pc became a perfect platform where there was the possibility to develop different contents. From the beginning the actors presented in the market have been two: Microsoft and Apple.

The videogame industry, as described in this introduction, has been always characterized by different and many actors. Today, after many years, it is possible to say that the companies presented represent a stable group that with more or less the same market share continue to attract new possible customers and players. The constant innovation and detail’s attention has always been a fundamental element of the industry. This continuous desire to improve its products has been important to guarantee the fast growth of these first years.

Graph 1.1: U.S. Home Game Sales²



Otherwise, the idea is to study the videogame industry all over the world, this graph could be a good way to resume what has been said. A constant boost to innovate and satisfy the market is able to guarantee a constant revenues

² Source: Structure and Competition in the U.S. videogame market, *Dmitri Williams*, 2002.

increment, due to a high number of new players, fascinated by the improvements realized. To conclude this first paragraph, I think that it is clear how interesting could be to study this industry and its characteristics, able to generate important level of revenues all over the world.

1.2 The importance of the brand identity: different politics to analyze

In this paragraph the aim will be to analyze the main companies of the industry at issue, considering the three major leader in this moment: Sony, Microsoft and Nintendo. For each company and console there will be a deep analysis, to highlight the key factor to reach their level of success in these years.

1.2.1 The Sony's success: from the relationship with Nintendo to the market conquest.

Behind the Sony success there are different elements to underline, first of all the partnership with Nintendo. Initially the company was not sure to enter in this market; the idea was that an oligopolistic market has not had enough "space" to guarantee the survival to another big company, over Nintendo and Sega.

For this reason the initial strategy was so clear: to develop a partnership with Nintendo, with the possibility to enter in the market without substantial investments. The possibility to collaborate become reality after the umpteenth controversial situation between Nintendo and Sega. The latter accused Nintendo to be involved only in the production of children's contents, while the rival aim was to conquer a wider market. This brief introduction is important to understand the hostile relationship between the two subjects at issue.

On 1990, Sega decides to present a new innovative solution: the "Sega-CD", presented during a game show in Tokyo. The new devise will be used to increase the contents quality in terms of video and audio. The Sega's decision obliged Nintendo to develop new solutions too. Always identified as a "Slow

Company” in terms of innovation, Nintendo surprised everything starting a partnership with Sony. The latter was the owner of the Cd-technology with Philips and the idea was to present in the market a new device: the “Snes-Cd”. From that moment the Sony’s role in the videogame industry changed rapidly; the partnership with Nintendo wasn’t so long, due to misunderstanding about clauses and internal leadership. The problem was that Sony would have an exclusive right on that technology, useful to launch in the market a new console in the future. As easily predictable, in the June on 1991, during the Chicago Computer Entertainment Show, Sony announced the Play Station, able to support the new Sony CD-ROM and the Snes-CD. This possibility would guarantee the possibility for players to switch their preference to a new console without losing the previous games bought. Sony’s expectations were really elevated, and the Steve Race words (the CEO of the company in that time), are a perfect proof: “We designed the PlayStation to be the best game player we could possibly make. Games really are multimedia, no matter what we want to call it. The conclusion is that the PlayStation is a multimedia machine that is positioned as the ultimate game player”.

Before to arrive to the launch, there are other few steps to consider: during the 1993 and 1994. On 1993 the firm realized important software improvements thanks to the creation of a specific division: Sony Computer Entertainment Inc. One year later, there was the official presentation in Tokyo, where specialized companies in the sector at issue appreciated the console. To be valued were two essential elements:

- The usage of CD-ROM;
- The new 3D graphical availability.

Both factor were really appreciated, moreover because thanks to the new 3D formula there was the possibility to develop a new generation of games. Immediate proofs were the partnership started with different programming companies to realize immediately more than three hundred new games.

Finally, in the end of 1994, the 3rd December, there was the launch in Japan. It was followed by an extraordinary success, with more than one thousand

consoles sold in few hours. The unexpected success boosts the company to continue the geographical expansion, going through US and the European region then. The launch in the US arrived on 1995, with important result, due to the optimal price (299\$), able to attract a lot of customers; important to underline that the new Sega's console would have a price equals to 399\$. The real turning was the European expansion. Initially, there was the idea to reach only few countries, capable, according some analyses to accept the new console. After some internal discussion, the final decision was to reach the entire region, and from the launch, the 29th September on 1995, to the end of the year, more than six thousand consoles were sold.

Obviously the incredible success has been reached thanks to different reasons, but there was a fundamental key to consider: the contents quality. The platform alone is not enough to conquer the videogame market; it is essential the availability of many good contents, and here there are two examples of really appreciated games. The first evidence is that the developers are two different companies, proof of how Sony started immediately to develop an important network.

Picture 1.2: these are covers of two famous titles for the first PlayStation



1.2.1.1 The next generations: from the bestselling console to the last generation

The Sony's development in the videogame industry couldn't be limited to the first console proposed to the market. The big success obtained, and the large

number of partnership started, has given to the company the possibility to think to the future, with the possibility to remain as stable leader in the market. After only four years, the company announced the second version of its console: Playstation 2.

Picture 1.3: PS2 the console with the highest level of sales.



The console will be the leader in the sixth generation, where the competition will be a crucial element. Initially, the only rival would be represented by Sega's console Dreamcast. However, the market's answer to Playstation 2 was unpredictable and Sega was obliged to retire its console, giving the possibility to Sony, to be a monopolistic company for a period of six months. Sega's decision was clearly analyzable looking to the first number realized by Sony.

Announced on 1999, during the Game show in Japan, the console arrives in the market only few months later, in the march of the followed year, reaching Japan firstly, and US and Europe in the end of the same. Numbers were incredible: 980,000 units in the first day, for a total amount of 250 million of dollars, more than twice realized by Dreamcast (97 million of dollars). The aim of Ps2 was to realize a complete entertainment, possible thanks to the integrated Dvd-technology and the online availability, became so important with the arrival of new competitors. About the Ps2 it is important to say that dominated the sixth generation, and it has been able to be the best seller console in the history too, with about 157 million of consoles sold in twelve years. Behind this success there are different strategies, both of cost and

differentiation. Regarding the first, with the development of new consoles by Microsoft and Nintendo, Sony decided to position the price below Microsoft and at the same level of Nintendo. To realize the second strategy the idea was to launch also new version of the initial product, in terms of color and package. The idea was to offer new related products too, as for example the EyeToy, a little video camera, and games like “Singstar”, to offer a new and different type of experience.

The Sony’s success has been continuing for years, thanks to the consoles launched in the seventh and eighth generation: Ps3 and Ps4.

The PlayStation 3 history has been clearly influenced by the previous success obtained by its predecessor during the sixth generation. The Console has reached a good level of unit sold, arriving to 81.8 million of console. The aim was to satisfy the new market needs, with an attention to the online service, the real turning point to acquire a huge number of customers. Obviously the aim was to contrast the new strong competitor in the market too: Microsoft. In fact, from the seventh generation the Nintendo’s role definitely changed, with a strategy of differentiation addressed to conquest another new group of customers. The console was launched during the 2006, first in Japan and after one week in the North America region. The console would arrive in Europe only three months later, in the March on 2007. For the seventh generation the problem was to realize a console not so expensive but able to cover the costs, for this reason three different versions were produced: the last one was the Super Slim, preceded by the Slim and the Fat ones.

Picture 1.4: in the picture there is the graphical evidence of Sony PS3 evolution.



The consoles have an internal hard disk, similar to the one offered by Microsoft, and worked to offer a new experience thanks to the Blu-ray technology availability. However, also in this case, the real key of success was the “Backward compatibility”. The ability was to loyalty the market, creating something like a natural change from ps2 to ps3, without losing the previous investments done to buy games.

The last console produced by Sony is the Ps4. The console is reaching important sales level, racing in the market with the last version produced by Microsoft: the “Xbox One”.

Picture 1.5: it is the last console produced by Sony, to contrast the Microsoft escalation, and the Nintendo's return.



The console has been launched in the market in the end of 2013, before in North America and Europe, reaching in this case the Japan as last area. The Ps4 was born in a new era; an era dominated by the new social media role and the company has been able to understand this element. For the first time there was the possibility to share contents directly from the console to a social network, in a new online experience realized to be the most complete of ever. To realize this goal the company decided to modify the traditional controller inserting a button in the joystick to “share”.

Picture 1.6: a view on the new innovative gamepad, with the possibility to put together videogames world, with the social media phenomenon.



To underline about the eighth generation, there is the complete similarity between the two opponents in the market, that are now concentrating their efforts to produce more exclusive games, able to represent the “tip the balance” to choose between a console instead of its rival. The level of similarities is so clear, for example Sony too has decided to create an online experience with a monthly cost, and a more convenient annual membership.

1.2.2 The biggest Sony’s rival into the 21th century

Sony has dominated the videogame market for a long time, and it was so clear as none in the market was able to contrast its power and dominant position. In this paragraph I will present the company able to fight with Sony to conquer the market. The Microsoft role in the computer e software industry was clear to everybody, totally unknown was its potentiality in a new sector, the videogames one. The first console was launched into the last part of 2001, regarding the North America region and in the first months of the year later in Japan (February) and Europe (March) too.

However before to consider the “Xbox”, name of the first console, there are few steps to analyze. The decision to enter in the videogame market arrived some years before, on 1998, thanks to various partnership with SEGA. Protagonist of that time was Seamus Blackey, his idea was to realize a console near as characteristics to a personal computer: he decided to use different elements of Dell’s PC, with the idea to realize a machine able to guarantee a double performance respect of a normal computer. The first

public voice about Microsoft enter in a new market arrives the year later, about a possible collaboration Intel-Microsoft.

To arrive at the official and exclusive version of Microsoft product, the right year is on 2000. The CEO of the company, Bill Gates, decided to present to the world their new creation "Xbox" with this words: "we want that Xbox will become the platform for the most talented gamers developer of the world".

The new console had clear strength points:

- The online availability;
- An internal Hard disk;
- Capable to read DVD disk.

The launch of Xbox would be prepared in a perfect way, with huge level of investments in exclusive games and marketing policies. The new console would be presented to the market with a new game: "Halo".

Picture 1.7: Here, there is the first Microsoft product, that from this moment will compete with Nintendo and Sony.



The last presentation arrived on 2001, in Las Vegas, at the "Consumer Electronics Show", again from Bill Gates: "Xbox represents the videogame's future with his revolutionary technology and its incredible graphical capacities. It will be the central point in the sector for many years!"

Bill Gates' expectations were perfectly respected by the market, with one million of consoles sold in about one month. The bad result arrived from Japan, with only one hundred thousand consoles sold in the same period.

The revolutionary aspect that Microsoft launched in a very good way, was a good online service, with a starter pack represented by an annual agreement, for an amount of 50\$ (60 Euros, in Europe).

The online service, nevertheless the fee to pay, was really appreciated, with 350 thousands of users in the first months, and one million of gamers after only two years.

The console has been sold for seven years, until 2008, reaching an amount of 24 million of consoles, going over both Nintendo and Sega, respectively with 21 and 10,6 million of consoles sold.

The result was enough to position Microsoft as a new leader in the market, with Sony and Nintendo; together they were called the "Big Three".

As just said, important efforts were made to put in the market exclusive games, and "Halo", the first one, was a real success, becoming a new member in the Top 10 of all videogames in the history.

Thanks to the important success obtained with the first console, the decision was to continue on that way, preparing immediately a new console to offer in the market. Microsoft strategy was to anticipate of one year the biggest rival, Sony.

The new model, "Xbox 360" was launched in the end of 2005: arriving between November and December to the entire regions interested.

Also with the new model, the strategy was so clear: the company was conscious about its strength points, represented by the high definition, the strong marketing campaign made and the development of new and more partnerships with game developers and the entry timing.

The strategy will be a very success: Microsoft will reach and obtain the same market share of Sony, with 80 million of consoles sold, only one million less than PS3, able to totalize 81.6 million. From this moment, Nintendo won't be considered as a real rival, and soon we will understand why.

The consoles were sold in less than 10 years, with about 40 million sold in five years, and the other 30 million reached on 2012.

During this generation, considering also the Nintendo's idea to reach a new segment in the market, the company presented an incremental innovation:

the “Kinect”. Similar to a normal web cam it was able to capture the gamer’s movements, replying them in the game at issue. This new instrument will represent the first step to innovate in a market where it has been always clear the importance to create new stimulating situations for the gamers. Kinect would be able also to attract a new type of gamers, the occasional ones, interested in the videogame industry as a possibility to share moments with friends in an alternative way.

Picture 1.8: the picture represents a perfect gaming situation with the Kinect tool.



However, the generation at issue has presented also negative aspects, with the “Red ring of death”, a software problem that obliged Microsoft to refund with a new console more than one million of players. Curiously Sony faced the same problem, again with the first version of its PS3. In this case, the company didn’t develop a refund policy, without helping its customers. The reason was that the problem usually showed itself after two years, and so after the period of guaranty.

Regarding the last generation, the idea has been to continue the strategy used with the previous models, trying to improve the positive aspect and reduce the negative elements.

The expected “Xbox720”, arrived into the market on 2012, with a different name: “Xbox One”. Microsoft’s aim was to create an all-in instrument, able to work as a classical console and personal computer too. The new system should guarantee a multimedia center, where the players could manage everything. The new model offered to the market different services:

- XboxMusic;
- XboxVideo;

- XboxStore.

The aim was to create a platform able to satisfy any type of need. All these elements would work with an optimal Internet connection, useful to use Skype or Internet Explorer too. The other innovative element was represented by the “iCloud”, to save data accessible everywhere. The company decided also to continue the studies and the efforts to realize the Kinect product; and the Xbox One has been sold with the second version of the product at issue. Thanks to the Consumer Electronic Show on 2014 in Las Vegas, there is also the possibility to check and proof the first positive results obtained by the company, with about three million of consoles sold during the first months. The last generation has clearly been being characterized by a real duel between Microsoft and its rival Sony. In fact, the expectation is that they would dominate the market, and the last data available are able to confirm this point with about more or less forty millions of consoles sold for both companies.

Microsoft has worked very hard to reach the Sony’s level, and behind this success there are some important points to underline for the last generation too. Again the company has invested a lot of money to advertise its product, with a strong campaign based on its differentiation strategy respect to Sony, offering more and better additional services. The company has concentrated its efforts in the social media world, but Sony too, proposing the new “share bottom” has followed this way. The real innovative strategy has been the possibility to obtain a huge discount going ahead the hold PS3; the players would have the possibility to obtain a price cut equals to one hundred dollars. Another important element to underline has been the effort made to create and sign new partnerships, because the crucial component to choose a console remains the availability of always-new games.

1.2.3 Nintendo Company: from a card company to the first giant in the market

The Japanese company represents the first Big Three’s component to enter in the market. Its history is quite interesting, and could be example of how

important is to innovate, to change idea and restart with a new business. The company is the most ancient in the industry at issue; it was born on 1889. The headquarter was in Kyoto, the old Japanese capital. Fusajiro Yamauchi founded the company with the name "Nintendo Koppai". The business was represented by the production of cards, all homemade. The business was able to acquire a good level of success, important to develop strong roots for the future.

During the first fifty years, the company was concentrated in that business, reaching to be the first corporation to produce plastic cards in the Japanese country; this during the 1953. After only three years, the head quarter started to understand how this business could be so small, to not be able to survive standing alone. In this way, it is clear the reason behind the alliance with a strong brand like Disney. The partnership represented a really important success, and Yamauchi, Nintendo's president at that time, had the possibility to put the company into the exchange market of Osaka. Going public, the company increased its level of popularity, acquiring a lot of funds too. The strategy was the diversification one, but the results were absolutely negatives, with the company that tried to enter in many new sectors, but only in the "toy" one, survived. This strategy, followed by the saturation of cards market, bring the company's title down, with a value loss equals to more than 90 per cent.

Entering into the toy market, the company immediately was able to conquer its market share into the electronic segment, with some innovative "machines". Some years later, during the 1972, there was the launch of the first console in the world, known as Magnavox Odissey. From that time, Nintendo starts to conquer its space in the videogame market, starting with the production of some additional instruments, similar to its electronic toys. Nevertheless was so difficult to find consoles in the market, the company decides to continue in this sector, launching only eight years later, a first prototype of its game device. "Game and Watch" represented a group of electric games, played thanks to a little device, with a screen. This first good vended on the market, represented the first Nintendo success, with more

than forty millions of units acquired by consumers. From 1983, started the real console production, launching in the market the “Famicom”. It acquired a good success, with more than fifty hundred thousands of unit sold; otherwise there were also some problems that obliged the company to retire all the consoles in the market, for some bugs and stops with some videogames. This negative experience will be a significant lesson for Nintendo’s future. When the company decided to put in the market the “Nintendo Entertainment System”, one of the critical issue, was related by the possibility to cut the presence of third parties. The problem was that the company wanted to check and be sure about the contents quality to launch in the market. The rule was very simple: each external company had the possibility to sell only five different contents per year. The constraint was really strong, and companies like Konami, tried to overwhelm it with some stratagems: creating for example subsidiaries, under new names, and considered as different legal entities. The “Famicom” was really appreciated by the market, and it was sold immediately in the American market too. Firstly in the NY states, followed by other important regions around Chicago, San Francisco and Los Angeles. From this moment, the Nintendo’s growth would continue rapidly, showing to the market many types of devices

1.2.3.1 A new leader in the market thanks to Game Boy and SNES

Decided to enter and compete into the videogame market, the Japanese company has from the beginning followed two different ways, represented by a console and a mobile devices, little and manageable.

The latter was launched in the market at the end of 80s, with the idea to repeat the incredible success of Game & Watch. As always, the success of a console depends on the availability of good contents, and the strategy to launch the device with “Tetris” was the best possible choice. To consider there is also another important title, maybe the most famous in the world, not only as Nintendo content, but as first videogame of all times: “Super Mario”. Produced today too, with new and particular versions, the first title

reached an incredible amount of fourteen games sold. Specifying the good results of these contents it is obvious to understand how the Nintendo device was appreciated, with about one hundred eight unit put in the market.

Picture 1.9: the "Game Boy" is one of the most famous electronic device sold in the videogames history. And the "title represented" was a clear key to reach an extraordinary success.



The other new device offered to the market was the so called "Super Famicom", better known with its international name "SNES". The console arrived in Japan two years later the "Gameboy", and was able to conquer not only the American region, but also the European one, only one year later, on 1992.

The "SNES" will be remembered as the device used to overcome the rival Sega, that was able to reach about forty millions of units sold with its consoles, less than the forty-nine units reached by Nintendo. Interesting is also the failure of a possible relationship with Sony for the Cd-Rom technology. Nintendo would work with Philips and Sony would start to develop its own console. At this point, Nintendo is the market leader, and so would become fundamental the development of consoles and devices able to support this position. In fact, from this moment, the level of competition will be higher than in past, being clear to everyone the amount of revenues available in the market.

The Nintendo history has given to customers many devices, a huge number, higher than the one offered by the main competitors. The reason is that for

the mobile devices technology, the time to arrive in the market, and to develop a new product is shorter than the one needed to launch a home-console. For this reason, with the Game-Cube, the console launched in the PS2 time, there are a lot of alternative “Game Boy” version launched. One example is the “Game Boy Color” which will conquer the market thanks to the Pokémon game, that would become famous not only in Japan, but all over the world. In a second moment, there was a new name for this type of device: “Nintendo DS”, with different type of news and innovations inside. The most important and visible were the touch screen availability and the presence of a double screen. The first version was launched on November 21th, on 2004. As just said, the time to put a new version in the market was very short, and only two years later the “DS Lite” arrived all over the world; it was smaller and easier to use. Otherwise the good success realized thanks to the mobile devices, Game Cube, the home-console, suffered the comparison with its major rivals, PS2 and Xbox. This negative element was the reason for a total strategy change, being this segment, the most important in the market at issue.

1.2.3.2 Innovation as key of success

Maybe the failure of Game Cube, considering the competitors’ result, has represented a new opportunity for the Japanese giant. The company decided to change its console, trying to innovate, offering a new type of possible experience. The new console, Nintendo “Wii” was launched in the end of 2006 and it obtained an incredible success. The total amount of sales reached about one hundred units, more than the devices offered by Sony and Microsoft. A real reversal from the previous generation, that many critics have described as unexpected, not considering maybe the huge number of variables able to attract customers.

First of all, the videogame and console market has always taught how important the “Innovative factor” is. Players want to try new devices, and if they are able to offer something of new, the success is absolutely sure.

Nintendo “Wii” has presented the perfect product to offer to this type of customers, offering new type of games, with a new level and type of involvement. Moreover, the other important issue is the possibility to attract always new customers; also here the Nintendo’s console has been a success. The “Wii” has been projected to be a console for the whole family, a possible type of entertainment for different situations, with games that offer a simple entertainment that everyone would be able to use. Another issue to underline is related with the games available. The strategy has been perfect: the console has been sold with “Wii Sport”, a game with different type of opportunities, with different level of difficulties and a impeccable instrument to attract people. In addition, there was also the possibility to create a personal character, with a maximum level of customization.

Picture 1.10: The picture represents a perfect example of the new idea: to offer a form of entertainment to the whole family.



Thanks to these elements, it is very clear why Nintendo “Wii” has been able to contrast Sony and Microsoft in terms of numbers, however from this moment their paths will be considered as different. The point is that the possible Nintendo players should not be a Microsoft or Sony one, or in any case the Nintendo device should be a plus and not an alternative solution. The great success has not been replicated with the followed version, the “Wii U”. The “new player”, interested to play with others, and that considers the

console as a form of different entertainment during a party for example, has not evidenced a need of change. However it is evident that there are different reasons behind this market refusal. The real problem is that the “Wii U” has not been able to offer something of really new, and so there weren’t reasons to change the previous model. The last financial report³ has expressed the worst result of all time for the Japanese giant; only about 14 millions of consoles sold, less than the Game Cube too. The company has understood the mistakes done, also in terms of marketing, having put on the market a confusing idea about the product and moreover there is the issue related with “external games”. In fact, there have been different problems, that have driven third companies to not produce games for the console at issue.

With a clear vision about the mistakes done, the company has started to project a new console, a new innovative product, which according to me, could be able to replicate the “Wii” success. The reasons are easy to understand, the product is what the market now wants: a console with a high qualitative value, that maybe smartphone or mobile devices are not able to offer, and the possibility to play everywhere. The “Nintendo Switch” has all these qualities, and presented in the end of 2016, has been pushed on the market the 3rd March of the current year.

Picture 1.11: Nintendo Switch



³ Source: Nintendo Financial Report 2016

The new Nintendo strategy is extremely clear; the product has been presented many months before the launch, and there are many advertising methods used to communicate to customers; everything with only a mission: conquer the market, offering a console able to bring the level of sales as in the past. An example is the picture shown, where is always evident as the new device could be used in different ways; using a mobile consoles, with two gamepads, or as a traditional home-console, and the TV image behind the console could be useful to understand this second usage.

1.3 New possible scenarios: the entrance in the market of Google and Apple

The last years are characterized by an important technological development, able to propose new possible solutions to old and new players. The aim of these new actors is not to compete directly with the home-console companies, but they are undoubtedly erasing their revenues. There are two elements to consider able to change the market: the role-played by social media and the creation of new mobile devices able to guarantee a very high performance level. Regarding the first one, is common to find every day possible games on all the social networks, especially Facebook; the second element is represented by the new smartphones, that thanks to the broadband availability are able to offer new online experiences in the game world too.

With this short presentation is evident which the new actors, that characterize the market, are: Google and Apple.

Their role and efforts to create a new source of revenues is improving day by day, and this is creating a lot of problem in the console market, which is diminishing the number of consoles sold, respect to the previous generations. The first match to play by new actors is represented by the possibility to offer exclusive and qualitative contents. For this reason the strategy is to attract the best game developers in the world, offering them high fees and exclusive

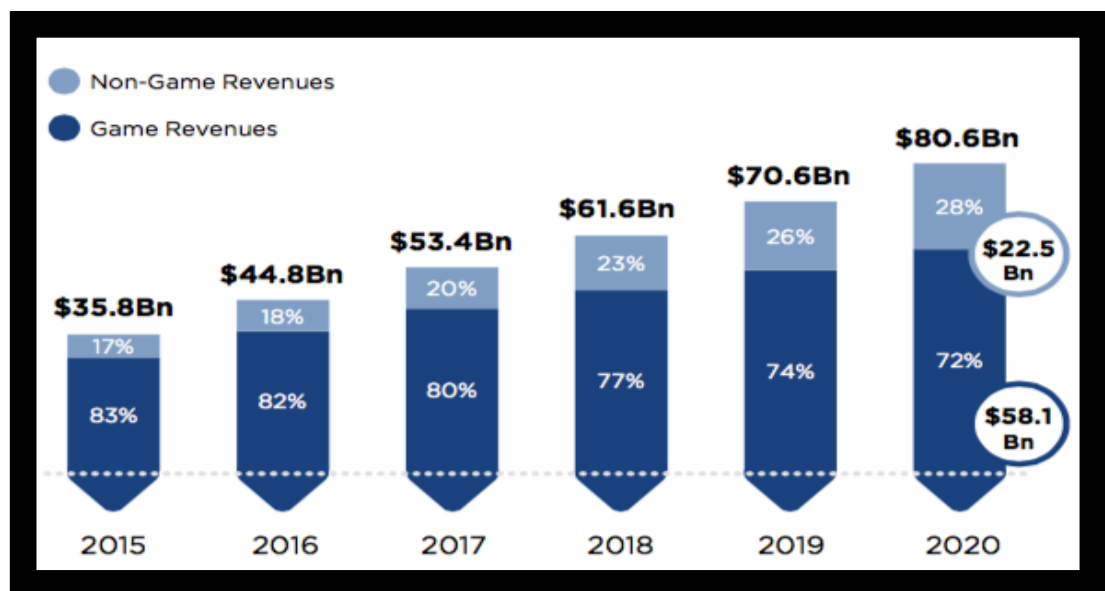
advantages into their spaces; an example is the possibility that Apple gives to some developers to pay a low revenues percentage per each app sold. This strategy has demonstrated to be always a good one, and the “Big Three” has often followed it during the 80s. The strategy and the first result obtained are surely positive, but obviously not enough; in fact nowadays a company like Electronic Arts, an important actor in these new worlds, has been able to realize more than 100 million of revenues in the mobile and online world, with an annual growth rate over 5 for different years. Other important data is that games represent more than the forty per cent on all the apps downloaded in the app-store, and the seventy five per cent of money spent to buy app. However the percentage on total revenues is still low, being the company able to reach one billion of revenues thanks to the contents made for the home consoles. The point is that Google and Apple have the possibility to become part of a new interesting competition with the already famous Microsoft, Nintendo and Sony, but the effort and time to make it are still many.

1.3.1 Focus on these new worlds: Online and Mobile gaming

In the last century the cellular role is clearly changed. The previous idea of a device useful to call and write to everyone without a cable has been substituting with a device able to do everything: to call, write, booked flights or restaurants and play too. For this reason it is fundamental to study which role the mobile videogames will have in the videogame whole market. The mobile devices are doubling their power and market share in this industry thanks to a double possibility: smartphone and tablets. In fact, their inexistent weight and their continuous ability to guarantee a higher quality than in the past are able to attract a lot of players. Now there are different factors adept to influence people to use them, for example the development of perfect mobile data systems to play online, and the availability of games with short game sessions, interesting to spend 5 minutes on a bus, or during the TV advertising watching a movie. Smartphone and tablet are really

appreciated, and they are acquiring long moment during a human life. According to some analysis, the games are the preferred apps to download, representing the 33 per cent and the 82 per cent in terms of revenues. Moreover the “time—consuming” is increasing and now it is about 32 per cent, followed by two other important variables: browser (20%) and Facebook (18%). The incredible point is that nevertheless the percentage in terms of revenues is expected to decrease, the total amount, in terms of dollars, will growth, maybe reaching 60 billion per year on 2020, with a growth in the last five years equals to 14.3 per cent.

Graph 1.2: Global app-store revenues: 2015-2020⁴

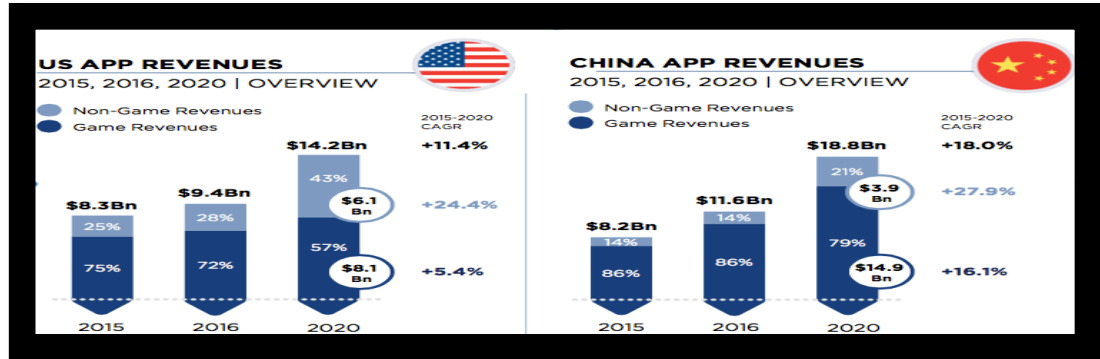


In the previous paragraph I have explained the important role that both Google and Apple will have, and the proof is that now Apple is the most important mobile company in the world. Its market share is equals to 34.8 per cent, and only the Korean giant, Samsung, is able to contrast it; the 23.3 per cent of Samsung is followed by some Chinese brands: Lenovo, Xiaomi and Huawei. Another important data to underline is the Chinese leadership, able to overtake US. Today the Chinese mobile market represents about the 30

⁴ Source: 2016 Global Mobile market report, Newzoo.

per cent of the whole market in terms of devices, and the highest source of revenues for the world mobile games industry, with more than 11 billion.

Graph 1.3: Overview about App revenues in the American and Chinese market.



The two graphs are able to highlight some important aspects: US and China are undoubtedly the market leaders, able to produce 20 over about 44 billion of revenues generated by the App-world. The important point for this work is that during the last year the percentage of game revenues has been really high, with a little bit less of 90 per cent in the Chinese market. The other positive aspect is that the total amount of revenues from games is expected to increase, with a percentage of 5.4 per cent in the US, and 16.1 per cent in China. Obviously the data are able to represent only a short time, and there isn't a clear expectation about the importance of mobile world in videogames market, but it is easy to predict that Sony, Microsoft and Nintendo will have new rivals in the future, and maybe the last console launched by Nintendo is a concrete proof of how important will be to satisfy the new player's needs.

1.3.2 Short analysis of a new phenomenon: Pokémon Go⁵

The Pokémon cartoon has been one of the most important element into the Millennials generation, able to capture the attention of both male and female, and attracting also positive comments from parents' world. During the previous year there has been the launch in the market of the first Pokémon game for smartphone, with a new incredible game mood. Players would have

⁵ Source: Global Mobile Market report, Newzoo, 2016.

to walk around their city, around their country, to find Pokémon everywhere, positioned in the “world” thanks to the partnership with Google Maps. Found the Pokémon, thanks to the camera, the players would have the possibility to see the Pokémon in the real world (as shown in the picture), creating a new extraordinary game experience.

Picture 1.12: the picture shows a perfect example of the Pokémon Go experience.



The app has reached million players in the world in less than three months, with an amount of revenues equals to 470 million of dollars, thanks to advertisings and various fees to buy it.

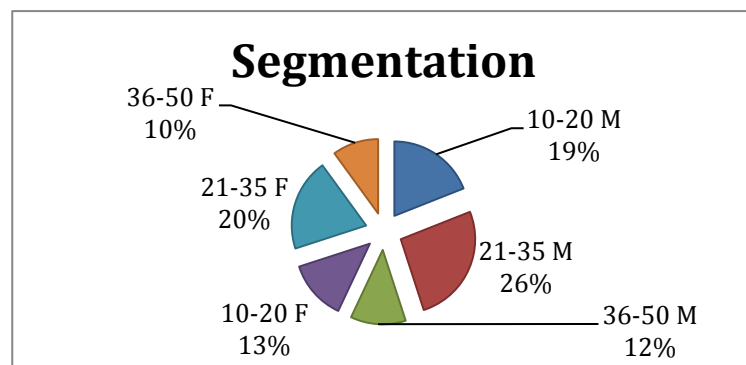
Pokémon Go, the game's name, has reached incredible peaks in terms of downloads and revenues. After three months the level of daily downloads was equals to about 0.7 million, while the amount of daily revenues equals to about 2 million. This incredible data is bigger, considering the peaks reached with 27 million of download, reached during its third week in the market, and the amount of revenues equals to 16 million in the same period. This incredible result is not enough. It is interesting to consider that the games was not present in the Chinese and Korean market yet. So, I could easily predict, as Pokémon Go will increase its level of revenues and downloaded reached. About the country just reached, the table reassumed their rank.

Table 1.2: Countries 'rank per download'⁶

Countries' rank per download	Name of country
1°	United States
2°	United Kingdom
3°	Japan
4°	Spain
5°	Germany
6°	Italy
7°	France
8°	Australia
9°	Ireland
10°	Canada

Maybe the other incredible data is about the target, and the app's ability to capture the preferences of the whole players' world, with only a small quantity of more men: the 57 per cent of players are men, and the 43 women. These two groups are divided more or less equally, between different age segments: 10-20, 21-35, and 36-50. To underline is that the most populate groups are in the same age segment, 21-35; the male market share is equals to 26 per cent, while the female one is 20 per cent.

Graph 1.4: Players' segmentation in terms of age and gender.



With the idea to describe the videogame market and its potentiality to growth, there is another data to consider: the capacity to attract new people

⁶ The table includes the most important app market: the Apple store and Google play.

in the game market. The 24 per cent of Pokémon Go players have not played to one of the most important games (the report considers the top 30) in the previous three months. This data is really important and explains the ability to bring 20 million of new players in only four countries, like Us, UK, France and Germany. It means that Pokémon Go represents a crucial passage in the videogame market, for its ability to increase in a rapid way the number of players in the world.

So to conclude, it is clear as the videogame and console market is dominated and characterized by many actors, which from the oldest to the newest ones, are trying to conquer more and more customers. This first chapter has been an introduction, to a work that will be focused on a specific type of business, related with the videogame world, and an overview has been essential to focus the attention on the most important devices available, and on the market trends that could obviously influence any type of business related.

Chapter 2: Theories about Business Model with a focus on Canvas

Business Model. Introduction on Business Plan

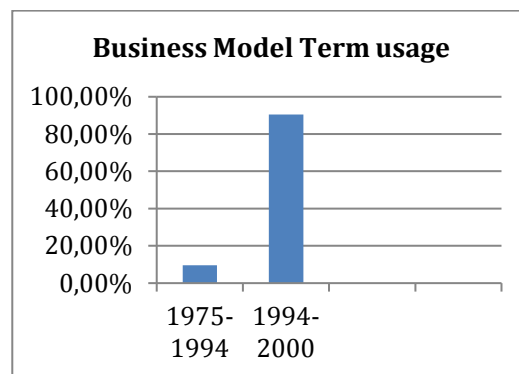
2.1 What is a business Model: different definitions and usage

During the 21th century the world economy has faced different type of new elements, which we can reassume with: globalization first and digitalization too. Companies are trying to improve their capacity to analyze the environment, with the aim to choose the best position in the market, acquiring the possibility to survive in competitive situations. About the strategy definition there are different tools used, for example the resources based view or the organization industrial theory. However, as just said the environment is changing and the customers' capacity to analyze and choose the best option too. For these reasons each company has the aim to develop a perfect business model, considering each elements both inside and outside the company.

Companies should dedicate their attention to clients, trying to innovate their business idea, changing the business model. The term at issue has been used since many years, with different meanings and different goals to reach. The concept has become famous during 90s, where maybe there was an excessive use of it. To start the explanation of this economical instrument, there are two fundament researches that could be important to explain the concept development. Ghanziani and Ventresca ⁷realized the first research, while the second one by Amit, Zott and Massa⁸. The first authors have considered a period of twenty-five years, from 1975 to 2000. The other authors have considered a longer period, going until 2009.

The analysis made by Ghanziani and Ventresca had the aim to consider how many times the word “Business Model” has been used. The result is quite interesting, in fact, on 1729 times, the 90.4% has been found in the period from 1994 to 2000. The meaning is clear, “Business Model” represents something of new.

Graph 2.1: Research's result from Ghanziani and Ventresca. Percentage of “Business Model” term during the period 1975-2000.



The second research represents a development for the first one. The time segment has been stretched until 2009. Here, the result is substantially the same, with a major increment during the 21th century. The authors have tried to give different explanations to the phenomenon at issue, and there are some elements underlined:

⁷ Ghaziani, Amin and Ventresca, Marc (2005) *Keywords and Cultural Change: Frame Analysis of ‘Business Model’ Talk, 1975-2000*. Sociological Forum

⁸ Amit, Massa and Zott (2011) *The Business Model: Recent Developments and Future Research*. Journal of Management

- The Internet explosion;
- The development of emerging market;
- The industrial development base on new technologies.

The real turning point is related with the fact that the exaggerate usage is followed by a terrible confusion about the meaning. The authors have stressed how only the 44 per cent gives a good explanation about it. The problem has been highlighted by different authors and economical experts, here the Lambert and Davidson idea: “Like the compact of strategy, there is no universal consensus on what a business model actually is. However it is becoming clear that it is a variegated concept, the meaning of which is being settled through its comparison to other concepts, such as strategy and its use in empirical research”.

In this chapter the aim will be to show different usages for the business model, with a focus on Canvas Business Model, maybe the most appreciated result of the economical literature in this field. Before to start, there is to consider the model proposed by the “International Integrated Reporting Council”, a global coalition that promote communication about how the value has being creating. They identify this step as crucial the corporate reporting activity evolution.

The model shown in the figure, is a mix of outputs and inputs:

- Outputs means product realized and services offered;
- Inputs means all the activities and efforts needed to reach that result.

The point is that a company, in every type of Business should identify some critical elements, as financial sources, infrastructure for the activity, the human capital elements. All this subject should be in line with the strategy and risk level for the firm. The central point is represented by all the activities made to transform inputs in outputs. From this model and considering part of the literature produced in this economical field, a focus on different meaning for a Business Model is possible. The Business model will be presented as an instrument to classify, as driver to innovation, as strategy result and related with the value creation. Then, there will be a part

dedicated to Canvas Business Model, trying to understand where it is positioned in the wide space described.

2.2 Business Model: instrument for different practices.

2.2.1 Business Model to classify

The first possible use for a business model is a classification one. This first usage has been proposed by Fuller and Morgan; the article at issue is: “Business Models as Models”. According to their view, the business model should be positioned at an intermediary level, between economic theory and the company organization. In this way the business models will be useful to reassume all the company typologies in the market, and in the same time they could be imagined as referral model, from which you can start to organize a precise business. Fuller and Morgan⁹ have reassumed this concept with simple words: “Thus, scale models are copies of things, role models are models to be copied. In business models, the two notions come together.” So, some specific models are replicated and used in the market, and some new models ideated from the market, will become new referral model. This Business Model idea is really important, in fact each company presented in the market is different from the other, so a way to classify them in a synthetic way could be useful.

2.2.2 Business Model as driver to innovate

Another possible way to analyze the Business Model meaning, is to consider its relation with the innovation. The relationship can be read starting from two different points of view:

- The BM could be the subject of the Innovation;
- In the same way, it could represent the object.

⁹ Fuller and Morgan (2010) *Business Models as Models*, Elsevier.

In the first case, thanks to a BM plan the aim is to reach an innovative results. So as Zott, Amit and Massa said: “its role is to release the potential value incorporated into new technologies, converting it into economical results”. In the second scenario, the BM will be the result. So, the innovative flow will guarantee and produce a new model, that will represent a new way to consider the company situation, and so a new organization. The result could be a new vision, a new input organization or a new way “to make”.

Important studies have been made by Chesbrough and Rosenbloom¹⁰. Their idea is that, considering the BM as the innovative subject, its role will become fundamental to express in a correct way the innovation power. It means that the BM will be fundamental to ensure to the company the expected return from that innovation. The central point of their analysis is that, where the BM is not fitting with the innovation way chosen by the company, it should be modified to guarantee new opportunity creation and new innovative flows too, triggering a continuous process of change. So the BM, as innovation subject will make different functions, reassumed in these basic points:

- It will identify the right market, considering who will be the potential customers, interesting and willing to acquire that innovation;
- It will define the value chain, future landmark for the company;
- It will be used to analyze the cost and profit levels related with the innovation (considering best and worst scenarios);
- It will be used to analyze the external environment too. The aim will be to identify the network with partners and competitors identification, to have a clear view on the company market share;
- It will be the organization model for the innovation; with the possibility to understand why consumers will be interested in that product.

However, the BM could be also the innovation object. The continuous flows of change, the financial crisis, and the continuous economic uncertainty obliged

¹⁰ Chesbrough and Rosenbloom (2000), *The Role of the Business Model in Capturing Value Innovation: Evidence from Xerox Corporation's Technology Spinoff Companies*, Harvard Business School.

the company to a constant control on the BM. So, pushed by technological forces and the market too, managers should analyze and decide if the BM used will be appropriate to welcome and develop new opportunities. To reach these essential goals, there are different theories made during these years, and one optimal result has been made by Johnson, Christensen and Kagermann¹¹. They have created a Business model analysis based on four principal elements:

- Customer Value Proposition: the aim will be to offer more value than competitors. So the point will be not only what the company sells, but how it makes its offer too;
- Profit Formula: it is also identifies as “revenue model” and explains how the company makes money, and so it is the explanation of “Price per Volume’s” mean. It includes the cost structure, and so how costs are allocated, in terms of fixed, variable, and possible economies reached. There will be a focus on the margin generated by each transaction, and the resource “velocity”, so how quickly resources need to be used to support target volume;
- Key Resources: essentials to deliver the customer value proposition profitably. They may include: people, channels, brand, alliances, equipment and information;
- Key Processes: this area includes processes, rules and norms. It should explain for example credit terms, supplier times, or the approach used in different situations.

So, the manager aim will be to understand if an evolution is required in their business model, analyzing and focusing on the four parts now described. The business model for innovation is challenging and should include an internal and external analysis, to be sure that each type of barrier could be overcome.

2.2.3 Business Model as Strategy effect

¹¹Christensen, Johnson and Kagermann (2008), *Reinvesting your Business*, Harvard business review.

As just said, the business model definition is not so easy to understand, and could be confused or associated with other different elements. A frequent misunderstanding is about the difference between Business Model concept and strategy definition. It is possible to find different definitions about this two subject, as for example the one proposed by Casadesus-Masanell and Ricart¹². They have worked to grant a clear definition of different subjects, with the aim to give a clear distinction, with a possible relationship's creation.

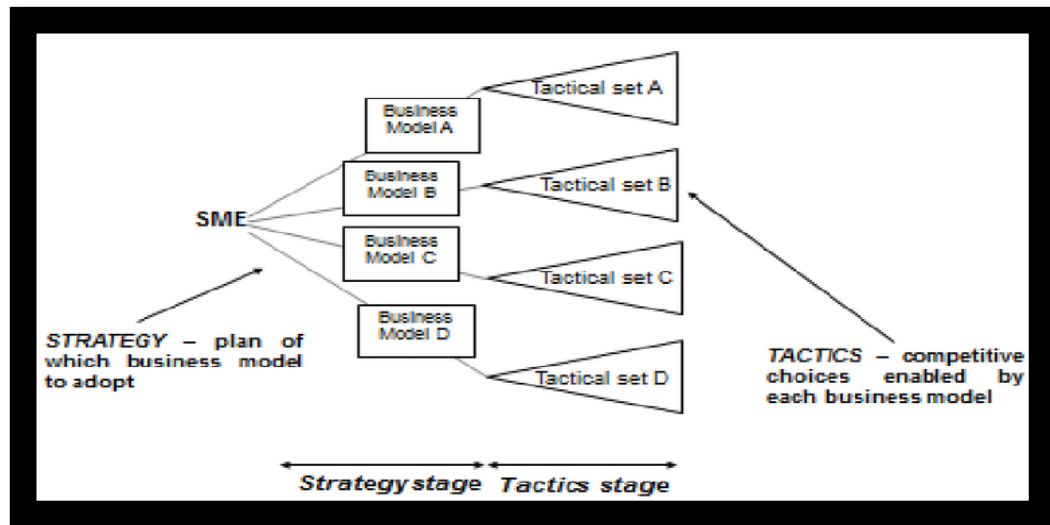
The Business Model concept has been reassumed into “the company's ratio, how it works and creates value for its stakeholders”; the strategy is “a plan well-structured to reach a specific goal and includes the business model's choice”; the Tactic is “a set of residual choices, realized between the ones available for that specific business model”. So they propose a process model based on two different stages, and able to create a relationship between the concepts already defined:

- Strategy Stage: in the first stage there is the strategy definition, and so the company considered will chose the “company's ratio” and so the Business model;
- Tactics stage: the company will choice its tactics considering the goals already identified, and they will be based on a specific business model.

So, the strategy will work to define and chose a Business Model that will be the reason behind each tactics implemented.

¹² Casadesus-Masanell and Ricart (2010), *“From strategy to Business Models and onto Tactics”*, Elsevier.

Graph 2.2: it reassumes the model proposed, with a company that has different possible Business Model, chosen considering the preferred Strategy. The second step will start and will be influenced by the Business Model chosen.



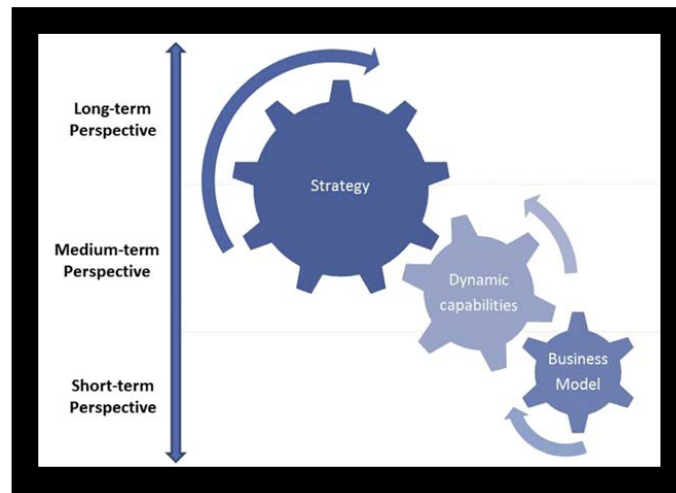
About the Business Model definition proposed in this paragraph there are other ideas and models proposed in the literature field. So interesting is the model proposed by Dasilva and Trkman¹³ on 2013. The starting point is again focused on the distinction between strategy and Business model. Their thesis is realized on a “Time focus”, considering three different time sets: long, medium and short term. The long term is characterized by the strategy chosen, in fact, it should explain how the company wants to be in the future. The strategy, and so the long term goal will define the dynamic capabilities, considering a medium term. The dynamic capabilities¹⁴ will be important to face each type of a situation, changing and altering the actual business model. In the short term, thanks to the dynamic capabilities action, the business model will be used to face each type of company’s action or problem. So in the long term there will be the definition of how the company wants and aims

¹³ Dasilva and Trkman (2013), “Business Model: What it is and What it is Not”, Elsevier.

¹⁴ Pisano, Shuen and Teece: “Dynamic capabilities are the ability of companies to integrate, build and reconfigure internal and external skills to respond promptly to environmental changes. DCs, therefore, reflect the ability of an organization to reach new and innovative forms of competitive advantage given a path and market positions”.

to operate, while in the short one, as Business Model reflection, there will be a clear idea about how the company works in the present.

Graph 2.3: it reassumes the different steps, explaining the strong relationship between this different elements.



2.2.4 Business model and Value creation

In this paragraph there is a clear analysis about the Business Model concept, on how it could assume various roles and meanings. Another essential concept is related with its relationship on value creation.

The point is that a Business model works to reach a good level of cooperation and value creation for each stakeholder involved into its architecture; it will determine the company's bargaining power.

This concept has acquired a high level of importance in the years of digital economy, where each company is working to find new and different ways to do business. The starting point is that the value creation is making involving the company and stakeholders; so a business model will be used to analyze and break up the complex process in single steps, guarantying a clearer view able to involve the whole network. An important source to analyze this phenomenon has been realized by Thompson and MacMillan¹⁵ on 2010.

¹⁵ MacMillan and Thompson (2010), *"Creating new markets and social wealth"*, Elsevier.

Their aim was to offer new business models to create new markets and oriented to increase the value for everybody involved.

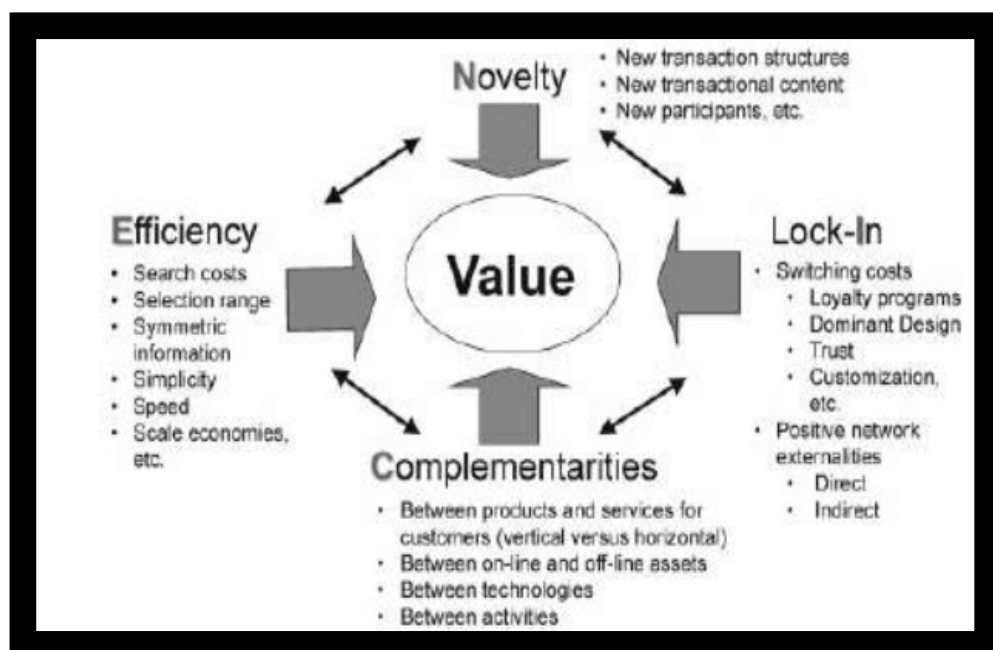
A more specific analysis has been realized by Amit and Zott on 2001¹⁶ (NOTA). They have understood that the value creation overcomes the company's borders and so a Business Model referred to only a company can't comprehend and capture the whole process. Their analysis has been made considering 150 companies and they have identified four sources to generate value. These are classified as "design themes" and are Novelty, Efficiency, Complementarities and Lock-In:

- Efficiency: thanks to a Business Model redesign is possible to obtain a cost reduction, considering each type of activities involved. This is named "Efficiency- centered design". A greater efficiency could be reached reducing for example transaction costs, working on a Business model able to avoid asymmetry of information between buyers and sellers. Another way could be to reach economies, scale ones or learning ones, with a medium cost diminishing when the company is able to increase its production capacity and so volumes produced;
- Complementarities: this element is important to analyze when the possibility to make different activities together could guarantee a higher value than the expected with single activities. They could be possible both in a vertical and horizontal way, and so may possibly include also external subjects. A business model should be developed and designed to satisfy this possibility, trying to have a greater value creation;
- Lock-In: this is a possible effect caused by Business Models that incentivize clients and strategic partners to continue their loyalty to a particular model. This elements, identified under the category at issue doesn't guarantee the opportunity to change model in a simple way. An easy example is related with some costs related with a change option; but also the time needed to produce a new efficiency model could bring to not change a Business Model;

¹⁶ Amit and Zott (2001), "*Value creation in E-business*", Strategic Management Library.

- Novelty: this parameter identifies three possibilities to increase the value created thanks to a right business model. The first is with a “novelty’s content”, so when it is imaginable to implement new activities with that model, another chance is guaranteed where there is the implementation of new relationship systems (novelty’s structure); as last possibility there is the implementation of new governance system possible with a specific Business Model.

Graph 2.4: the graph below reassumes the relationship between Business Model and Value creation concepts.



Related with this topic, there are other two different concepts to describe; the first one has been proposed by Afuah and Tucci¹⁷. They define their Business Model as the way to manage company’s resources to offer to its clients the best possible value and to obtain a right profit too. A deep has also focused the point on the fact that a business model is a set of components that all together produce the company’s performance.

Another very interesting concept is related with the differentiation’s concept proposed by Christensen on 2001¹⁸. In fact, in the market, for any industry

¹⁷ Afuah and Tucci (2001), “*Internet Business Models and Strategies*”, ResearchGate.

¹⁸ Christensen (2001), “*Disruptive Innovation: Intellectual*

considered, there are different companies that offer the same product and that should compete for the same demand. According to the author, a business model could be important to acquire a competitive advantage, proposing innovative and singular opportunities.

In this paragraph the Business Model concept has been proposed in different ways and with different meaning. To conclude, it is possible to say that it is not a linear mechanism but a complex process that should be able to guarantee the involvement and interaction between different actors. Moreover, it doesn't indicate the product position only and it can't be identified with the internal company's organization, but it might include and consider element outside the company's borders.

The next paragraph will be dedicated to a particular Business Model, recognized as one of the most efficacy and used to present a business idea and organize it: the Canvas Business Model.

2.3 Canvas Business Model

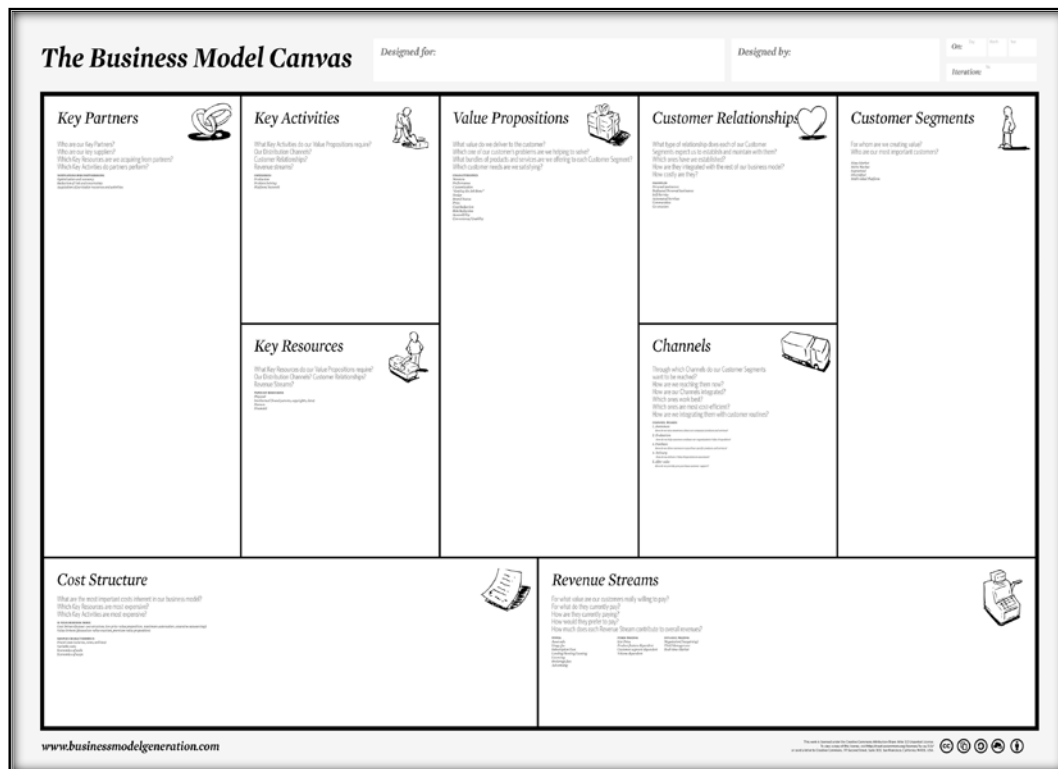
This paragraph is to explain the Canvas Business Model (CBM), instrument that will be used in the last chapter to present a possible new business to realize in Italy. Before to start with the explanation of each model's element, it is important to understand why it is so used and so easy to analyze. The CBM has been proposed by Alexander Osterwalder¹⁹, and it has been developed with a help of about 470 skilled people from all over the world. Their hard work has been useful to produce the Business Model Generation book, proposed in 30 different languages. The CMB is now an international standard, and it is used all over the world. The main advantage guaranteed by CBM is that everyone has the possibility to understand how a company works, and each element related. In fact, it is very easy to understand with an easy learning mode, where the visual effect guarantees to be understood by everyone, not considering their

History and Future Paths", Harvard Business School.

¹⁹ Osterwalder (2010), "*Business Model Generation*", FAG.

professional background. So, its communicative power is incredible and it guarantees the right level for sharing, discussion and business analysis.

Image 2.1: this is the graphical representation for the Canvas Business Model, and it is immediately clear how it could be understood by everyone. There are nine blocks considered.



The CBM is composed by nine different “blocks” that represent the constitutive element for each company. In this paragraph there will be a deep explanation for each element, trying to have a clear idea about it. The central block is represented by the Value Proposition, which is what will represent value for the specific client’s segment chosen. This block should be able to give an answer to a simple question: “Why should consumers choose the product or service at issue?” This will represent the central element in a business model, because it maybe will lead the business to a successful state or into the opposite direction. Each business starts with a specific goal that is related to a product or a service. So, it is clear as the value proposition should express a tangible

and intrinsic value; however there is also an intangible value that should be shown and communicated thanks to a pure value proposition. To create a respectable value proposition there are different ways:

- Innovation: thanks to an innovation is possible to offer something new, that wasn't on the market before;
- Access to a product or service: this element is founded when the value proposition is to guarantee a service already existed to a new segment, that, for different reasons, hasn't reached it yet;
- Product improvement: here the idea is to increase the "product's power", with more functions or new characteristics. The same case is followed trying to improve the already existed characteristics. So, the value proposition tries to communicate that the product quality will growth. The product improvement could be used to identify also a design improvement, or with the aim to obtain an easier use than the previous one for a product or a service;
- Price reduction: the value proposition will be to offer a product or service able to satisfy in a perfect way the real customer's needs, reducing its cost too;
- Risk reduction: the value proposition could also consider the possibility to offer a risk reduction, and a perfect example is the car assurance, to offer a coverage for specific situations (theft or accident).

2.3.1 Key activities, partners, resources and costs' structure

In this paragraph there is the analysis for the first part of CBM, considering the so called "Cost side".

Key Activities

The Key activities block will be composed by each activity considered essential to realize and reach the value proposition. The aim of each specific activities will be to create and strength customer relationship, or revenues

creation. To summarize, here will be possible to see all the activities considered crucial for that business.

The key activities are various and obviously related with the business specific, but they could be grouped into three categories:

- Productive activities: this is the typical activity's category that reassumes each type of action made to produce, create and deliver a product. For this reason, productive activities will be key for manufacturing companies and for any business started to generate a product;
- Problem solving activities: this category could be explained with the labor made by each company that propose a service. In point of fact, each service is proposed to satisfy a need or a want. Perfect example is the work made by a consulting company, which works to propose and create solution able to solve problems;
- Activities to develop or maintain networks or platforms: this could be a key element in companies based on a network, and where the need to maintain and create a strong relationship with its customers is essential. Perfect examples are companies like Facebook or any type of social media, where the platform development is the only way to create and offer value to customers.

Key Resources

This block includes all the strategic essential assets to create and then sustain the business at issue. Each business has its resources that could be referred to four specific categories:

- Physical: it includes materials, that could be raw ones, essential to realize the output but also other ones. In fact, the aim of a company will be also to deliver a product, both directly to the client or to another company; for this reason stores or technologies used to sell or deliver the product or service are considered under this categories with machineries too.
- Intellectual: it includes intangible resources like the company's know-how, brands, patents and each type of partnership developed. For example, this last element is important because could represent an important source to realize specific activities. Other examples is a customers' database, with

internal information able to influence in a positive way the business activities;

- Human: these resources are considered the most important for many type of business and they usually are present in each Canvas Business Model. Obviously this is not a homogeneous category, including different type of resources for any business. For example, a software company needs to have technical engineering, while a financial company needs people with an economical background;
- Financial: this type of resource is very important for each company, being essential the money availability in each type of business. Financial resources are related not only with cash ones, but also with credit lines, important to invest in projects or also stock option. To tell the truth, this could be an instrument to obtain skilled people able to guarantee a competitive advantage respect to competitors.

In the key resources analysis there are different elements to consider, focusing on the fact that the business should be able to create and offer value to its customers. For example, it is important to analyze which relationship there is between value proposition and clients, to better understand which the real key resource is for the company. Then, it is important to consider that the distinction with value proposition and resources it is not so easy to identify, and so the attention level should be the highest possible in the Business Model analysis.

Key Partners

Each business is always related with partners and an external network, both fundamental element to have an efficacy Business Model. In fact, each company works in a complex market, where it is quite impossible to not have any type of partner.

Otherwise, some partners could be important not only to reach the company's aim, but to obtain a better result and so to have more possibility to achieve a profit. There are different reasons to comprehend why partners are important for a company. For example a partner could be important to

acquire particular resources or activities, which could increase the value for the output offered to the market. Another important partner could guarantee a network useful to advertise or to deliver the product at issue. Furthermore, some partners could be important on the management side, where they could increase the company's efficiency, reducing the costs' level too.

Each type of key partner could be grouped thanks to three different partnership's categories:

- Alliances between non-competitive companies: when a company decides to establishes relationships with partners downstream or upstream, reducing the risk related with their bargaining power and obtaining a possible advantage respect to any competitors;
- Strategic alliances between competitors: this type of alliance could be important when there is a small group of clients, and so there is a network creation to offer a specific value to customers;
- Joint Venture: it is a good possibility to develop a new business, starting with a key partner from the first moment.

To reassume, the real goal to develop alliances with key partners is to realize synergies that guarantees the possibility to offer a product with a higher value than the normal one, giving the option to ask a premium for it.

Cost Structure

This block is obviously extremely important, being composed by each type of cost that the company will support to start, develop and manage its business. It is usually considered as last element after key activities, resources and partners, being sources for this block. Normally, it is common to consider as the primary goal should be to reduce its wage, trying to increase the margin between revenues and costs. For this reason, the cost block sometimes becomes a central element in a value proposition, where the aim is to offer a service at a low cost; everyone knows the role of low-cost airlines for example, that have the mission to offer a just existed service or product at a lower price than the one already on the market.

Considering the cost structure, each business could have different type of costs:

- Fixed: this type is always the same, it doesn't change with a different volume of production; perfect examples are the pays, rent costs or cost to maintain the production facilities;
- Variables: this type of costs are related with the volume produced, and so should go proportionally to the revenues level;
- Scale economies: this is an important result to achieve for a company. It is measure of a greater efficiency, having the possibility to reduce the average cost with high volumes. Obviously it is not possible to reach in each business and represents a good element only for big companies;
- Scope economies: this opportunity guarantees that with the production of more products or services, the company could exploit same resources and assets, reducing the single production cost.

2.3.2 Channels, Customer segments, Customer relationships and Revenue streams

The element described in this paragraph represent the second side for the Canvas Business Model, the so called "Revenues side".

Channels

This block is crucial to understand how a company could interconnect to its customers; not only to deliver a product but also to advertise or communicate any type of news. As contact point, there are two different channels: direct and indirect.

The first one is managed by the company and is represented by its private website or stores. The second type is controlled by an external subject. Each channel has its advantages but disadvantages too. For example a proper channel guarantee a high margin, thanks to more efficiency, but obviously the cost to sustain is higher. On the contrary, with an indirect channel the cost level will be lower, and maybe you could obtain a great level of efficiency and people reached. So, the choice is crucial, and there are different elements to

consider. The analysis to put data in this block should be based on different elements, considering that channels have 5 crucial elements to satisfy:

- To create consciousness about the company and its product or service; customers should understand who is the company and what it does;
- A channel is important to guarantee a support in the value proposition analysis by the client, it has to understand what the company wants to offer;
- It is obviously essential to offer the product;
- A channel should guarantee the purchase;
- It is crucial in the post-purchase step, to continue and strength the relationship with customers.

So to conclude the channels' explanation, it is clear their role not only to deliver a product or a service but to guarantee a constant communication with clients, offering support before-during-after the purchase moment.

Customer Segments

This block is maybe one of the first steps to consider into a business model. In fact, before to put on the market a product or service, there is a deep analysis about it, with a clear segmentation, targeting action and a decision about the final position for it. So, in this box will be clear the different segmentation for company's customers. So, with a clear segmentation the company will be able to deep analyze what each segment wants, trying to better satisfy it. The segmentation has been done considering different aspects that could be demographical, physiological or behavioral ones. So, it is clear as the customers' segmentation could be done in different modes too. For example client could be recognized for their different wants or needs and so correlated with different value propositions, both connected with the business at issue. The customer segmentation could be done also in relation with the payment system that they favored or are able to use, and so a distinction between clients that will pay with cash or credit card. The customer segmentation could be also done considering their loyalty level; for example company like Sky, the pay-tv company, is launching a strong campaign in Italy to guarantee benefits to its historical clients. In fact, the

customers have been classified in different categories, with different possible advantages.

The customer segmentation is related with the market typology in which the company would work. For example, in a public market the customers' segmentation will be consider a key element to attract and capture more customers as possible. On the other hand, with a niche market, the customers' segmentation won't be important, being the niche already considered as a small and specific segment.

About this block, it is easy to understand as the company should be able to offer a heterogeneous product or service, with the possibility to satisfy different requests; to do this, the company should have skilled resources, able to satisfy and work in different ways, trying to attract each client considering its different wants respect to the other ones.

Client relationships

In a business life, the relationship between the company and its customers could assume different forms, being consequence of three different reasons:

- Customers' acquisition: the first reason to engage a relationship is to attract customers to the business at issue; it is important to have a perfect communication guarantying that the client will have a clear vision about the value proposition and the product or service offered. The company should be able to listen each customer's doubt and curiosity, increasing the possibility to acquire it;
- Customers' loyalty: in this case the relationship will be important to guarantee a level of continuity with the same client. Each company has to face a huge number of competitors, old or new, that could decide to attack the market, trying to conquer its customers. For this reason it is vital to establish a customer relationship to be sure that a specific client will not decide to shift to another competitors. Here, the company should be capable to offer an addition value to the intrinsic product; the company should for example guarantee a constant support or specific discounts or promotions for long-term customers;

- Sales increment: this type of relationship starts in an already existing business with the aim to increase the revenues' level, and so the volumes sold. The company has to work considering any potential client, trying to communicate with him and guarantying its future investment in company's products or services.

The classification just presented, represents a first classification, however considering the business there are different ways to maintain a relationship. For example some products or services could be offer in an automatic way, with a "self-service" possibility or an "automatic service". In this way the relationship will be indirect, because customers have everything need to satisfy their request. Obviously, there is also the opposite case, where the relationship could be classified as "direct": customers have to be followed by the company during the purchase or the service usage, they are not independent. Furthermore for someone could be required a specific assistance; this type of relationship is used to give a high level of assurances, with more satisfaction for clients.

Before to conclude, there is the community concept to analyze. This is another case of direct relationship, used to increase the customers' involvement in the business. The community is important to create a recognized group, able to give a clear message to the external environment and it can assumes a strategic role too. In fact, thanks to the community activity, the company realizes in an easier and faster way what the market wants and also in which way that need could be satisfied.

Revenue streams

As for the cost structure, also this block is classified as essential, crucial for a business; without revenues is impossible to obtain a profit, and without a profit the major part of existed businesses has no sense. Before to consider which type of revenues a company has the possibility to obtain, there are three starting question to highlight: which is the revenues 'source for example, so which is the product or service that the company wants to sell; in which way customers will pay, and how much they have to pay. An important

point is to consider the real world, and different payment systems; the mean is that a different system could be better or not for the company. If the company sold a product with an account receivable, it won't be included in the revenue's streams for the year at issue.

Summarizing there are two different ways to obtain revenues, related with two payment systems: one solution, or a constant payment, easily identifiable for rent or annual fees for example. Deeping this easy classification, it is possible to find different sources. The easiest one to identify is the good sold, it is usually related with product or service acquired to obtain a single transaction or a single performance from the company. Another way is selling or guarantying a patent's usage. In this way the company owner, will obtain a fixed or a variable amount of revenues according to specific agreement between the subjects involved in the transaction. Another typical form of revenues is the "rent". Customers will pay to use a specific service or product, and it will pay in a constant way, considering the good or service usage. Another form of revenues that is becoming really important is the leasing one. Companies but also single people are not interested or not able to acquire the good at issue, which could be production machineries or a car for example. So with a leasing contract, they will pay a constant fee, having the possibility to use the good as a normal owner. The real owner will have the possibility to rent the good at issue for a continuous period, obtaining a perpetual revenues' stream.

Now, finished the Business Model concept explanation, the second part of this work will begin. There will an analysis of a Korean Business, so important for the Videogame's sector revenues, with a final chapter dedicated to the Business Model's redaction for a possible replication of it in Italy.

Chapter 3: Consoles and Games in South Korea. Analysis of the “Pc-bank” business

3.1 Switchboard of the country: leader in the technological sector

South Korea is a little country in the east of Asia, populated by about 50 million of people. Seoul is the capital, and it represents the biggest and most populated city with more than 20 million of people. The country is considered the 12th world power²⁰, and the 4th²¹ in Asia behind only China, India and Japan. The GDP is now the 14th in a world rank and the country's economy is growing day by day. Today, the country is recognized all over the world thanks to its great companies too, like Hyundai, an automotive company, and Samsung. The second one represents a leader in the technological global market and it reassumes the importance of the technological and electronic sector in the country. The great results obtained are tie tightly related with the video game industry. To better explain, the highlight is on the great effect obtained in the Internet industry for example. The country has introduced the broadband connection before anyone else, and now it has the most speed Internet connection all over the world, and it is a fundamental advantage. The online quality is essential, and many countries are trying to reach the Korean level during these years. The other data to show is correlated with the technology research. The country is the 1st, in terms of resources and results obtained, in the field of the technology research²². As a matter of fact, the government is carrying on a particular and unique policy. It is investing about the 20 per cent of national revenues each year.

This element is bigger considering the country's history. The Korean past has been characterized of different crucial and difficult moments, which have been positioned the country as one of the most poor in the world in the past. From the second half of the 20th century, something has started to change,

²⁰ Source: World Bank

²¹ Source: World Bank

²² Source: Bloomberg

with the foundation of the first Korean Republic in 1953. In these sixty years the results obtained are palpable and appreciated all over the world, positioning now South Korea, as a stable and significant international power. Today the country is facing a bearable decline, quite normal after fifty years of growth, in which the country has recovered all the time loss. Park Geun-hye, the president in office, is one of the most controversial figure of last years, so criticized for her radical roots and very appreciated to her efforts to give always more and more importance to research, to maintain the first position of her country as leader in the new technologies.

3.2 Analysis of the Korean market, as it positions the videogame sector in a country considered leader of new technologies

In the brief introduction of the country at issue, I have tried to emphasize and underline the importance of the technological and electronic sector. In a country where there is a great desire to growth and control everything thanks to new technologies, the videogame market has been able to position itself as one of the most important for the entire country. With videogame market, the idea is to reassumes all types of videogames but consoles too. According to different sources and analysis made, in a country of fifty million people about a half could be considered as “players”²³.

The reputation of the sector is clear both in an international and country analysis: the videogame market in South Korea is considered the fifth in the world (in terms of width, so number of players), and the third in Asia, behind the Chinese and Japanese ones. The Asian region is the most important in the world, having generated the 45 per cent of the global revenues during the last year²⁴. These first data immediately explains how the videogame market represents a clear and central source of revenues for the country. South Korea represents the third source of this high level of revenues, granting

²³ According to the *Global Market Report* of Newzoo, the number of players is 25,6 million in the 2017.

²⁴ The level of global revenues is about 100 billion in the 2017.

more or less 4 billion each year. Now, the videogame industry includes different types of devices, going from the traditional Pc and consoles, arriving to the new platform, the mobile ones. According to the data related with the 2016, the fifty per cent of these revenues comes from the new platforms. It is impossible to meet a person without the last smartphone version in Korea. Consoles and pc grants the other half, continuing to be the preferred platform of traditional players.

Starting from the mobile world, I have just said that the total amount of revenues is equals about to the fifty per cent, so 1,8 billion. This data has been continuing to growth, with a rate of 2.3 per cent for the last annual exercise. The Apple world, with the iOS system grants the 16 per cent of revenues, while the biggest part of them comes from “Google play²⁵”, and it is quite obvious in a country where the most important national company, Samsung, uses the Android’s system. The other operating systems grant the five per cent, remaining on the fringes also in the Asian country.

The importance of mobile devices is going to increase; after a little decline of the sector, given by the world crisis began ten years ago, the sector at issue registered evident rates of growth, and the mobile games will be one of the main drivers. The expectation for the currently year is to obtain a growth in the mobile games world equals to 10 per cent²⁶.

This data is strengthened also by the possibility to expand the use of this device, with the expansions of e-Sports for mobile games too. In fact, the two global giants (Apple and Samsung) are working day by day, offering to the market new smartphone in each moment, with strong internet connection and a bigger screen than in the past, granting the possibility to use it as a new console to play.

E-Sports represent a new type of sport category, which could be reassumed with “electronic sports”. Their reputation is growing day by day, especially in

²⁵ From Google play arrives the 79 per cent, so about 1,4 billion. Source: The Asian Games Market: sizing up opportunities; Newzoo.

²⁶ Source: White Paper on Korean Games.

country like South Korea, for this reason I will dedicate the right space to explain them.

The other important growth driver is represented by the online world. The availability of the online platforms attracts a high number of customers. One of the keys is represented by the possibility to share contents and play with friends or people from the entire world, increasing the level of competition.

The Korean online game market is the second in the world, following China²⁷. Also for the mobile game market, South Korea maintains its second position, following Japan. The other platforms don't represent a high percentage in the world scale.

In this first paragraphs is quite clear as the Korean market is characterized by the availability and the usage of different platforms. Obviously there are different degrees of importance, and the role played by the most famous consoles is less important than the one had in other countries. The Korean videogame market represents more or less a constant positive variable in the country's economy. In fact, even if some years are characterized by negative economical results, the sector at issue is often able to produce important and positive revenues, thanks to the introduction of appreciated innovations in terms of instruments and new contents.

3.3 The Pc-bank: features of this business and analysis

3.3.1 Introduction

The first two paragraphs have been relevant to introduce the most important distinctive characteristics of the videogame market in South Korea. Now, the main topic will be the presentation of a singular business, so famous in the Asian country, and crucial source of revenues: The Pc-Bank.

There are many examples of them around the capital, Seoul, and in the most important cities like Busan and others. The PC-bank represents an easy

²⁷ Source: White Paper on Korean Games; the share is 19,1 per cent.

business, with some basic characteristics, able to attract a lot of young people, both student and not. This business is growing and improving itself, thanks to the evolution of the sector and the introduction of e-Sports too. The possibilities to play with other people and to play online have been able to attract a lot of customers.

The Pc-Bank is usually a shop, organized in one or two floors, where players can find many emplacements, able to offer you a device (a PC usually, but there are some PS-banks too), a comfortable chair, a pair of headphones and the most speed Wi-Fi connection in the world. After a quick and easy registration, each user has the possibility to choose one game and save his progresses into his account.

During my experience in South Korea, I have had the possibility to visit many examples of Pc-banks and they often were totally full; also thanks to the availability of foods and beverages, have become a place to stay with friends and a place where it is possible to meet people with the same interests. The idea of this work was born thanks to the possibility to imitate and realize a similar business in Italy. Obviously will be important to consider different aspects, cultural ones for example that could bring to realize the Italian model with some different characteristics. To realize a business model for our country, it is important to highlight and describe the main characteristics of the Korean one, trying also to understand which are the needs and wants of our customers. The analysis of e-Sports will be important too, to understand their influence in this business.

3.3.2 Analysis of the business

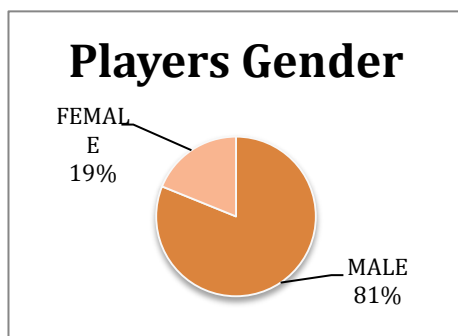
To realize a good analysis, I have presented a survey, to improve my knowledge about Pc-bank world and the sector at issue; but to understand and create a contact with customers too. In fact, they are the final and the fundamental arbiter of each type of business. The survey has been done by

152 people, reached in any part of the city, where there was the possibility to meet different categories.

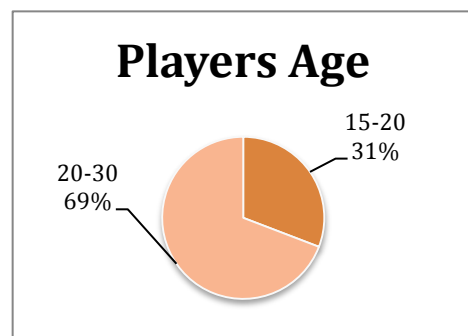
3.3.3 Segmentation and Targeting

First off all thanks to the survey it has been clear the segmentation and also the target of the business. The segmentation and the targeting are essential to understand in which categories we would divide the market and which ones the business should attract. In fact, each business starts to satisfy a need or a want fro, group of people, or imagining which group of people could become a group of customers in the future. The easiest segmentation in this case is a demographical one, with two variables to use, the gender and the age.

Graph 3.1: Players Gender



Graph 3.2: Players Age



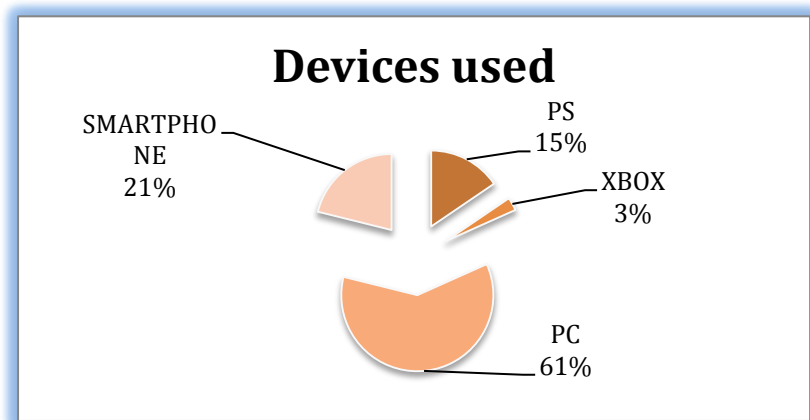
Thanks to the sample collected thanks to about 150 people, there is definite evidence: male represents the 81 per cent of players, while female the left over 19 per cent. This result is easily predicted; in fact in each country the major part of players are men. The other variable, the age, has produced another clear result: the 69 per cent has an age between twenty and thirty years old, while the 31 per cent has an age between fifteen and twenty years old. This result is, according to me, quite obvious, it is very difficult that older people have the opportunity to spend time in this type of shop, being an age where the major parts of them have a full-time job and or a family. To find people younger than fifteen was also so problematic, at that age, the time that children and teenagers spend at home is elevated, for their inclination but also for some parents' rules.

3.3.4 Devices used and time dedicated

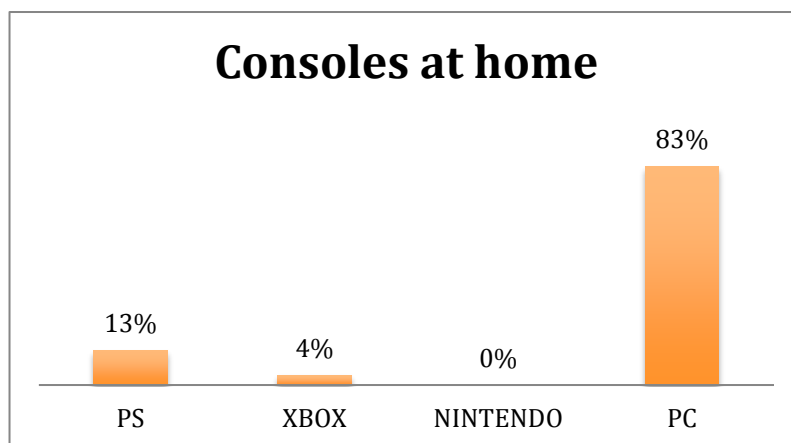
Then these two basic questions, the survey has been prepared to understand which type of consoles these players preferred, and also if they have them at home. Other objective was to understand in which place they would play, and how important is, for example, the disposal of the online service.

In the analysis at issue the smartphone has been considered as a console. In the first paragraph has been cleared its role as one of the most used devices by gamers.

Graph 3.3: Devices used



Graph 3.4: Consoles at home

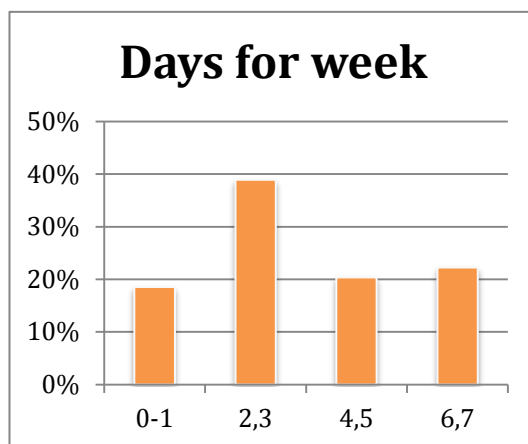


The first evidence in these graphs is that the most important and used device in South Korea is the personal computer, followed by the mobile devices.

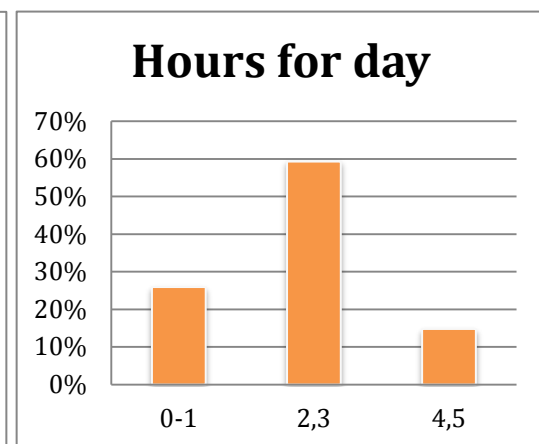
Significant is also the high percentage of people that has chosen the smartphone as most used device. In order to understand and analyze the business at issue, the 61 per cent of people that have chosen PC, is able to justify the good profit realized thanks to the Pc-bank business. However it is high the number of people that have it at home too, but this is not a negative element to judge the business. Nowadays, it is so difficult to find a family or people that decide to not have a pc in their house.

To continue the analysis, the idea was to understand the degree of importance, in terms of time dedicated to play. Days per week and hours per day were the two variables chosen. In this case the evidence is that the business is able to catch people for a lot of time, maybe more than any other type of activity.

Graph 3.5: Days for week



Graph 3.6: Hours for day



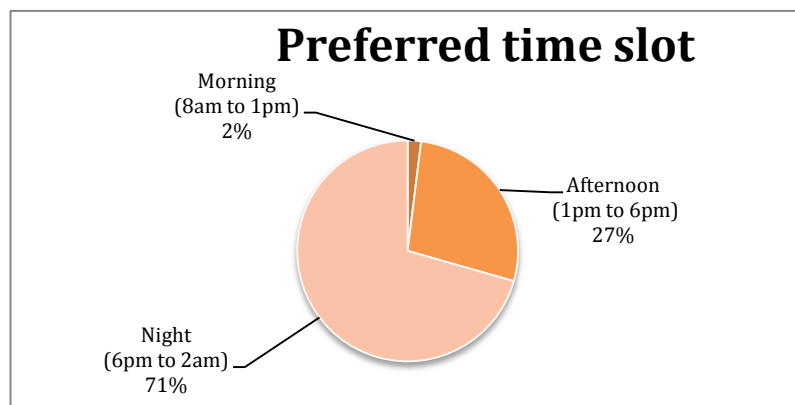
As shown in the graph, only the 19 per cent of them spend less than two days per week, with the great part of customers, the 39 per cent, that spend between two or three days to play. Also in terms of hours the result is really positive. The point is that people between fifteen and thirty years old spend the great part of their time studying or working, so if the 59 per cent of them spend between 2 and 3 hours, it means that the games and the industry at issue represent the main and maybe the only hobby for many of them. Encouraging data for the analysis are also the 22 per cent of people that

spend between six and seven days playing, and the 15 per cent of players that spend more than four hours per day.

In the first part of the survey there are other questions used to appreciate the importance of the industry, in fact only with the clear evidence about the position of the sector and the gaming world, it will be possible to understand why in South Korea there was the idea to start a business like Pc-bank. The idea was to satisfy a clear need that came from the market, with gamers that prefer to play with friends in a place totally dedicated to this activity, far from their home and where, there is the opportunity to meet people with the same interests and wants.

The seventh question said: when do you play? The answer is quite obvious; students and workers have more time in the afternoon and in the night, with only the two per cent that has answered “in the morning”, so between 8 a.m. to 1 p.m.. The great part (71 per cent) has answered “in the night”, so between 6 p.m. and 2 a.m.. 2 a.m. could be seen as an exaggerated number, but their love and passion to play, bring them to play more than possible and so also in the night, preferring a Pc-bank to a club or a pub.

Graph 3.7: Preferred time slot



Another important point to analyze is the preference about the possibility to play with friends. In that case the role of a space like Pc-bank could become crucial. To be sure about their preferences, I have proposed three different questions to people collected thanks to the survey:

- Do you play more alone or with friends?
- Do you prefer to play alone or with friends?

- Do you go alone or with friends to a Pc-bank?

Table 3.1

Question	Answers ->	Alone	With Friends
Do you play more alone or with friends?		25%	75%
Do you like to play alone or with friends?		16%	84%
Do you go alone or with friends to Pc-bank?		22%	78%

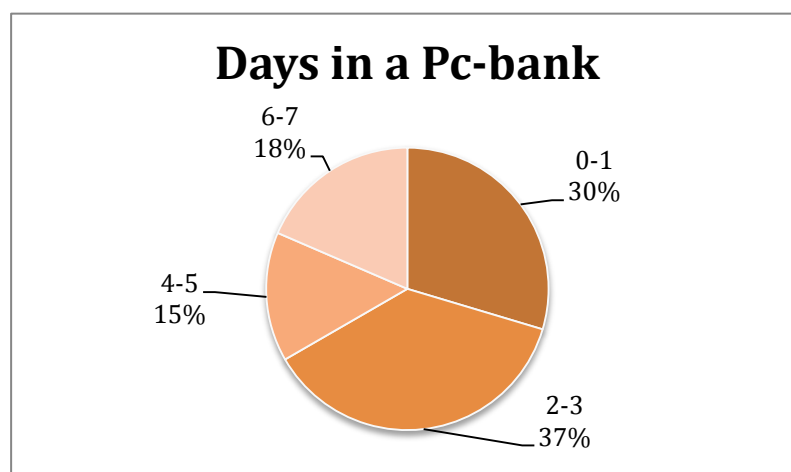
The point is that each of these questions could be important, to comprehend their inclinations. A survey with multiple choices doesn't guarantee the opportunity to explain the answers given; so to use only one type of these three could be resizing and incomplete. The positive result is that the three major answers go in the same direction, stressing the volunteer and desire to play with friends, and the positive and useful role of a Pc-bank too. In fact, gamers can stay how much time they desire with all their friends.

The first evidence is that more than 50 per cent prefer to play into a Pc-bank rather than home, and this result is strictly related with the 75 per cent that affirms to play more with friends than alone and with the 84 per cent that declares a strong preference to play with friends and not alone.

These answers could be useful as first proof about the importance of the business. Having had positive answers it is important to consider the other results obtained with the survey, going to analyze how much time people spend in a pc-bank, understanding if really they go with friends, and how much important are different services available.

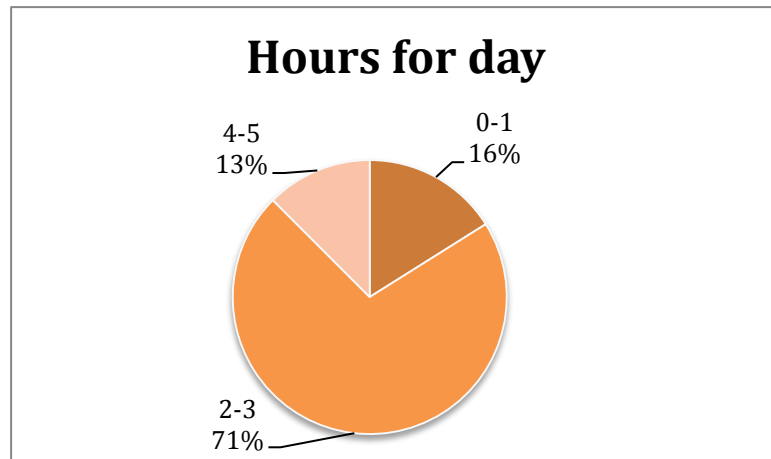
Initially the survey has proposed a question about the days spent to play, in the second part the question is quite the same, but here the point is how many days do you go to a Pc-bank?

Graph 3.8: days in a Pc-bank



Obviously, as the graph shown, the answer is quite similar, and the people interviewed have given a positive result, with the 70 per cent that spends more than two days playing in that place.

Graph 3.9: Hours for day



Other questions has been used to understand how many hours a player usually spend in a Pc-bank . The result is quite positive, the graph shows as the 71 per cent spends between two or three hours, and only the 16 per cent spend less than 2 hours. Important is also the 13 per cent that spends more than 3 hours.

3.3.4 The online and extra service availability

Understood the preference to play in a pc-bank, analyzed that the time available to play and to go in this place could be considered as sufficient, the analysis should consider other variables as the importance of online availability and extra services.

About the online word is important to understand how many people play online, and so affirm that the online availability is considered as an essential element to attract people in a Pc-bank.

Table 3.2

Answers -> Question	YES	NO
Able to play online	90.7%	9.3%

Thanks to the survey it is possible to see that the 90.7 per cent of players play online. The answer was not so arduous to imagine and predict, each type of console is trying to improve the online experience and quality of its contents. Furthermore the online availability guarantees the possibility to share the results obtained with other players and the possibility to satisfy the desire to play with more and more people from all over the world.

So, in the survey I have asked the importance of the online availability in a pc-bank, with the possibility to give a preference from 1 (essential) to 5 (not important). The answer is so clear and the 62 per cent think that the possibility to play online is almost essential. Only the 9 per cent think that it is “not important”.

The other question about what players desire in a pc-bank is related and reassumed in the survey with “extra services”. In the analysis, at this question there is a clear explanation of which are these extra services, reassumed in food, beverages or living space, and so something that is not correlated with the core business. Here the answer doesn’t give a clear evidence; only the 48 per cent considers the service almost essential, and the highest percentage, as shown in the table, have decided for a level of importance equal to three, so in the middle.

Table 3.3

Preference levels (from 1 to 5)-> Questions	1	2	3	4	5
Online availability	33%	29%	19%	9%	9%
Extra services	20%	28%	30%	11%	11%

My personal idea is that the answer describes in a perfect way the Korean typical player, that is not interested in other things, he loves and wants to play, the online service is essential but he could live without food or water for different hours! Here, according to me, the difference between the Korean and a possible Italian or European model will be ample. In fact, only in the country where there are the most important players in the world, extra service could be considered as not important.

Last question related with this part of the analysis is about their weekly spending. The question gives three different possible answers:

- 0-2000 W²⁸;
- 2000-5000 W;
- More than 5000 W.

Here, the answer is in the second slot, which reassumes the 51 per cent of people interviewed. The 31 per cent is willing to pay less than 2000 Won, and only the 16 per cent is willing to spend more than 5000 Won. In terms of hours the result reaffirms the number of hours spent in a pc-bank, being the cost per hour equal to 2000 Won. The result can be considered as a positive one. It is quite normal that players don't spend more than two or three hours, considering that the free time in that age, from 20 to 30, is limited by other components.

3.4 e-Sports: description and its relationship with Pc-bank

3.4.1 e-Sports history

The survey proposed had also the aim to understand and analyze some aspects about e-Sports. This phenomenon is becoming really important in the world, with the possibility to attract people to play, creating new and more players; so possible future customers of a Pc-bank.

The e-Sports history is quite short, being the phenomenon related with the videogame industry but also to the disposal of Internet connection. The first twenty years, from 70s to 90s have been characterized of different competition not based on the online word. The first one was organized into the United States of America, on 1972, the event was held in the University of Stanford, and the game name was "Space war". Before the introduction of Internet into this field, the importance of e-Sports was quite limited.

²⁸ The "Won", is the Korean currency, with an exchange rate that today is about 1228 won for 1 euro

The first example of the new era was introduced in 1988, a game able to include sixteen players. Actually, it was the third one to use the Internet technology, but in 1993 it received an award by “Wired Magazine” as the first online sport game. The 90s were also the years of Nintendo, which introduced the first important e-Sports tournament, called “Nintendo World Championship”, with different rounds around US, and with the final event in the Universal Studios in California. During 90s, Nintendo organized also other events, and there was the possibility to include and meet people from different countries. Not only from US, but also from Chile, Canada, Australia and United Kingdom. The spread of television programs, totally dedicated to this new sport, were a proof of a new and great success. The most famous were watched in England: “GamesMaster” and “Bad Influence!”.

The real turning point was represented by the new millennial, with the evolution of a new Internet technology: the broadband Internet. It is in this moment that South Korea acquires a central and crucial role in the evolution and spread of this new activity. The Asian country was damaged by the Asian crisis in the end of 20th century, and so also the high rate of unemployment people should be considered as important. In fact, people had more time to spend in different activities, and e-Sports represented one of them. The relevance of this new phenomenon increased rapidly and the role of Pc-bank (initially known as internet caffè too) became crucial. For this reason, in 2000 the Korean ministry of Culture, Sports and Tourism, founded the Korean E-sport Association, to manage, promote and regulate the phenomenon.

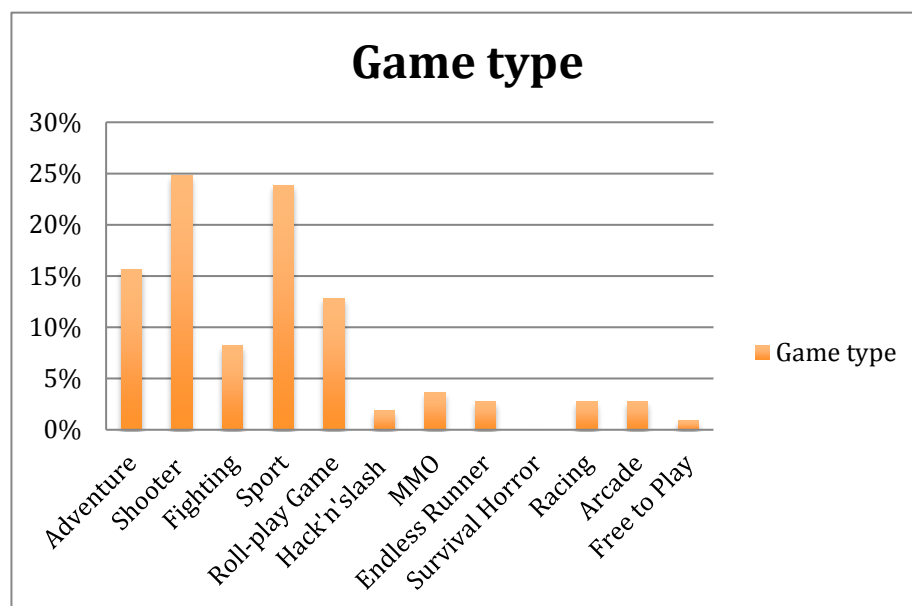
The first ten years, from 2000 to 2010 were so important and the growth was awesome, reaching a number of more than 250 tournaments in a year. In these times there was also the real diffusion into television programs, with channels able to transmit per 24 hours the entire competitions. Now, the e-Sports are growing year by year, attracting players not only from the Asian country, but from all over the world. A real proof is the new interest showed by Nintendo that after some years, has organized new types of tournaments, with the possibility to use e-Sports as a new way to attract more and more new customers.

With this brief introduction is quite easy to understand why the analysis should include also the e-Sports world. In fact, their evolution and growth in the country, is strictly related with the diffusion of Pc-bank. So analyzing how much people appreciate them could be important to examine which is the role-played by Pc-bank.

3.4.2 e-Sports features: preferred game and customers feelings

The first two questions were about the favorite type of game. There are some categories considered as the perfect ones to apply in this type of competition. The first question is a general one, about the type of game: adventure, shooter or others.

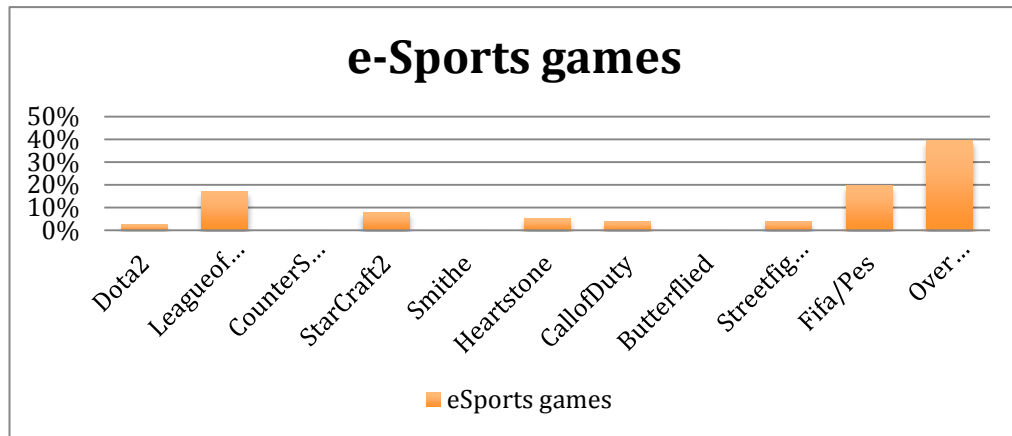
Graph 3.10: Game category



Analyzing the elements in the table, the evidence is that there are two categories really appreciated: sport and shooter. Also the adventure and Roll-play Game are really appreciated, with the 16 and 13 per cent of preferences. Another one follows the first answer, where the question was about specific game titles. In fact, as happened in the past for the first e-Sports tournaments, there are some games, more appreciated than others, and more comply with this type of event. In the first years two games were really appreciated: League of Legends and StarCraft. Today, the first one continues to be really

esteemed, the second one, with its followed versions has lost some customers, or maybe its relative importance considering the new titles.

Graph 3.11: e-Sports games



The table includes different titles, someone doesn't have a preference and it is not difficult to understand the motivation. E-Sports are a competition that includes different hundreds of people, and so it is normal to see and analyze games with high preferences, because players try to play everybody to the same game, to meet more challengers as possible.

Over Watch is the most appreciated and it is having the same role of StarCraft in the past. The game is the most appreciated by the 39 per cent of gamers, and only sport-games like Fifa or Pes with the 20 per cent of preferences are able to follow the leader. To note, there is also the 17 per cent of preference obtained by League of Legends, able to satisfy its customers with new beautiful chapters of the game. StarCraft, with the second chapter, has obtained the 8 per cent of preferences, twice the ones obtained by Call of Duty, Heartstone or Dota2.

Analyzed which games are the most appreciated, the survey tries to comprehend which is the grade of attractively of this event, how players think they could evolve and what they think about some aspects, that could be important in terms of advertising, sponsorship and marketing.

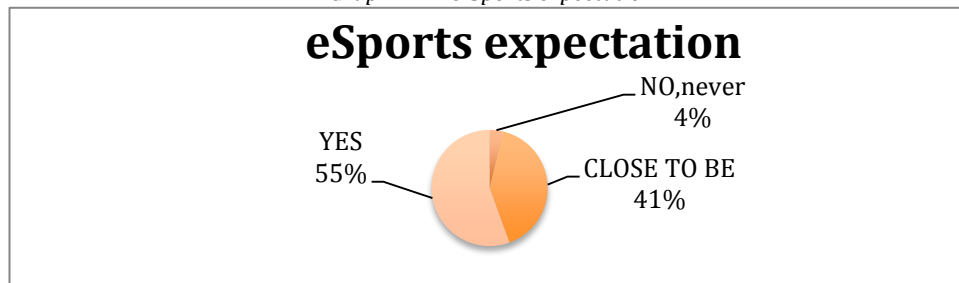
Table 3.4

<i>Answers -></i> <i>Time watching eSports events</i>	<i>Percentage</i>
Once a day	28%
Once a week	36%
Once a month	15%
Only for big event	21%

The first question about this topic presented in the survey is about the time spent watching e-Sport. The answer given, according to me, is a clear answer, with a lot of players that in the first part have answered appreciating the Pc-bank world, and secondly confirming how the desire to play in a Pc-bank, also with other people is related with their passion to e-Sports. The table shown as the 36 per cent watches them once a week and another 28 per cent once a day. I can say that Pc-bank and e-Sports are related, and now the two entities going in the same direction.

Then, there are questions to understand customers' idea about this phenomenon and their preferences about the possibility to play or watch particular events. Today, there is always a great effort to understand if a business could become more important and famous, and the first important data to collect is the customers' feeling. For this reason, the question presented in the survey was: " According to you, will e-Sports become famous and known all over the world?".

Graph 3.12: e-Sports expectation



As explained in the graph there were three possible answers:

- No, never;
- Yes, it is close to be;
- Yes, in the next future.

The answer doesn't give possibility of misunderstanding; the 96 per cent has given a positive answer. The 55 has answered with the third option, the 41 per cent is sure that e-Sports phenomenon is close to be famous and awarded all over the world.

The e-Sports represent a new type of sport, where there are different players, and new figure of champions, that could become famous as the ones of other sports. For this reason could be interesting to understand if players want to play to train their capacity and reach the level of their new idols, or only because are fascinated and so attracted by this new sport.

To give a proper answer I have decided to ask two questions:

- Have you ever been a player in an e-Sports tournament?
- If you have answered no at the previous question, Why not?

The first question has obtained a net answer, with the 76 per cent of sample interviewed that has said "no", so they haven't ever been a player in a real tournament. So important to analyze is the answer to the second question.

Table 3.5

Why not?	Answers ->
Like to watch	34%
No time to participate	55%
Waiting for it in its country	5%
Not aware about the place	5%

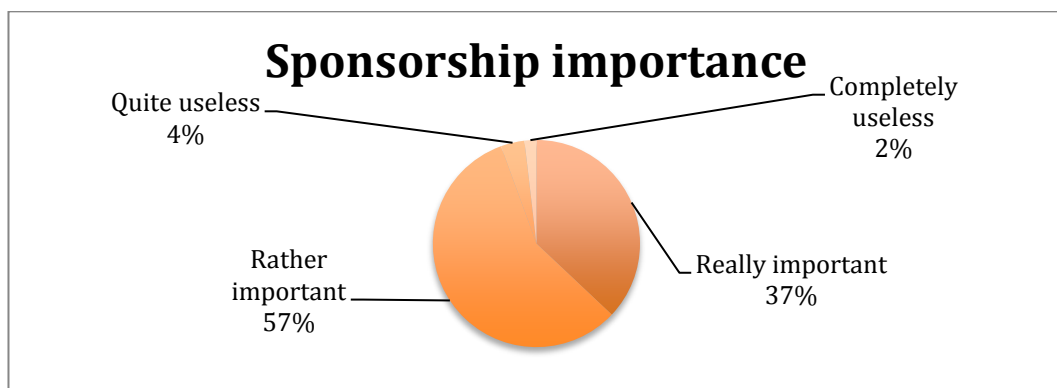
More than a half, the 55 per cent declares to not have time to participate. The reason is intuitive; in South Korea a worker or a student has a full schedule, with no possibility to miss a class or a workday. For example a student can usually miss only two classes during a semester, and a worker has 5 free days per year only after the first full one. The second preferred reason is that they "prefer to watch". The 34 per cent likes this competition, but as in other common case, there isn't the desire to emulate the famous players. The other two possible reasons haven't obtained a lot of success, but it is important to underline that the 5 per cent is waiting for this event in their country; a little

proof of how much e-Sports could be appreciated also in the other regions of the world. The Last group, a 5 per cent, declares to not have found info about the events; for example about the location. A little warning to remember how much important the marketing and advertising activities are.

3.4.2 Sponsorship evaluation

About e-Sports events there are other few questions, useful to understand some aspects about their organizations, and the possibility to find different sponsors and brand related during the events. This type of analysis is quite interesting, in fact, the possibility to have both sponsors and advertising during an event guarantees the availability of more funds, and this could increase the competition's quality. Moreover, an analysis about these topics could be useful to appreciate how big the phenomenon is and so the importance and the positive effect that business related could have. To analyze the advertising and sponsor's role, customers are important, with their judges and advices.

Graph 3.13: Sponsorship importance



The first graph is about the sponsorship role, in terms of relevance and influence. Here, the answer is univocal: the 37 per cent gives the highest degree of importance, and the 57 per cent only a little bit less. Only a 6 per cent thinks that the sponsorship role is useless in this type of competition and events. Having had positive answers, the indication is to continue the analysis, understanding the relationship with the brands related, that could be the sponsors at issue.

The questions are:

1. Do you like the brands related? ;
2. Do you buy product from these brands that support e-Sport?

Table 3.6

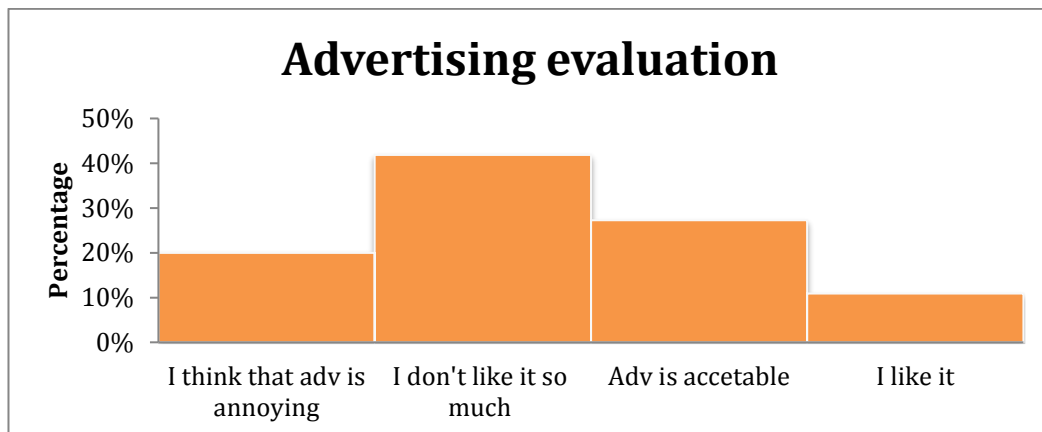
Question 1		Question 2	
Yes, I love them	22%	Yes, always	8%
Yes	38%	Yes, sometimes	48%
Not so much	18%	Not usually	30%
No, absolutely	22%	Never	15%

People don't give univocal answers, but I can assert that the major part, the 60 per cent, affirms to love the brands related, and the 56 per cent says that they would buy product from these brands. So, the answer is not so divergent from the normal expectation of a brand that decide to sponsor an event or a competition. It is impossible to obtain a positive answer from everybody, but a percentage higher than the half is a good effect.

3.4.3 Advertising evaluation

The advertising is the last element analyzed, considering not the one made with sponsorship agreement but in its different forms and scenarios.

Graph 3.14: Advertising evaluation



The first question is about a personal customer's judge, and the results are heterogeneous, with the major part of the sample that have chosen the

second option: “I think that advertising is annoying”. However, there is also a 27 per cent that say, Advertising is acceptable and not so bad. The answer obtained is maybe the most common to obtain, moreover in a competition where the gamers don’t use to have breaks or moments of relax.

However, there are other two questions about advertising. The aim is to realize an in-depth analysis, more complete as possible:

- Should brands and companies not related to e-Sports advertise their products?;
- Could you give a judge on these different advertising methods?.

Looking to the first question the answer is not so useful, having a perfect parity between the four different answers. In fact, the percentage are quite the same, with a little advantage for the last possible answer: “They mustn’t advertise”.

Table 3.7

Answers ->	Percentage %
They should advertise	24%
They could advertise	24%
They shouldn’t advertise	25%
They mustn’t advertise	27%

The second question is longer than the first one and there are some useful advices to understand which type of advertising customers prefer.

The table contains each type of advertising way proposed, from the online one, the Television spot and the sponsoring activity.

Table 3.8

Answers->	1	2	3	4	5
Product placement (PPL)	9%	14%	45%	11%	21%
Tv-spot	13%	15%	33%	17%	21%
Sponsoring	19%	19%	28%	15%	20%
Poster advertising	16%	18%	29%	18%	18%

Online video advertising	7%	15%	20%	26%	31%
Partnership	14%	16%	23%	24%	23%
Online Banners	13%	20%	23%	23%	21%
Events	13%	17%	19%	27%	25%

People interviewed had different choices to sign their preferences, from 1 to 5. The level 1 equals to an absolute negative evaluation, the level 5 to affirm the good feelings with that advertising form at issue.

To summarize all the results, the evidence is a judge that is in the middle, with 3; so, neither positive nor negative. This recap is perfect to explain the evaluation of PPL and Tv-Spot, but it isn't able to reassume all the elements. About the Tv-spot, a judge could be more positive. In fact, the solution could be reached thanks to a new advertising scheduling, trying to reduce the number of spots during an event. Maybe in this case the 33 per cent in the middle, could decide to give a positive judge, going to increase the level of attention during the Tv-spot, increasing so their efficacy.

Other form is the "Event", a new form of advertising that is really appreciated in different case. An example could be the RedBull campaign that has inspired this form of advertising. In the e-Sports world, with the 52 per cent that has given a positive reply, the Event mode is quite appreciated. Neither excessively appreciated, nor rejected is the "online banners" form. Only the 13 per cent have given their preferences for the level 1, and 21 per cent for the level 5. The most appreciated form is the "Online Video Advertising", different from the banners for the possibility to choose when to watch them. The 31 per cent have good feelings with them, and only the 22 per cent have given a grade equals to level 1 or 2. Rather appreciated is also the partnership; the reason is that this form of advertising is not so invasive and customers could appreciate and to start to identify themselves with these partner products. For this reason the 70 per cent have given a positive reply with answers from level 3 to level 5.

With the advertising analysis I have expired all the questions and issues fixed with the survey. The aim was to obtain a wide vision of the business at issue,

analyzing different aspects and peculiarities, giving a judge and a personal evaluation. From this chapter the Business Model analysis for a possible Italian model will start, trying to understand which Korean key factors could have the same role in Italy, and which one should be completely changed. Moreover the analysis to realize a business model will be made considering the cultural differences between the countries, trying to recommend a new business for the Italian region.

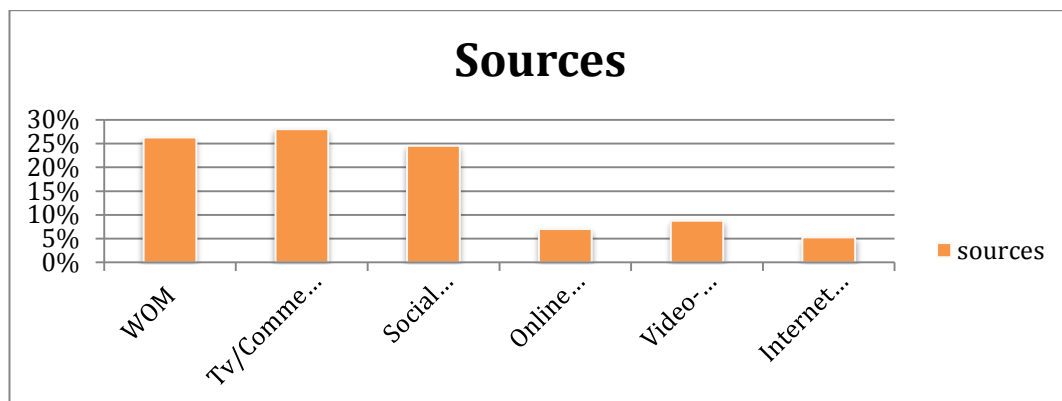
Before to start with the last chapter, there are the final questions presented in the survey:

- Which is your favorite e-Sport live streamer?
- How do you learn about e-Sport news and games?

For the first question, the most appreciated channel is Youtube, where you can learn and discover different news about e-Sports. Really appreciated is also twitch with a level of preference equals to 21%.

For the second question the role played by the new medias is evident (25% of preferences), and also the “Word of mouth” plays a fundamental role.

Graph 3.15: Information sources



Chapter 4: PC-Bank In Italy: could the Korean success be replicated?

4.1 A new reality from the Korean Model: a possible value proposition.

Starting from the second chapter, this work has been trying to present a new possible business to develop in Italy. The second and third chapters have been fundamental to underline the crucial aspects to consider, in order to analyze all important elements, both on cost and revenue sides; furthermore with the explanation of the Korean business, the project of a new Italian model could be possible, and it will include only some features from the Korean model. The first aspect to consider in each element of this analysis will be the cultural divergence between the two countries considered. For this motive the Italian model will try to lie its success on different factors from the Korean ones. The idea to replicate this business is due to the discover of the success that it has been having in Korea, but to another aspect too. In the 80s and 90s too, before the development and success obtained by the home-console, in Italy there was a reality able to generate an incredible amount of revenues, granting each day a good number of customers. It was the “Rec Room” or “Arcade”. A reality dominated by the contents granted by Sega, where customers could play, paying for the single match or the single “game level”. The “Rec Room” represented more than a place with the possibility to play; there was the possibility to encounter people, to talk with them, creating and enforcing new friendship’s relationships. But, with the arrival on the market of the so called “Big Three”, the “Rec Room” (from this moment I will use both rec room and arcade for the same mean) has lost its attractiveness, becoming a simple place where you can stay to talk with people, but the main business was not able to survive and so they have left the market in a very short period. So, the idea is to re-introduce this type of business considering the new market trends, where the home-console are the new devices, and the possibility to play online is a key element. As explained in the chapter before, also the e-Sports represent a new important

reality in this industry, and for this reason, in Italy should have an important role too.

Starting from Canvas Business Model, I will try to consider each aspect to re-develop the “Arcade” business in Italy. The first element will be the value proposition. Its definition has been well explained in the second chapter.

The value proposition will be based on few critical points and could be reassumed as: *“The desire to recreate an old business so famous and appreciated in Italy. It will be able to guarantee the satisfaction of both old and new customer’s needs. The new business will lie on the old model, but it will develop itself considering the technological innovation had during the 21th century and the Korean profitable model. It will be identified as the perfect space to play, talk and share with new people each type of topic, with a focus on the videogame industry. It will satisfy not only the “need to play”, but also each type of need related with it.”*

During this analysis, the Korean model will be a fundamental element, to have as starting point, an example of success for the business at issue.

4.2 The costs’ side in the Canvas Business Model

The canvas modes is recognized in the world as composed by nine units. Each unit has a specific element, and a crucial role to realize; with the scope to reach the design of a perfect “Arcade”. From this point, the analysis will consider the Canvas Business Model (from now CBM) as divided in two macro areas: the cost and revenue ones. To realize an optimal business model, each element will be measured as related with other ones, and so a division of CBM into two sides will simplify this goal. Seeing the cost side, there are 4 areas to study:

- Key activities;
- Key partners;
- Key resources;
- Costs.

In fact, these elements are related with the cost side on a company Income statement. A basic analysis could be useful to manage them in a perfect way, granting not only a proper level of efficacy, and so the possibility to reach the final goal (a business able to generate profits), but the possibility to obtain the optimal level of efficiency too. It will assure the minimum cost level, and so will be important to consider which type of resources are fundamental and which partners could have a crucial role in the business at issue.

Starting from the key resources, there are some elements that will be essential. The idea is to create a “Rec Room”, so the protagonist will be new videogames, and home-console selected as the optimal one to attract more customers as possible. According to the data available thanks to companies financial reports²⁹ is clear as the most preferred console in the market, for the last generation is the Ps4. For this reason the first key material resource of the new arcade will be represented by a certain number of this console. The positive aspect, is that overcome the initial cost, the followed years won't be supported the purchase of these assets, that can be considered as a long-term investment in this sector, with more or less about five years of life time. The consoles produced by Microsoft and Sony for the last generation are at a level equals to an half of the one reached by the previous generation in terms of sales. For this reason, it is easy to predict that the companies will wait some years before to put on the market a new console. Furthermore, the introduction of new technologies, as the virtual one proposed by Sony, is a key element of how the goal of this moment is to increase the sales level for the console already arrived in the market. The other key resource will be a human one. It is fundamental to have a person, an employee, able to guarantee the right level of support for some particular situations. The idea is that a lot of people, the so-called casual gamers, could be attracted by this new reality, but their low level of experience will require an external help to live the experience in an optimal way.

²⁹ Source: the analysis of Sony and Microsoft financial report has granted to arrive at a certain result.

Obviously, the implementation of the business at issue requires the existence of different resources. The initial investment will be used to a designer for example, with the possibility to create a space capable to satisfy the customer's needs. The same space will be realized considering the possibility to create "living space" where will be imaginable to play, but also to welcome people not interested to play or which will need a simple break. Other resources will be used on the human side, being not possible that only a person will manage the place. But it might be a shop-assistant, not specialized in the game industry and so not considered as a key resource.

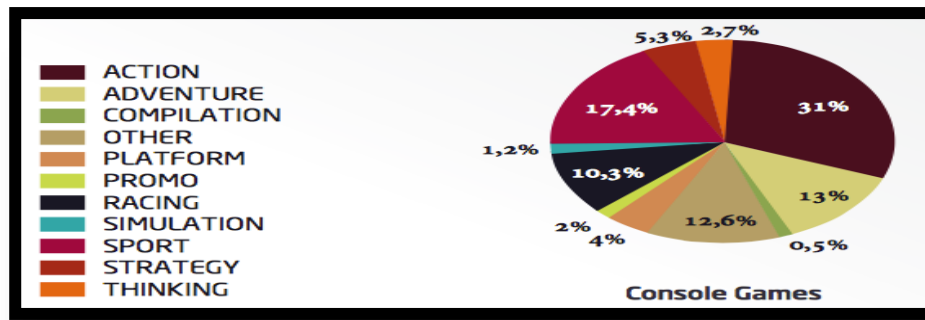
So, to reassume the key-resources are two:

- The Sony PS4 console;
- A specialized Store Manager, able to manage the business considering each type of need exposed by costumers.

These two costs will be reassumed in a table at the end of the paragraph, where the costs' side should be clear and full.

The "Key partners" represents another voice on costs' side for the CBM. Today, in each type of business is essential to consider the role and possible positive effects by synergies. In this type of business will be important to develop possible collaborations with specialized companies in the industry. For example could be interesting to develop partnerships with the Italian division of game developer companies. The aim could be to organize events and special meetings to publish a particular game, with the possibility to have titles in preview. For example, in Italy there are two game categories that are able to encase the preference of about all the market. In fact, the graph below stressed as the "action" and "sport" segment, represent the 48 per cent of volume in terms of sales.

Graph 4.1: Sales for gender. Their weight in the total level of sales.³⁰



This result is quite similar to the Korean one, and it is easy to understand that the games will be the same also in Italy. For example about the Sport group, the most popular games in Korea, but also in Italy are the football ones, Fifa and Pes, with their annual version. So the idea could be to develop a partnership with their developer companies, to have their preview, with the option to organize some events to advertise them, increasing the gamers desire for their launch in the market.

The other important element to consider, in this CBM side is the “Key Activities” voice. Obviously, this voice too depends on the specific business features. Each company or business will have its critical element, fundamental to reach a good economic result. Considering that key activities will be the most important ones, we should give a clear vision for the business at issue.

The aim will be to offer a product and a new experience for customers, with the possibility to create a proper network. A “Key activity” will be related with a marketing action for example, which moreover in the first part will be fundamental to advertise the new “Arcade”. The theme is to propose something new, considering the opportunity to generate a new “need” for future costumers. They would know everything, and a marketing activity will be crucial. Another fundamental activity will be related with the option to develop platform with potential partners. Into the videogame industry, there is a need to create a wide network, because only with a big presence of

³⁰ Source: AESVI, Annual report about videogame industry in Italy.

customers there will be the possibility to growth and acquire new ones. To reassume what has been said about these first three voices, it is significant to feature that the business at issue is a new one. So, in the first year the attention on each company element should be high and efficacy, without to distinguish key activities from the other ones. Obviously, having an idea of which are key resources and partners that could help the business development, in terms of priority for example. However, about the key activities the distinction couldn't be so strong. Before to consider the other element on this side, the cost level, a comparison with the Korean model could be interesting. Starting from the activities, the situation is too different. In fact, the marketing activity is not important, and the reason why is quite obvious. The "Pc-bank" is well known by everyone, and foreign people too are conscious about the videogame industry importance in this country. Key activity here, is according to me a strategic one. Korean companies in this field should try to implement new innovative ideas, to increase the revenues level, being customers willing to pay for everything related with the videogame industry. About key partners, the starting point is the same. In fact, they have the same potential Italian mission, to develop partnership to guarantee a "preview" to their customers. There, this issue is well managed. During the experience with the Korean business, I have participated to "Game-show", organized to present in that case new sport games. The other comparison could be made about key resources, which in the idea to replicate the same business should be the same. About material ones, so the devices to use, the availability is adequate. Even if Korean "Pc-Banks" are always totally full, there will be always a desk for you. About the human resources, there is a clear limit in the Korean model. Sometimes, it has been difficult for foreign people the dialog with staffs. The reason is a linguistics one. So, for the Italian model the idea will be to guarantee someone with a specific knowledge about the business and able to communicate with foreigners too. In effect, being the arcade something known abroad, tourists could be interested in the Italian model, and the services offered should be perfectly organized.

4.2.1 Cost “blocks”

The most important element on “Cost side” is obviously the Cost Voice. Each business, both an older and newer one, is based on costs structure. The final aim, not considering the customer satisfaction, or specific fixed target. is to obtain a profit, and so the central point will be based on two specific subjects: costs and revenues.

Now, the focus will be on the first one. As we know, one possible strategy for the company is based on cost, with the possibility to reduce it at the minimum level. According to me, this is not the adept business to develop a similar strategy, so the aim will be to consider all the costs, trying to highlight the most important voices. As just described in the second chapter, they could be divided in different categories. Now, for each category there will be evidence of specific voices, to then consider which one could be more relevant than the others. Costs are usually divide into two macro-areas: fixed and variable. The first ones represent a certain for the company, while the second ones could be a dynamic element, able to influence the balance sheet for the company in subject. Regarding the fixed costs is clear as there are some elements easy to identify: rent cost for the infrastructure or the pay costs too are impeccable examples. Usually, in this area there is the voice referring to the production machines too. However, in the new Italian “Arcade” this should not represent a real voice, being the instrument cost, a variable that will characterize only some financial exercises. During the first year there will be a purchase of home-consoles and some games. In the years later, there will be the acquisition of different title, but it is a cost voice not so relevant, in terms of total amount.

Another important aspect on the cost side is related with the possibility to reach economies, both scale and scope. Unfortunately, this type of business is not able to guarantee this purpose, so the chance to save it is quite concentrated. However, the possibility to not reach these economies, could be analyzed under another point of view: in fact, maybe the variable costs level will be low, and not able to influence the possible business life.

Considering the possible relationship with the Korean business, the cost level is quite the same. Maybe the Italian model will have more costs related with extra service, remembering that the aim will be to guarantee an attractive experience to each gamer, the one interested only into it and the one interested in the share possibility too. For this reason the Italian “Arcade” model should consider costs for other elements, related with food and beverage products, but also other possible entertainment forms to insert.

To reassume this first part of CBM, there are some considerations to do. First of all, it is quite clear and sure how the costs’ side should not represent a real problem. Obviously, there will be an initial investment, but it seems that an insurmountable cost level wouldn’t characterize the future years. This means that with a good organization, and market analysis could be immediately clear how much the business at issue might be able to produce in terms of revenues and profits.

Considering again the Korean model, the “Pc-Bank” represents only an inspiration source for the Italian “Rec room”, so costs and variables to consider could be obviously different. The common point is according to me, the low level of variable costs; the divergence is represented by the different direction chosen. In the Asian region the focus is totally on their traditional gamers. They are not interested in the quality of other services, the gamers will have everything they need to play, but the additional services quality will be not a primary point. On the contrary, in Italy, as said in the value proposition, the idea is to produce a space appreciated by the Italian culture. For this reason, the possibility to share, communicate in a comfortable place will be a crucial point in the business realization.

4.3 The revenues’ side in the Canvas Business Model

The CMB guarantees a perfect view on a business, in fact, there is a focus on revenues too. In this paragraph there will be the analysis for the other CBM voices:

- Customer segments;

- Channels;
- Customer relationships;
- Revenue streams.

Starting from “customer segments”, the first element to consider is the market definition. In this case, according to me, there is a clear example of niche. In reality, the videogame industry is able to attract a lot of customers into the Italian region; however, the idea is to create a possible “product” for players, considering only a small cluster of the whole group of consumers related with this industry. A niche has to have some essential element to survive. First of all, it should be activated and then profitable. To activate, it will be important to create a new customer experience with a clear and appreciated value. For this reason will be essential to consider which segment in the market at issue is the most profitable, trying to understand if the “Arcade” will be able to attract the right number of customers to guarantee a good profit level. Obviously the first segmentation will be between “players” and “not-players”.

Maybe the customer segmentation is easy to analyze, considering that the aim is only to choose a specific segment and a “market typology”.

More interesting could be the “Channels” analysis. As described in the second chapter, this CBM “block” has more variable to consider. The first “channel” to identify is the one to sell and offer the product. In this case, in the value proposition is clear how the shop place will be the only way where there will be communication and the service’s offer. Still, in the “channel block” there are other elements to consider and goals to reach. The channel definition explains how its role is to guarantee a contact between company and client to a strong relationship and a constant help. The company’s channels are essential also as communicative element and to advertise too. Moreover in the first part, considering the business as a new one, there will be a clear need to interconnect, to assurance a knowledge creation for customers. So, a good instrument to use could be represented by social media, both Instagram and Facebook for example, where there will be the possibility to create an event about the opening time, and during the waiting period there is the

prospect to teach about the new “Arcade”. Communication and advertising matters will be considered also after the initial time, and according to me, social media will be the most critical instruments to use. Additional tools could be both Twitch and YouTube. Surely appreciated in South Korea, where the survey gives a proof about them, and all over the world, as players’ platform.

About the comparison with the “Pc-Bank” model, the points of contact are various. In the Asian region too, the shops are the primary channels, and the tools used to communicate are quite the same. Maybe the real important difference will be represented by the customer segmentation. In South Korea, where revenues level is really high, to consider the market chosen as a niche is not correct. Here, there is the possibility to attract surely more customers, without to create a particular experience. However, as just said, the Italian model for this business will represent something totally new, and home-console playgrounds will be not the only element to choose to be a customer. The most important block, in the revenues side is according to me the “Customer relationship”. Here, the aims are two:

- To conquer the client;
- Assistance to the client.

My personal idea is that with the right strategy and tools, a business tries to conquer and attract possible clients; the assistance will be important too, considering it as a fundamental element to establish long-term customer relationships.

Starting from the first point, there are some points to underline: first of all, will be important to attract customers, and it will be possible only communicating the offer and so the value proposition. A possible strategy will be the events’ organization, as for example some shows to communicate with customers, presenting the new “Arcade”. Each event could be decided since the result proposed by the AESVI. Considering the most appreciated

games³¹, the aim will be to attract each player related with them, creating first meetings where people have surely the same interests in those contents.

Table 4.1: The table shows the top games for 2017 in terms of sales. It considers all the home-consoles available in the market, and the major part is dominated by PS4 games. This is a clear proof of how the Sony's device is the most appreciated in Italy³².

1	Tom Clancy's Rainbow Six Siege	PS4	Ubisoft
2	Yo-Kai Watch Spiritossi	3DS	Nintendo
3	Horizon Zero Dawn	PS4	Sony
4	Yo-Kai Watch Polpanime	3DS	Nintendo
5	Tom Clancy's Ghost Recon Wildlands	PS4	Ubisoft
6	Fifa 17	PS4	Electronic Arts
7	Lego Worlds	PS4	Warner Bros Interactive
8	Minecraft	PS4	Sony
9	Legend of Zelda Breath of the Willd	Nintendo Switch	Nintendo
10	GTA V Grand Theft Auto	PS4	Rockstar Games

Other important element will be the possibility to create a segment and related opportunities for “loyal customers”. Here, the idea could be to create a member card, to recognize specific players with an advanced importance level for the “Arcade”. To loyalty them, it will be possible to use particular sales promotion, bonus ticket for a game or exclusive possibility to try a game’s preview.

The “Customer relationship” approach could be important to increase the sales level, and particular strategy may perhaps promise a high number of new possible customers. For example, it is common to find political campaign to attract customers summarized with the name “bring a friend”, with the possibility to deal particular benefits both for the actual and the future clients.

The other area under “customer relationship” is represented by the “client assistance”. First of all, the highlight should be on human resources available. It will be important for the first contact with customers, but also for other

³¹ Source: www.aesvi.it; the ranking used is the last available.

³² Source: AESVI

future problem, during each game session. Then, there are other elements to consider: the service automate, the community creation and the co-creation possibility.

Regarding to the first point, there is the possibility to guarantee a saving time for human resources, in terms of their availability for new customers and players. For example, an automatic service might be represented by an online platform to book its “time” and playground in the new “Arcade”. This service may well reduce the overcrowded moments, and players can have the possibility to “standardize” their hobby, with an easy management and the opportunity to spend maybe more time than usual. This could assurance not only a higher attention and focus on new customers, but also the chance to use a low number of employees, being part of customers quite autonomous in the “Arcade” space.

Other important element is a “community creation”. Being member, the relationship will be strong, and the new Italian “Arcade” will have a good number of loyal customers. The community could be used in different ways; for example, assuming the role of an advertising instrument: members may possibly be important to advertise the new business to possible new ones. Furthermore, people really interested in this business, and maybe people with a high level of knowledge in the videogame market should form the community, so they could work as “advisors” too. The mean is that the community could ask for a specific game, a new specific console and so be an instrument to immediately know news and possible needs and wants from the market. It might work thanks to a forum, where everyone has the possibility to write its opinion. Obviously, the forum access will be guarantee only to real members. Everyone else will have the possibility to have a look on the forum, for its personal interests and to incentive him or her to be part of the community, becoming integral part of the “Arcade”.

In the block “Customer relationships” there is also another element to consider: the Co-creation. This element is a good instrument to increase the involvement’s level for players. Obviously the core business is related with the use of the most famous consoles and games, however the involvement

will be an important part in other company's activities. Players, moreover in Italy, appreciate the possibility to be part of a community, and appreciate the possibility to play "under their rules" too. So, the possibility could be to suggest a particular event and to help its organization. The "Arcade's members" could be involved in the event's organization, and be important to incentive other people to participate. Obviously, being integral part of the arcade's event, their desire to involve people will be higher than usual.

4.3.1 Revenue "blocks"

The last block to analyze using the CBM is "Revenues Stream". This one is obviously a crucial element into a business analysis. So, for the new Italian arcade too. The revenues level will be key to guarantee the business continuity, and the CBM tries to stress which are the possible revenues, and also when and how they should arrive to the seller.

First of all, it is important to underline how each type of financial entrance will be cash based one. This point is really important, because the arcade will be always sure about its entrance, and it won't have any problem related with receivable voices. The entrance will arrive by cash or credit card, without any type of difference. Other important element is the price definition, moreover how they will be presented to customers. The idea is that the Arcade will work with a price list, so there won't be a price discrimination based on time or on customer numbers. So it is a case of fixed costs, where the only variation could be related with some customer's segments. In fact, a possible idea to loyalty players will be to adopt a special and discounted price list for arcade's members.

Then, the question is related to the revenue's source identification. As just said in the second chapter, they could be produced by different element. In the arcade's case there are two types of sources: the asset's sale and the subscription fee. Obviously the first voice will be the most important for the company, being the core business related with the supply of an experience. To consider, there is also the possibility to earn money selling other goods,

like food or beverage ones. As described in the value proposition, the new Arcade will be different from the Korean one, in terms of sharing level and also potential moments and space to create a personal contact.

Regarding the subscription fee, according to me, it will be an important element in the new “Arcade”, only if it will be created to assurance promotions and advantages to possible members.

Summarizing, there is a clear definition of all possible Arcade’s revenues, and so it is possible to present a comparison with South Korea. First of all, it is important to underline that the core business is the same, and the revenues essence too. However, two elements will be different: the extra services, and the members’ card. Regarding the first one, thanks to the Korean survey made, there is evidence about their importance there. Starting from the idea that the core business will still represent the central point, but with a lower level of importance than in South Korea, giving more space to possible breaks between some matches, extra services should guarantee a high level of revenues. Obviously their management will be different too, with an extreme attention on details, products’ quality and their “layout” in the Arcade.

Considering the possibility to create a community, the important element is that the Korean “Pc-bank” does not include something like this. In any case, the idea could be really appreciated in Italy, with focus on possible advantages given by a loyalty action.

4.4 DCF analysis

In this chapter the aim was to present and discuss, thanks to Canvas Business Model, each possible aspect of the new Italian “Arcade”. The model proposed is one of the most used today, thanks to the possibility to analyze each type of key element for a business. There is a clear view both on costs and revenues side. For this reason, the attention has been concentrated on human resources, videogame or consoles to buy, and all the stuffs to create a comfortable environment for players and other customers.

Then, the focus has been on revenue's side and the analysis has been the same. So it is clear how they will be generated from the consoles' usage and in some measure by extra services. The possibility to make a comparison with the Korean business has influenced the choice to realize an analysis based on a Business Model. With a specific evaluation for each "block" has been thinkable to have a perfect portrait of a potential "Arcade" implementation.

Clearly, in the real world, thinking to its application, there is a need to go one step ahead, realizing a Business Plan. Thanks also to the concept emerged from specific literature³³ in the field at issue, the Business Model represents a first step, but it must be followed to a business plan. As explained in the second chapter of this work, the Business Plan represents the first real passage for a business implementation. It symbolizes the project from which is possible to start. In a business plan it would be probable to perceive each element in a practical way. To better explain, in a business plan the human resource's voice would have a clear explanation in form of: numbers, pay, work hours per day and others.

A Business Plan's development won't be made in the last part of this work, however, the aim will be to present some possible numerical evidences. The methodology used will be a cash flow analysis, traditional element to analyze any type of investment. To underline, the aim won't be to present a perfect and certain report about a possible profit for the new "Arcade", but rather on, to explain that there are, according to me, margins to try a real application.

4.4.1 Tools to realize a DCF Analysis

To realize a Cash Flow analysis, there are different information to collect, related with costs and revenues' expectation. Moreover, it is important to identify the financial tools to use. In a DCF, the required return assumes an

³³ Source : « Il business model come ponte fra una business idea e un business plan », Cariola Alfio.

extreme level of importance. It is necessary to actualize the future flows, having the possibility to compare them with the initial investments.

To calculate the required return, I will start from the Capital Asset Pricing Model (CAPM). According to the CAPM, the required return is given by the risk free plus the Beta multiplied for the market risk premium:

- The risk free: it is 0.2 per cent³⁴, considering a Bund with a maturity of 10 years. Usually to be considered is the Italian BTP return, but the Italian financial situation doesn't guarantee a risk free ranking for it;
- The Beta: it will have a value equals to 0.98. The beta considered it is the one that reassume the Software (Entertainment) industry³⁵. It is important to remember that it is a measure of the systematic risk, in comparison with the market. So a value equals to 0.98 means that the Software industry has about the same market's risk;
- Market risk premium: the value will be the difference between "market return" and risk free. The value is 8.4 per cent³⁶.

Thanks to the data collected the CAPM gives this rate:

$$R = r_f + \beta(r_m - r_f) \rightarrow R = 0.2\% + 0.98 \cdot (8.4\%) \rightarrow 8.43\%.$$

Obtained the rate, it can be used to actualize each project's cash flow.

4.4.2 DCF evidence

The analysis will be a three annual basis, and for each year there will be hypothetical data about costs and revenues. Starting from the "Year 0" until to the "Year 3", there will be the definition of single voices.

Year 0

During the year at issue there will be the "Arcade" preparation, so it is quite obvious that the costs will be very high. The initial investment will surely

³⁴ Source: www.ilsole24ore.it

³⁵ Source: <http://pages.stern.nyu.edu/~adamodar/>

³⁶ Source: <http://pages.stern.nyu.edu/~adamodar/>

include the consoles' purchase. The hypothesis is to buy 15 consoles, to guarantee initially 15 playgrounds. The console chosen has been the PS4, considering the market's preferences. The console has a public price equals to 200 €. However buying them for a business activity, so considering possible savings in terms of tax and for a huge number purchase, it is quite normal to consider a price reduced by at least the 22%. In this way the console's price should be around 150 €. But in the DCF, a normal price will be considered, not in view of the best scenario, with an initial investment that maybe will be less expensive than the one predicted in this exercise. Each playground would be organized with a Monitor. Considering here too a summary price, it should be equal to 400/500€. In the initial moment there will be also other expenses to manage and prepare the arcade, that could include different type of problematics to solve or stuffs to buy. So, reassuming:

- 3000 € for console's purchase;
- 7500 € for monitor's purchase;
- 80000 € for other initial costs, that could for example include the games' purchase, layout of workstations and others.

Year 1

From the first year to be considered will be costs and revenues expected from the Arcade's implementation. The hypotheses made come from the analysis of the Korean model, and results obtained by the survey. First of all, there will be the pay's cost, considering two people involved. Other costs will be related with the building rent, and the extra services' purchase. On the revenues side, the idea is to consider a 50 per cent of capacity reached. So considering 15 playgrounds, that should be used by two people each hour, the assumption is to consider only 1 person per hour. The other voice to increment the revenues' side is given by extra services, considering that only the 65 per cent of gamers will use it. Also here, the percentage has been chosen considering the Korean value, and considering that their attention on

this variable will be less important, quantitative speaking, respect to the Italian one.

So reassuming:

- A pay of 15 per hour, the Human Resource cost (on an annual basis) will be equal to: 45000 €; the voice has been computed considering that for the 2018 the “working days” will 253, adding all Saturdays, they will become about 300. Each day the working hours will be 10. Considering a simple split, the data obtained is in line with the GDP per person in Italy, so according to me, this hypothesis could be considered as valid. However, in the DCF analysis there will be an increase of 5000 €, considering possible unexpected costs.
- About the extra service, food and beverage, the cost for this product is about the 30 per cent of the price offered to consumers. For the first year the capacity reached will be equal to 50% for each playground, so per day there will be 15 people per hour. So 150 people per day. Considering that only 100 people, so the 65 per cent will choose for an extra service purchase of 1 €, the total cost should be 10000 € (on an annual basis). Revenues might be 30000 € (on an annual basis) .
- The most important form of revenues should come from the core business, and here, the idea is to consider a price of 3 € per hour, more than the Korean price. The hypothesis has been made considering that the price of each good related with this industry is higher in Italy, and that the actual arcades doesn't guarantee any form of entertainment per hour for less than 3 €. So an amount of revenues per year equals to 135000 €. Considering 3 € per hour, for 15 people each hour for the whole day.
- Management costs: there will be different costs to support in a business management, as for example electricity and services like this. The hypothesis is to consider 24000 € per year.

Table 4.2: the table reassumes all costs and revenues for the project year 1

COST/REVENUE VOICE	AMOUNT in €
Cost for employees	50000 €
Revenues for Core Business	135000 €
Revenues for extra services	30000 €
Costs for extra services	10000 €
Management costs	24000 €

Year 2

For the year 2 the human resources' cost will be the same. The other values will change, considering an increment related with the core business and with extra services too.

Regarding to the core business, the hypothesis is that the arcade will be able to reach the 75 per cent of its capacity, and so revenues per hour, for each playgrounds should arrive to 4.5 €. This high value should be reached thanks to a higher number of customers, that should arrive up to 200 per day. The higher number of customers should be able to increase the extra services' importance, with the possibility to increase revenues related.

So summarizing:

- 45000 € per human resources cost, plus an extra of 5000;
- Extra services, considering always an amount of 1 € for each customer, should be related with the 65 per cent of 200, and so 130 people and from the second year, the idea is to consider that there will be other people too. As just explained in the value proposition, the arcade will be a place for entertainment dedicated to everybody and not only to players. For this reason the hypothesis is that there will be a 20 per cent, computed on players amount, that will be new customers for extra service;
- Regarding to the core Business, the amount of revenues should reach a superior value per year; in the table below the portrait for the second year flows;

- From the second year, there is another important cost voice to consider. The new “Arcade” should be based on a constant innovation, essential to offer the best possible product to its customers. For example the Sony Company is launching each year a new type of innovation (considering for example the new tool for a 3D experience), and the arcade should be able to offer it immediately to its customers, offering what they don’t have in their home, or what they want to try before the purchase. For this reason each year there will be expenses for 10000 €, identified as “costs for Research & Development”.
- Management costs: there will be different costs to support in a business management, as for example electricity and services like this. The hypothesis is to consider 24000 € per year.

Table 4.3: the table reassumes all costs and revenues for the project year 2

COST/REVENUE VOICE	AMOUNT in €
Cost for employees	45000 €
Revenues for Core Business	202500 €
Revenues for extra services	51000 €
Costs for extra services	17000 €
Costs for Research and Development	10000 €
Management costs	24000 €

Year 3

The third year will consider values higher than the previous ones analyzed. The idea and the hypothesis is that the arcade’s capacity will reach its 100 per cent, and the number of people involved will increase also for the extra services:

- 45000 € per human resources cost, plus an extra of 5000;
- Revenues related with the Business core that should be 6 € per hour, for each playground;
- Revenues for the extra services that should come from a basis of 300 players per day, and so considering always the 65 per cent, 195. Adding again a 20

per cent, considering so a percentage that will not growth in the medium term. This assumption has been made to consider a respectable scenario, able to be more real as possible;

- Costs for Research and Development: 10000 €, considering that some consoles could be substituted, or there will be new innovation to include in each playgrounds;
- Management costs: there will be different costs to support in a business management, as for example electricity and services like this. The hypothesis is to consider 24000 € per year.

Table 4.4: the table reassumes all costs and revenues for the project year 3

COST/REVENUE VOICE	AMOUNT in €
Cost for employees	50000 €
Revenues for Core Business	270000 €
Revenues for extra services	76500 €
Costs for extra services	22950 €
Costs for Research and Development	10000 €
Management Cost	24000 €

DCF

Obtained all the data, it is possible to build a DCF model, actualizing with the estimated required return (8.43%).

Table 4.5: the table reassumes all the elements considered. It is a DCF analysis where each annual flow has been actualized. The Net Present Value (NPV) will be given by the sum from Year 0 to Year 3.

Year	0	1	2	3
Req Ret	8,43%			
Initial Investment	€90.500			
Revenues - Core Business		€135.000	€202.500	€270.000
Revenues - Extra Services		€30.000	€51.000	€76.500
Costs- R&D			€10.000	€10.000
Costs - Human Resources		€50.000	€50.000	€50.000
Costs- Business Management		€24.000	€ 24.00	€ 24.00

Costs - Extra Services		€10.000	€17.000	€22.950
Costs- Rent		€75.000	€75.000	€75.000
Total before tax	-€ 90.500	€6.000	€77.500	€164.550
Tax	24%			
Total after tax	-€90.500	€4.560	€58.900	€125.058
NPV	€ 57.089,07			

In the table there are other few elements to explain. First of all, it is possible to see a positive Net Present Value. It means that the investment should be done, with the future flows that will be able to cover the initial investment. In a DCF model, a tax rate has to be chosen; here it is 24%, equals to the IRES³⁷. Other voices, here not considered, are the Δ NWC and Capital Expenditure. However, in the project at issue, I will not consider any form of credit or debt, and so the Δ NWC could be eliminated. Regarding to the Capital Expenditure, it is considered as the amount of money to acquire long-term assets, so investments to increase the company's capacity. In this exercise, we have considered this type of investment as "Costs for R&D", and so the Capital Expenditure too, could be not considered.

Looking to the results obtained, the trend is so clear, and a positive result could be seen from the first year. The expected flows may perhaps grow rapidly, and the third year should guarantee a huge amount of revenues. Obviously the result obtained is not a "net" one. Considering for example the human resource's expenses, there are different costs for the company, but they don't represent a real flow, going to fill voices in the liabilities side of company's balance sheet.

To conclude, having analyzed year-by-year revenues and costs, there aren't other considerations to do, and so it is possible to give a final judge for the analysis at issue. According to me this analysis could be an important starting point to try to develop this new business in Italy. The costs and revenues' estimation has been made considering not the best scenario, and rounding up each cost voice. So, a Business Model elaboration with a DCF analysis

³⁷ IRES represents the Italian tax level for companies, that from this year will be equal to 24%.

guarantees the possibility to start with a Business Plan too, starting the first steps for the Arcade implementation in Italy.

Conclusion

At the end of this work, there are few concepts to summarize and underline. The final goal was to give practical and real evidences about the possibility to start a new business in Italy. Before to arrive at the final part, it is important to underline the key elements considered in the first chapters.

The videogame and console industry has been able to growth in each moment of their history, without to be affected by any type of crisis. In fact, also during the last financial crisis, that has affected any sector in the market, the industry at issue have been continuing to growth. For this reason, the first chapter shows some data about the industry, giving proof about its important economical weight in the whole market. Behind the great success, there is an interesting history, characterized by different events and competitors, which now, could be reassumed in the “*three giants*”: Sony, Microsoft and Nintendo. Looking to the ranking for the most important consoles, in terms of sales, these companies have been able to conquer their respectable position. For this reason, the first chapter contains a brief portrait of their history, underling any important step followed to reach the success. The first evidence is that Sony and Microsoft will continue to compete in the market, for the same customers’ segment, while Nintendo is working to attract new customers, thanks to new possible experiences following the clear evidences reassumed in the first part of the chapter. In fact, looking to the history of the industry, is evident how innovations and continuous efforts to satisfy new customer’ needs represent essential steps to follow, aiming to survive in a very competitive industry. To give a complete picture, the last part of the first chapter has been dedicated to new possible competitors, and a specific phenomenon, Pokémon Go, able to conquer the market in less than six months. Due to the invention and spread of mobile devices, like smartphone and tablets, customers are discovering new needs related with videogames, with the possibility to play for only a very short-time, during a coffee-break for example. The other innovative element is represented by the online availability, very appreciated by players that have

the opportunity to play with friends and unknown people from all over the world.

Shown the main characteristics of the industry, with its main competitors, the focus is on an important theoretical and practical element: the business model. Nowadays, before to arrive in the market or to survive too, each business should be well organized, and organized to capture any type of need from the external environment. For this reason, the business model tool becomes essential. Thanks to the works made by different authors has been possible to analyze different concepts of business model, with a clear idea about its role. Actually, the business model represents an important tool, used to follow different aims; it is crucial to innovate, where a re-organization would be essential, or it could be vital to understand the value creation concept, so analyzing and decomposing elements of a business, everything will be clear. The main part will be focused on the Canvas Business Model that is maybe the easiest instrument to use as preliminary step to a business plan's project.

The second part of the work has been used to present the existed Korean business, and to present the business model for its replication in Italy. In South Korea, the videogame industry has a key role in the country's economy, and the "Pc-bank" represents a crucial source of revenues. Being fascinated about the incredible number of people that decides to spend time in a Korean Pc-Bank, the idea has been to conduct a survey. The survey is an interesting mode to capture evidences about customers, and to obtain inside statistics about the characteristics of the business. With 30 questions, any element has been covered, with first of all a clear idea about segmentation and followed targeting of the market. The principal evidence is that the business is really appreciated by local and foreigners, interested to discover the places where it is possible to play and know people with the same interests. Other important information obtained is that people appreciate everything about the actual organization, so there is no element to change in this moment, being customers totally satisfied about the actual characteristics. Important

evidence has been also the fact that it is immediately clear, as some elements should be surely different into the Italian model.

Last chapter of this work has been dedicated to the realization of a business model for a possible replication of it in Italy, re-creating the old “Arcade”. The idea has been to realize a business model, using the Canvas tool, considering its quality to show and present each important element for a business. The goal was to present real elements, thanks to numbers, and so economical expected results; furthermore, they seems to be quite positive too. Their analysis has been possible thanks to a Discount Cash Flow method, where the study has considered a time horizon of three years. Obviously, the project made is not enough to start a real business; In fact, next step should be the realization of business plan, considering other important elements. However, thanks to a structured model like the Canvas one, any aspect is deep analyzed, with consideration of possible economical overcomes in terms of both costs and revenues. Other important element is that the economical expectation have been made not considering the best scenario, but making hypothesis of gradual growth and appreciation of the business by possible customers. Anyway, the analysis should be improved, considering for example the complex legal framework that characterizes our country. In fact, “games” are considered as a crucial sector to control and regulate, but the new “Arcade” should appear as a business where there is the supply of a product, and so not strictly related with the specific legal framework that characterizes the game industry. Obviously, there must be the analysis of legal aspects in any case; but it was not the goal of this work, focused on a business idea without considering matters that would be analyzed in a second step. For this reason, the impression is to have realized a first essential step to meditate about a new business, having analyzed any element and possible scenario. Concluding, this would be a solid starting point to re-introduce the “Arcade” in Italy.

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Summary

ABSTRACT

This work has been based on the idea to replicate a Korean business (PC-Bank), discovered during my experience in the Asian country, where the industry at issue represents a main source of revenues for the whole country. The thesis could be reassumed into two parts, the first one represented by historical and theoretical information about the sector and the theme chosen, with a presentation of the main trends and companies involved in the market. The second part will focus the attention on the explanation of the Korean model, thanks to the usage of a survey exposed to about 150 people. The last chapter presents a business model for the possible replication of the business in Italy, with a DCF analysis.

CHAPTER 1

The industry considered has been characterizing the market since 1972, and in only about 40 years, it has been able to conquer a key role for the economy of different and numerous countries; South Korea represents one of them.

Before the 1972, there have been some primary developments for the videogame industry, with the first prototype launched on the market some years before, on 1958. Wally Higginbotham was the creator, and his idea was to build something able to attract people. His creation was never launched on the market, with "Odyssey" that on 1972 was the first console produced for it. The owner company was Magnavox, which decided to produce a tool able to read different titles, creating a platform surely more developed than the first prototypes.

Different companies characterized the first ten years, constantly in competition to conquer their vital space on the market. The first really leader in the market was Nintendo, able to conquer a primary position. The Japanese company represents nowadays one of the leader and it has been possible thanks to its continuous desire of innovation, vital in the videogame industry. Actually, a negative atmosphere, with a strong conviction that the

market would not survive for a long time, characterized the first years after the appearance of Odissey. The main issue was that none believed to be able to survive, considering the market as an oligopolistic one, where there was a “vital space” only for more or less two companies. However, the reason was that companies not able to survive in the first years, suffered to a mismanagement, which did not guarantee the possibility to survive once conquered the leader position in the market.

Now, after about forty years, the market is growing year by year and three main companies characterize it: Sony, Microsoft and Nintendo.

Sony is without any doubt the actual leader, with a continuous launch of new consoles and devices. The announce of PlayStation 1 arrived on 1991, after few years in which the idea of the Japanese company was to enter as “secondary” actor, thanks to a partnership whit the first leader, Nintendo. The opportunity of a collaboration did not become reality; there were too problems in management issues, with both companies interested to be the leader in the couple. PlayStation 1 arrived on the market on 1994, before in Japan, and the year later in the rest of the world. The console reached an incredible success, thanks to its capacity to support different titles. However, Sony touched the maximum level of success only with the second version of its console, launched on 1999. PlayStation 2 is still now the “best seller” in the videogame industry, with 157 million of units sold. Thanks to the company’s capacities, both economic and technical ones, Sony is still the leader, continuing to offer new better devices, with the possibility to satisfy needs of customers. For this reason, PlayStation 3 and 4 have been appreciated too, with the last device that has been thought to support the new last technological innovations, like the “virtual reality”.

The second main actor in the market is Microsoft. The company’s success in the IT world is without any doubt known all over the world. However, the company decided to try to have a crucial role also in the videogame industry. Like Sony, the American company tried to enter in the market with possible partnership with SEGA; however, in this case the result was insufficient too. For this reason, Microsoft decided to compete in the market as primary actor,

and the announcement arrived on 2000, directly from the CEO of the company (Bill Gates): “we want that Xbox will become the platform for the most talented gamers developer of the world”. Otherwise, a giant like Microsoft, had to be a protagonist. The first console was launched on 2001, with an immediate success, thanks to 24 million of units sold, that put Microsoft in the group of the “three giants”. From that moment, the company has been continuing to be protagonist, with the second and third consoles launched on the market on 2005 and 2012. Both have had a great success, thanks to the continuous flow of innovations, able to satisfy any type of request from customers.

The last company, member of the “three giants” is Nintendo. The Japanese company is the oldest one in the group, and it was born as a card company. The most important issue to remember is that there has been a constant effort to innovate. The company has early decided to enter in the videogame industry, being leader for many years. Then, with the extraordinary success of Sony and Microsoft, the role of Nintendo started to change, with the decision to innovate its console, offering something of different. In fact, from 2006, Nintendo is offering a product dedicated to the whole family, and so, not only directed to traditional players. The company is continuing to innovate and realize new type of products and the last one, Nintendo Switch, has been understood to satisfy the new desire to play everywhere. Therefore, the Japanese company, thanks to a continuous innovation, remains a stable leader in the market from over a century.

The last part of the first chapter is about new actors, Google and Apple; it is possible to reassume their new important role with only some basic numbers. Actually, considering the application downloaded to mobile devices, the 82 per cent of revenues comes from games, and the 33 per cent of the whole set of application downloaded, is represented by games. This result is incredible, and represents a clear message to the three giants: a continuous innovation and effort to satisfy the market’s needs is crucial to survive. There is also a brief focus on an incredible phenomenon of the last year: the PokémonGo application game, that in less than three month has

guaranteed 470 million of revenues, and moreover it attracts a lot of players, becoming a world phenomenon discussed and known from everyone in the world.

CHAPTER 2

The second chapter has been dedicated to the explanation of the theoretical element used to realize a prospect for a new business in Italy. During the 21th century, the world economy has faced a terrible crisis and now any company or business actor, into each sector, is trying to survive and re-start with the possibility to obtain the necessary level of revenues. For this reason, it is important to develop the right strategy and to do it is essential to use the right instrument, and the business model could be one of them.

More companies use the business model year by year, and it is assuming different roles. This work has tried to consider any type of use, here presented:

- Business model to classify;
- Business model as driver to innovate;
- Business model as strategic effect;
- Business model and Value creation;
- Canvas Business Model.

The bullet points are enough to understand, as there is not a unique definition for the business model concept. Starting from the first definition and possible usage, a business model will be useful to reassume all the company typologies in the market, and in the same time they could be imagined as referral model, from which is possible to organize a new business. Fuller and Morgan³⁸ have reassumed this concept with simple arguments: “Thus, scale models are copies of things, role models are models to be copied. In business models, the two notions come together.” Therefore, some specific models are replicated and used in the market, and some new models ideated from the market, will become new referral model. This business model notion could be very useful, in fact, each company in the

³⁸ Fuller and Morgan (2010) *Business Models as Models*, Elsevier.

market is different from the other ones, and a way to classify them could be useful.

Another possible interesting usage could be to consider it as a driver to innovate. The relationship can be read starting from two different points of view:

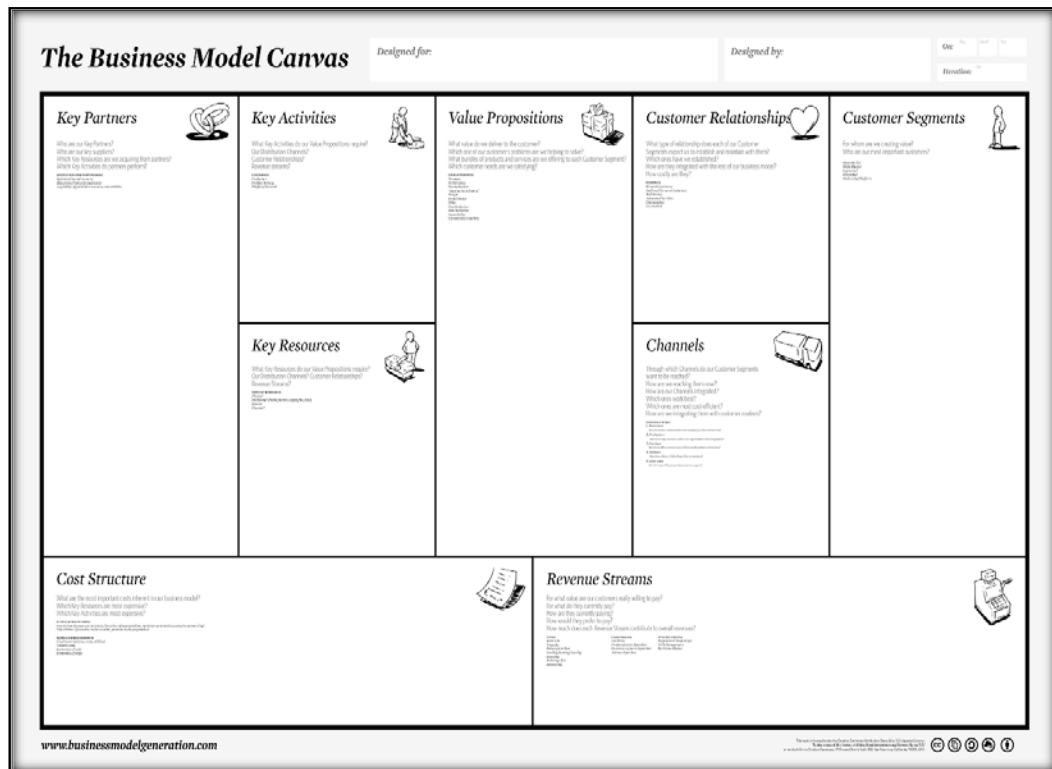
- The BM could be the subject of the Innovation;
- In the same way, it could represent the object.

In the first case, thanks to a BM plan the aim is to reach an innovative result. So as Zott, Amit and Massa said: “its role is to release the potential value incorporated into new technologies, converting it into economical results”. In the second scenario, the BM will be the result. The innovative flow will guarantee and produce a new model, that will represent a new way to consider the company situation, and so a new organization. The result could be a new vision, a new input organization or a new way “to make”.

In the chapter, there is a full explanation of any business model concept. Here, summarized the firsts two, that according to me are the most interesting considering the work in which they are, the last focus will be on the Canvas Business Model (CBM). In fact, it has created a “new and unique” definition for the Business Model concept, that could be considered as a consequence of all the Business model’s definition explained. Alexander Osterwalder has proposed the CBM³⁹, and it has been developed with a help of about 470 skilled people from all over the world. Their hard work has been useful to produce the *Business Model Generation* book, proposed in 30 different languages. The CMB is now an international standard, and it is used all over the world. The main advantage guaranteed by CBM is that everyone has the possibility to understand how a company works, and each element related. As a matter of fact, it is very easy to understand with an easy learning mode, where the visual effect guarantees to be understood by everyone, not considering their professional background.

³⁹ Osterwalder (2010), “*Business Model Generation*”, FAG.

Table 1: Canvas Business Model



The image above gives the possibility to explain in few words how the CBM works. There are nine blocks, the value proposition represents the central one, and it will explain the mission and vision for the company, trying to give a clear idea about the business considered. The other blocks creates two different sides, cost and revenue ones. On the cost's side will be possible to find four blocks: Key resources, Key activities, Key partners and Cost structure. Considering any of these elements, it will be possible to have a full vision of all possible costs related with the business at issue. On the other side is possible to find the other four blocks: Revenue Streams, Channels, Customer relationship and segmentation. Here, it should be clear any type of revenues. Thanks to this brief explanation, it is possible to understand as the model at issue is very useful to give a first evaluation of business, or to have a possible starting point to realize a new one. For this reason, the CBM is considered as a primary step, crucial for any type of start-up but also for any type of company that wants to change and renovate its business. The CBM's explanation has been important, because it will be used in the last chapter to propose a new business idea.

CHAPTER 3

South Korea is the fourth economy in Asia, and the country has been able to reach a level of economic growth, completely unexpected and incredible, considering that only half a century ago, it was one of the poorest country in the world.

The economic growth has been possible thanks to a constant effort from the central government and the whole population, able to bring the country in the top 10 for economic and development's levels. South Korea is the origin country of very famous multinational companies like Hyundai and Samsung, and the country lies its development on the technological sector. For this reason, the videogame industry is a fundamental one for the country economy, and the revenues guaranteed reach an incredible level. Considering the industry at issue, the attention will be focused on a particular business: "Pc-banks". It is similar to an "Arcade" but characterized by only one type of device, the computer, where people can find different games. The internal space of the arcade is characterized by many "design positions", to guarantee the possibility to play to more players as possible. In each Pc-bank there is an internet connection, via LAN or WI-FI. The Pc-bank offers also food and beverage products, guarantying a perfect experience to players. They are becoming very famous, and are able to attract a high number of tourists and foreign people too.

To analyze the business in an exhaustive way, I conducted a survey, proposed to more than 150 people, with the aim to obtain a clear portrait about it. In the survey there are 30 questions, which have been used to satisfy the need of particular type of information. First, it is important to consider which is the segment involved, trying also to study which type of device they prefer and or have. Here, the result is very clear, with a segment of customers with an age between 16 and 30. The 81 percent of people reached are male; everyone has a PC, and indicates it as the preferred console to use (61 per cent of preferences). Thanks to this survey has been possible to understand the volume of people involved with this business, and how many time

customers dedicate to it too. In fact, about the 80% plays for more than two days per week, with an average of about 2 or 3 hours per day.

Other questions, so crucial to understand the business characteristics, have been dedicated to analyze the extra services, as the online availability and food and beverage products. The result is that the online mode is something too important in the new era of videogame industry, while extra service like food or beverage are considered as important but not essential for Korean.

A great part of the survey has focused the attention on e-Sports, a new type of activity that is becoming very important in the industry at issue. E-Sports were born during the 70s, but their success started with the 21th century. In fact, with the economic crisis that attacked the Asian region, people has had more time to dedicate to their hobbies, and to discover new forms of entertainment too. In South Korea, they have had an extraordinary success, so evident that the Ministry of Culture, Sport and Tourism decided to found the Korean e-Sport association. To highlight there is the incredible result obtained during the period from 2000 to 2010, with more than 250 e-Sport tournaments organized in the country. This essential information are useful to understand the importance of this phenomenon, with a direct influence on the Pc-bank business. Players are always more interested into these competitions, and the chance to play with other people, in a space totally dedicated, is appreciated. This part of the survey includes different questions, from which there are two important element to stress. The first one is that the 75 per cent of players reached, dedicate at least once a week their time to watch e-Sport's events. The other important result is about what they think about this new type of competition. The 55 per cent of people has answered that their idea is that e-Sports will become very famous in the next future.

Obviously, the survey has also questions about other topics, as for example the type of games preferred, or information about how players have been able to discover new trends about the videogame industry. To conclude, it is important to say that this chapter, thanks to a survey analysis has captured the level of importance that this business has in South Korea, and it can

represent a useful source to use to reflect about the development of a similar business in Italy.

CHAPTER 4

Starting from the second chapter, this work has been trying to present a new possible business to develop in Italy. The central part has been crucial to underline the main aspects to consider, in order to analyze all the important elements, both on cost and revenue sides. Furthermore, with the explanation of the Korean business, the project of a new Italian model could be possible, and it will include some features derived from it.

In the 80s and 90s too, before the development and success obtained by the home-console, in Italy there was a reality able to generate an incredible amount of revenues: the “Arcade” or “Rec Room”.

The “Rec Room” represented more than a place with the possibility to play; there was the chance to encounter people, to talk with them, creating and enforcing new friendship’s relationships. However, with the arrival on the market of the so-called “Big Three”, the “Rec Room” has lost its attractiveness. Therefore, the idea is to re-introduce this type of business considering the new market trends, and the important lessons given by the Korean model. To consider a possible re-develop of the “Arcade”, the starting point will be a Canvas Business Model, able to analyze any type of element on revenues and costs’ side. Central element in the Canvas Business is the value proposition, important to describe the mission of the new arcade. It should be *“The desire to recreate an old business so famous and appreciated in Italy. It will be able to guarantee the satisfaction of both old and new customer’s needs. The new business will lie on the old model, but it will develop itself considering the technological innovation had during the 21th century and the Korean profitable model. It will be identified as the perfect space to play, talk and share with new people each type of topic, with a focus on the videogame industry. It will satisfy not only the “need to play”, but also any need related with it.”*

In the chapter, a full description analyzes any “block” for the Canvas Business Model. Here, the idea is to give more space to the last paragraph of the 4th chapter, where thanks to a DCF analysis, any element has been reported.

However, it is important to reassume the main elements considered. The new Italian “Arcade” could be composed by 15 designed positions, where there will be the possibility to play with friends with the last version of the console chosen. The idea is to consider the Sony’s device as product to offer, considering that, the PlayStation is the preferred console in Italy, bearing in mind any “generation of consoles”. A focus has been made also on key resources needed by the business, with the idea to have human resources with a high level of knowledge about videogames. In the CBM, on the cost’s side, has been considered also the possibility to loyalty customers, with particular benefits for them. A business related with the videogame industry, in Italy, should be addressed to a niche, where it is important to conquer more customers as possible. To give a complete portrait about the main result obtained thanks to the Business Model analysis, the table below contains all the possible and expected costs and revenues for the third year. In the full chapter, there is the same representation also for the first two years, with more or less the same voices.

Table 2

COST/REVENUE VOICE	AMOUNT in €
Cost for employees	50000 €
Revenues for Core Business	270000 €
Revenues for extra services	76500 €
Costs for extra services	22950 €
Costs for Research and Development	10000 €
Management Cost	24000 €

The table contains any voice analyzed, and in this case the level of revenues should be the highest possible, with a full capacity reached thanks to any designed position used by two players any hour. Important to underline that there is a high level of revenues that should come from extra services and this is related with what has already said in the value proposition: to create a “place” where people have the possibility to share their passion for videogames and their other hobbies and interests too.

Then, returning to the DCF, the analysis has been possible thanks to a clear identification of any type of possible cost and revenue and also to the computing of the required return needed to actualize the flows. The instrument used for the rate calculation has been the CAPM, with the research of all needed elements.

Obviously, the data identified, are only the first hypothesis, that has been realized thinking to not consider the best scenario and on the contrary underling the possibility that the business will be appreciated slowly, with the prospect that it will reach the “full capacity” only in the third year, after a period of adjustment. Other important element to consider is that, considering what has just said in the first chapter, the industry at issue and so any business related needs of continuous improvements and innovation. For this reason, there will be a percentage of any total annual cost to impute to “research and development”, including into it any type of cost to offer new product to customers.

Here, the table that reassumes the DCF analysis:

Table 3

Year	0	1	2	3
Req Ret	8,43% ⁴⁰			
Initial Investment	€90.500			
Revenues - Core				
Business		€135.000	€202.500	€270.000
Revenues - Extra				
Services		€30.000	€51.000	€76.500
Costs- R&D			€10.000	€10.000
Costs - Human				
Resources		€50.000	€50.000	€50.000
Costs- Business Management		€24.000	€24.000	€24.000
Costs - Extra Services		€10.000	€17.000	€22.950

⁴⁰ The required return has been computed with the CAPM, and the level of Beta and and market premium has been taken by the Damodaran’s platform at: <http://pages.stern.nyu.edu/~adamodar/>

Costs- Rent		€75.000	€75.000	€75.000
Total before tax	-€90.500	€ 6.000	€77.500	€164.550
Tax	24% ⁴¹			
Total after tax	-€90.500	€4.560	€58.900	€125.058
NPV	€57.089,07			

The expected flows might grow rapidly, and the expectation is that during the third year there will be a huge amount of revenues. Obviously, the result obtained is not a “net” one, considering that there are different costs in the business that don’t represent a real flow, going to fill voices in the liabilities side of company’s balance sheet.

To conclude, having analyzed year-by-year revenues and costs, it is possible to give a final judge for the analysis at issue. According to me, this is a starting point to try to develop this new business in Italy. The costs and revenues’ estimation has been made, as just said, considering not the best scenario, and rounding up each cost voice. So the point is that, a Business Model elaboration with a DCF analysis guarantees the possibility to start with a Business Plan too, going to realize the first steps for the Arcade re-implementation in Italy.

FINAL CONCLUSION AND WEAKNESSES OF THE ANALYSIS

The final goal of this work, explained any type of possible theoretical element related, was to present the possibility to start a business in a new and “young” industry, able to guarantee an incredible level of revenues in countries like South Korea. Starting from a Korean model, any possible aspect in terms of costs and revenues of a new business has been considered. The realization of a business model was crucial to give a practical idea of the hypothetical characteristics for the new business. Obviously, it is clear as there are other elements not included that must be considered in a business

⁴¹ To realize the DCF a tax rate is required, and the level chosen is the one of IRES, the tax rate for companies in Italy.

plan, so there are necessary steps to do before to develop it in the real world. The Italian country is characterized by a complex legislative world, that gives a particular attention to the “game’s world”. However, this work has not considered this “field”, because the business should be intended as a form of entertainment, and so, completely disassociated with the complex legislative framework for games. Undoubtedly, some legislative aspects will be considered, but the idea was to propose a starting point, with a project that would be improved and really implemented with the necessary efforts and studies.