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The Rise and Boom of Epic Games: A Comprehensive Business Analysis on the Leading Player in the Entertainment Space Behind the Story of a Buzzing Social Phenomenon

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I.   Introduction

This paper seeks to conduct an exploration and analysis of Epic Games, a key player in the gaming and software development industry. On a business and societal standpoint, the firm will act as an ideal case study to unwrap due to its massive scale as a private company. From a financial standpoint, given the research occurs in the post-pandemic era, it will be interesting to observe the challenges crossed by Epic Games throughout the years as well as the innovations implemented to solidify its position as a top-tier player. The motivations for conducting such an analysis arise from the author's passion for the gaming space and the significance that videogames can have on social relationships. Gaming today has a deeper meaning than simply playing videogames and due to widespread access to technology, individuals have new means to be entertained. This has shifted the outdated status quo of a geek playing solo in the dark of a basement, now most activities are available online and can satisfy a diverse and ever-growing audience. This allows people to enjoy many activities in a virtual space, discover new interests and talents, as well as often helping socialization and the overcoming of serious medical issues (Example: social anxiety and feelings of depression, a recurring problem in the post-pandemic era)[1].

The structure of this research is set to follow an initial general introduction, comprehending both a brief overview and company history. Epic Games has a fascinating history which will provide readers with context for future strategic decisions and justify both the financial status of the firm and its relevant position in the gaming industry. Epic Games can be deconstructed in what the paper will define as cutting-edge features. These are the relevant sources of a competitive advantage which allow the firm to have a deep international reach and a first-class competitive model. In Epic, it is possible to identify the following cutting-edge features: (i) M&A, (ii) organic development of new IP & services (Engine and Store), (iii) cost competitive. These three key features allow to draw a direct line between Epic and its competition. M&A functions as a tool to capture market share and capitalize on the dynamic fads of the industry. This supports an unmatched organic development which builds a strong company core with established products used also by the competition. Finally, lower prices on both ends of the

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[1] Miller, Hawken. "It's my escape. How video games help people cope with disabilities." *The Washington Post*, 14 October 2019, https://www.washingtonpost.com/video-games/2019/10/14/its-my-escape-how-video-games-help-people-cope-with-disabilities/

value chain allow the firm to exploit market inefficiencies and retain a positive public opinion to the eyes of the end consumers.[2]

Following these baseline arguments, the paper will depict a snapshot of the current gaming industry through a deep industry analysis and by analysing past and current performance for a more dynamic perspective. This will explain the growth of the industry in the most recent period and will also address the increasing convergence between traditional entertainment and videogames. The section will also provide a breakdown of the financials which support Epic's "omnipotent" role across the value chain. Epic's competitive analysis will be centered on its core competitive advantage which currently allows the firm to retain its position, the research will then address potential long-run opportunities with a brief digression on the concept of Metaverse and Epic's plan to capture its potential. To maintain profitability, it is essential to sustain a competitive advantage in a long-term situation. For such, the final remark concluding this paper will deliver a set of scenarios which will allow to study's Epic path in the long term with a minimal margin of error.

II.   Company Overview

Epic Games was founded in 1991 by current CEO Tim Sweeney in Cary, North Carolina. Its main headquarter is in Cary and it has more than 40 offices worldwide. Today, Epic is a leading interactive entertainment company and provider of 3D engine technology (Unreal Engine[3]). Through Unreal Engine, Epic Games Store, and Epic Online Services, Epic provides an end-to-end digital ecosystem for developers and creators to build, distribute, and operate games and other content.[4] The company's greatest success was the release of Fortnite, one of the world's largest videogames with over 350 million accounts and 2.5 billion friend connections. It is a free-to-play *battle royale[5]* developed for consoles, PC and mobile.

The firm's main operations are related to the production of videogames however it is also focusing on the development of metaverse spaces in which players can freely move into. One of the main strategies used by Epic is counting on the community by offering team building activities and social events to consolidate a strong relationship with its customers. Epic's

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[2] See Epic vs. Apple Case
[3] A Game engine that powers the world's leading games and is also adopted across industries such as film and television, architecture, automotive, manufacturing and simulation.
[4] "About Epic Games". Epic Games, https://www.epicgames.com/site/en-US/about
[5] A type of videogame in which 100 players are placed in a combat zone and eliminate each other until the final surviving player character wins the game. (Dictionary.com)

workforce is composed by an outstanding 6,828 employees as of August 2022[6], a number that will probably continue to grow given the size of the company and its expansion strategies. Having its offices spread worldwide, Epic operates and sells its videogames in most countries except where it is prohibited by US law, such as North Korea, Iran[7] and Russia, following the conflict started at the beginning of 2022. Moreover, the Epic Games Store operates on different platforms in order to grant access to a wider range of users; these include PC and Mac support. Epic Games is owned in part by Tim Sweeney (>50% of shares), while Chinese colossal Tencent owns 40% of the shares and Sony approximately 5%.

III. Macro Areas
- Product Mix and Differentiation

The Epic Games Store offers a wide range of videogames, often free-to-play, and a blog section to keep users constantly updated with its latest news. This analysis will be used to develop an in-depth focus on Epic's main strategy to differentiate itself from its competition.

- Community and Customer Base

Epic Games is known for its solid reputation and strong community relationship. In order to satisfy the wants and needs of its customer base, Epic often relies on social platforms to listen to its customers and grant them updates and innovations in its games. This strong strategy has allowed Epic to gain a competitive advantage over its competitors and it will be discussed more in-depth in section **VII.** of this paper.

- Innovative Technology

The company's reputation is strongly associated to its use of top-notch technology. The development of Unreal Engine 5 allows Epic to place itself as one of the largest gaming industries of all time, because it gives customers the opportunity to directly create a game from zero using the best technology up to date and in some cases publish it through them. Unreal Engine 5 was announced on April 5, 2022, available for production-ready use to everyone. The game changing engine allows users to create next-generation real-time 3D content and experiences with greater freedom, fidelity and flexibility.[8] In order to compete within the

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[6] "Epic Games". Craft, https://craft.co/epic-games
[7] "Frequently Asked Questions". Epic Games, https://www.epicgames.com/site/en-US/epic-games-store-faq
[8] "Epic Games Releases Unreal Engine 5 for All Creators". Epic Games, https://www.epicgames.com/site/en-US/news/epic-games-releases-unreal-engine-5-for-all-creators

industry, it is important to have an innovative technology that differentiates its products from the others.

IV.   Company History[9]

1991-1997 – Epic 1.0 is the "Epic before Epic". The company is in its earliest stages.

1991 – Tim Sweeney creates Potomac Computer Systems (based in Potomac, Maryland) and releases its first commercial videogame, ZZT.

1992 – The company becomes Epic MegaGames, Inc. with Mark Rein as vice president. Sweeney is able to gain a production and management role and to collaborate with other developers to release classic titles such as Epic Pinball, Jill of the Jungle and Ken's Labyrinth, which quickly achieve great success.

1994 – Jazz Jackrabbit, game designed by Cliff Blezinski and Arjan Brussee, is one of the first side-scrolling platformers to come to both Mac and Microsoft Windows.

1998-2005 – Epic 2.0 is the era that marks a game changing point for the company. Starting from this period, Epic grows from having 15 employees to 25 and sees the need for larger budgets and to develop bigger titles.

1998 – Epic MegaGames releases its first 3D first-person shooter called Unreal (co-developed with Digital Extremes and published by GT Interactive). The company starts licensing its Unreal Engine to other developers.

1999 – Epic MegaGames is renamed into Epic Games and moves its headquarters to Cary, North Carolina. The company also introduces the Unreal Tournament, shifting the series to focus more on multiplayer gaming.

2006-2011 – Epic 3.0 shifts away from PC and moves towards consoles, releasing Gears of War, the first game for the Xbox 360 published by Microsoft Game Studios.

2010 – Chair Entertainment releases sword-swiping iOS game Infinity Blade projecting the series revenues at $23 million.

2011 – Bulletstorm, developed by People Can Fly and Epic Games, is published by Electronic Arts for the PlayStation 3, Xbox 360 and Windows PC. People Can Fly starts working on Gears

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[9] "A History of Epic Games". Voxmedia, https://apps.voxmedia.com/at/polygon-a-history-of-epic-games/

of War: Judgment. Epic reveals for the first time Fortnite, a multiplayer survival game inspired by an internal jam.

2012-Present – Epic 4.0 redirects the company from console games back to PC. It is a shift brought on by Sweeney's recognition of the power of digital distribution and games as services.

2012 – Tencent, Chinese multinational technology and entertainment company, buys 40% of Epic for $330 million.

2014 – Epic sells Gears of War to Microsoft, which opens a new studio (The Coalition) led by former Epic producer Rod Fergusson, to work on a new instalment in the franchise. A new Unreal Tournament, built on Unreal Engine 4, is announced and Fortnite is presented as a free-to-play game, although still in development and with no release date given.

2015 – Unreal Engine becomes free to everyone, including future updates. For-profit creations using the engine will have to pay royalties.

2016 – McLaren Automotive, the high-end British carmaker, announces that it will use Epic's Unreal Engine to design and sell luxury and high-performance cars.

- Acquisitions[10]

2008 – Epic acquires Chair Entertainment, developer of Undertow, which then launches the adventure game Shadow Complex in 2009.

2018 – $1.25 billion in investment is acquired by Epic from seven firms: KKR, ICONIQ Capital, Smash Ventures, aXiomatic, Vulcan Capital, Kleiner Perkins and Lightspeed Venture Partners.

2019 – Psyonix, developer of Rocket League, is acquired by Epic together with Twinmotion (visualization tool used in architectural design) and Life on Air (developers of Houseparty).

2020 – SuperAwesome, developer of tools to create safer digital experiences for younger audiences, is acquired by Epic. The startup is trusted by more than 300 top brands like LEGO and Hasbro.

2020-2021 – Epic focuses its acquisitions on the Virtual Reality vertical, acquiring 3 companies: Hyprsense, Capturing Reality and Sketchfab.

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[10] A more in-depth analysis will be given later on in this paper in section **VI.**

2021 – Epic acquires four companies in the gaming industry within two years (deal timeline January 2021 – November 2021). In order of acquisition: RAD Game tools, developer of game development tools intended to support the gaming industry, Tonic Games, developer of videogames intended to offer immersive entertainment alternatives, Mediatonic, developer of videogames designed to be played on multiple platforms, and Harmonix, developer of music-oriented video games designed to provide music gaming and interactive entertainment.[11]

V.   Industry Analysis

An industry analysis is canvased to identify and discuss the sources of profit in the external environment by understanding the industry's structure and profitability.

- The Gaming Industry and its Subsectors

It is important to understand how Epic Games fits in the gaming industry and how it became a giant in videogame development. The gaming industry has been in constant evolution in the last two decades. As technology improved, videogames went from having pixelated screens to using hyper-realistic graphics that provide entertainment for every age group. The more advanced a game is, the more complex it was to develop and the more expensive to produce. Nowadays, the cost of creating a game that runs on one of the major consoles has risen with this greater complexity.[12] Back in gaming's early stages, no one would have thought of investing millions of dollars into development costs. These factors boost the value of the industry setting it as one of the largest, more than the movie and music industries combined. In recent years, the gaming market has been growing at high speed (9.6% y-o-y), with more than $150 million in total addressable market (TAM[13]). Table 1 shows the year over year growth of gaming in the three major sectors, console, PC and mobile.

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[11] Pitchbook, https://my.pitchbook.com/profile/64901-80/company/profile
[12] Beattie, Andrew. "How the Video Game Industry Is Changing". Investopedia, 31 October 2021, https://www.investopedia.com/articles/investing/053115/how-video-game-industry-changing.asp#:~:text=In%202020%2C%20the%20gaming%20industry,involved%20in%20this%20revenue%20stream.
[13] The overall revenue opportunity available or foreseen for a specific product or service, taking into account the future expansion scenarios. (Total Addressable Market, Divestopedia)
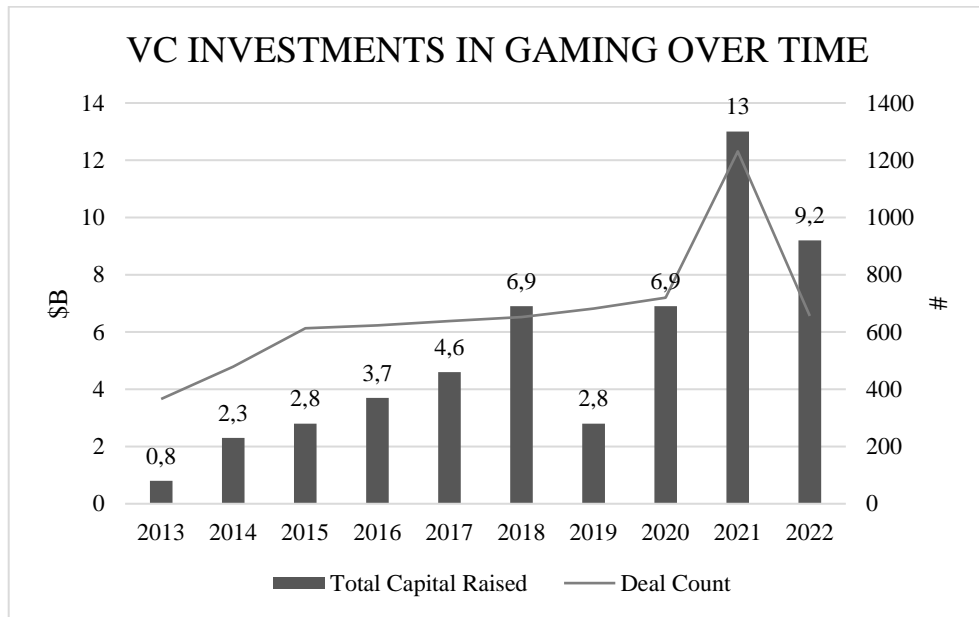
Table 1:
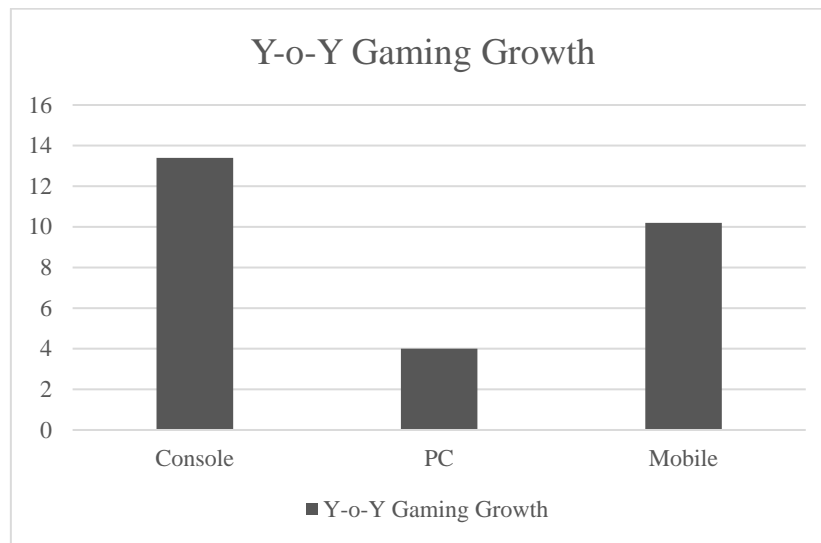
According to Statista estimates, there are 3.24 billion gamers worldwide as of 2021, meaning that approximately 40% of the world's population is a gamer. Asia is currently the largest market for videogames with an estimated 1.5 billion gamers. Back in 2020, the gaming industry alone generated $155 billion in revenues and by 2025 it is estimated that it will generate $260 billion.[14] The recent growth of the gaming industry, especially in the post-pandemic period, has led to believe that it will continue to grow exponentially. The potential this industry holds has caught various investors' attention to such an extent that in the last six months, five investors have made their first investment in gaming. As Table 2 shows below, the total capital raised from VCs and deal count have reached a peak in 2021, $13 billion, showing how gaming is potentially the most fast-growing industry at the moment.

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[14] Beattie, Andrew. "How the Video Game Industry Is Changing". Investopedia, 31 October 2021, https://www.investopedia.com/articles/investing/053115/how-video-game-industry-changing.asp#:~:text=In%202020%2C%20the%20gaming%20industry,involved%20in%20this%20revenue%20stream.

Table 2:

VC INVESTMENTS IN GAMING OVER TIME

The gaming industry is mainly composed by four large subsectors, being Console Gaming, PC Gaming, Mobile Gaming and VR Gaming. Console Gaming is the oldest and most consolidated subsector and currently the fastest growing. PC gaming allows users to play videogames at very high standards given the high-quality materials used in the production of the components that make up the machines. Due to the scarcity of available microchips, building a PC has become very expensive making this sector not accessible to everyone. Mobile Gaming was designed for mobile devices such as smartphones and tablets, so that the user could fully experience portable gaming. Lastly, despite VR Gaming is still in its early stage, it is gaining huge interest from consumers since it connects the real world to videogames by creating virtual scenarios and open worlds where the user can freely move in.

Through the years, the gaming industry branched even more by creating new subsectors to keep track of today's technology. The most relevant examples are Cloud Gaming, Streaming, Marketplaces and NFT. Cloud Gaming grants the possibility of running videogames on remote servers and stream them directly to a user's device (from a cloud), whereas Streaming allows the user to join the online community of gamers and broadcast live gaming, events and esports. Marketplaces are online spaces where the user can purchase games directly from its device without a physical copy and it is growing since it is fast, efficient and easy to access. On the

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[15] Pitchbook

other hand, NFT is a digital market to trade and exchange non-fungible tokens such as software licenses, collectibles, cryptocurrency and NFTs.

The gaming world expands even more since the Metaverse was announced. The metaverse is an opportunity to engage consumers in entirely new ways while pushing internal capabilities and brand innovation in new directions.[16] Epic Games plays a key role in the development of the Metaverse since it partnered up with the famous Danish toy company, Lego, to build a place for kids to play in the metaverse.[17]

- Funding

Epic Games was able to raise significant amounts of capital from the VC ecosystem in the recent years. In October 2018 Epic raised $1.25 billion in funding from KKR, Vulcan Capital and Kleiner Perkins. The disclosed valuation was approximately $15 billion. Moving on to 2020, the company raised $1.78 billion in a funding round including a $250 million strategic investment from Sony. The valuation was said to be around $17 billion.

These investments show how Epic has been a net benefiter of the COVID-19 tailwinds and to further analyse the impacts of the pandemic, the next section of this paper will cover all factors that helped Epic to continue to grow and operate during this period.

- How the Pandemic has Changed the Gaming Industry

"The pandemic has ignited a period of exceptional growth for the sector."[18] To put this into context, people increased their time at home and found themselves using videogames as a way to socialize and remove stress.[19] Out of all industries that had to adopt a working from home system, the gaming industry was one of the few beneficiaries. This is because videogame companies mainly produce digital goods that have no supply chain constraints other than

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[16] Hazan, Eric. "Marketing in the metaverse: An opportunity for innovation and experimentation". McKinsey, 24 May 2022, https://www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/marketing-in-the-metaverse-an-opportunity-for-innovation-and-experimentation

[17] "The LEGO Group and Epic Games Team Up to Build a Place for Kids to Play in the Metaverse". Epic Games 7 April 2022, https://www.epicgames.com/site/en-US/news/the-lego-group-and-epic-games-team-up-to-build-a-place-for-kids-to-play-in-the-metaverse

[18] Skwarczek, Bartosz. "How The Gaming Industry Has Leveled Up During The Pandemic". Forbes, 17 June 2021, https://www.forbes.com/sites/forbestechcouncil/2021/06/17/how-the-gaming-industry-has-leveled-up-during-the-pandemic/?sh=3b321053297c

[19] "The Impact of COVID-19 on the Video Game Industry". SSRN, January 2021, file:///C:/Users/UserX/Downloads/SSRN-id3766147.pdf

collaboration challenges.[20] Since the entire population was stuck at home, videogame purchases skyrocketed in 2020, pushing the industry to grow more than 20% to $180 billion in revenues. According to Bloomberg, "A Pandemic is a Dream Come True for Gamers"[21], since gaming can be used as a way to escape the walls people were forced to live in to flatten the pandemic curve and to stay connected to family and friends that could not be seen in person. Gamers numbers across the world increased radically during the pandemic and people began to think of gaming as something to look forward to after a long work-from-home day.[22] COVID-19 cemented gaming's status as a social activity and as gaming features more in our lives, the development of fields such as virtual reality and augmented reality, will bring essential investment opportunities in the industry. To support this argument, back in April 2020, in the full COVID crisis, Fortnite hosted the biggest live virtual in-game concert featuring American rapper Travis Scott and boasting a record 12.3 million concurrent online players. Following this event, Sony picked up a 1.4% stake in Epic for $250 million in July 2020, betting heavily on the future of socially immersive digital experiences in a more physically distant world.[23] According to a survey by Deloitte, one-third of US consumers have subscribed to a videogame service or cloud gaming service during the pandemic.[24] Gaming is often labelled as a solitary form of entertainment used to escape from the real world and push one's imagination to have no limits. Instead, the development of social communities, digital relationships and addictive digital content allowed the gaming industry to boost revenues during the pandemic. A survey conducted by Forbes back in 2021 found that almost half of the teachers in the UK and the US have integrated gaming into their learning programs to try to engage their students during periods of virtual learning, with 91% claiming that it has helped.[25] Traditional views may

[20] Waber, Ben and Munyikwa, Zanele. "Did WFH Hurt the Video Game Industry?" Harvard Business Review, 3 August 2021, https://hbr.org/2021/08/did-wfh-hurt-the-video-game-industry#:~:text=Moreover%2C%20with%20much%20of%20the,to%20%24180%20billion%20in%20revenue.
[21] Williams, Lara. "A Pandemic Is a Dream Come True for Gamers". Bloomberg, 16 January 2022, https://www.bloomberg.com/opinion/articles/2022-01-16/pandemic-s-boost-for-video-game-industry-is-a-dream-come-true-kyh9nekz
[22] Williams, Lara. "A Pandemic Is a Dream Come True for Gamers". Bloomberg, 16 January 2022, https://www.bloomberg.com/opinion/articles/2022-01-16/pandemic-s-boost-for-video-game-industry-is-a-dream-come-true-kyh9nekz
[23] Blaisdell, Kainoa and Chauhan, Ashish. "Why COVID-19 Should Drive Video Gaming Investment Opportunities Globally". Preqin, 19 August 2020, https://www.preqin.com/insights/research/blogs/why-covid-19-should-drive-video-gaming-investment-opportunities-globally
[24] Blaisdell, Kainoa and Chauhan, Ashish. "Why COVID-19 Should Drive Video Gaming Investment Opportunities Globally". Preqin, 19 August 2020, https://www.preqin.com/insights/research/blogs/why-covid-19-should-drive-video-gaming-investment-opportunities-globally
[25] Skwarczek, Bartosz. "How The Gaming Industry Has Leveled Up During The Pandemic". Forbes, 17 June 2021, https://www.forbes.com/sites/forbestechcouncil/2021/06/17/how-the-gaming-industry-has-leveled-up-during-the-pandemic/?sh=3b321053297c

suggest that gaming represents a block to learning, but some videogame titles are designed to offer learning sessions. Popular videogame franchises are starting to include educational modes to stimulate gamers interest and curiosity of the time and place it is set. One of the largest examples is Assassin's Creed Origins, which has a dedicated section for players to explore Egypt at the time of Cleopatra's reign.[26]

Although the pandemic gave some benefits to the gaming industry, it has also impacted it negatively. As an article from World Economic Forum suggests, "COVID-19 has boosted engagement with video games but has complicated hardware and software development".[27] One of the first subsectors of gaming that has been affected is esports, which heavily rely on live events that have been cancelled or postponed even though some take place without an audience. This short-term impact on esports is expected to be limited, even though 75% of its revenue comes from advertising and broadcasting. Esports related income would certainly fall with restrictions on mass gatherings but would not fully impact the gaming industry since this sector takes less than 1% of the industry.

- Porter's Five Forces Framework

To better understand the profitability of an industry, it is crucial to analyse the five competitive forces that drive it. This can be achieved through Porter's Five Forces Framework, a model that was first introduced by American economist Michael Porter to identify an industry's structure and determine its corporate strategy.[28] The five forces are: Rivalry, Threat of New Entry, Threat of Substitutes, Bargaining Power of Suppliers, and Bargaining Power of Buyers. The model considers external forces from both a horizontal and vertical perspective. Horizontal competition stems from rivals in the industry and substitute products from other industries, whereas vertical competition depends on the supply chain and is manifested in the bargaining power of suppliers and buyers.[29]

Rivalry in the gaming industry is extremely high given that it is characterized by a large number of competitors. However, only a few become truly successful and grow enough to invest in

[26] Skwarczek, Bartosz. "How The Gaming Industry Has Leveled Up During The Pandemic". Forbes, 17 June 2021, https://www.forbes.com/sites/forbestechcouncil/2021/06/17/how-the-gaming-industry-has-leveled-up-during-the-pandemic/?sh=3b321053297c

[27] "How COVID-19 is taking gaming and esports to the next level". World Economic Forum, 15 May 2020, https://www.weforum.org/agenda/2020/05/covid-19-taking-gaming-and-esports-next-level/

[28] The Investopedia Team. "Porter's 5 Forces Explained and How to Use the Model". Investopedia, 1 August 2022, https://www.investopedia.com/terms/p/porter.asp

[29] Depersio, Greg. "Porter's Five Forces and Electronic Arts (EA)". Investopedia, 7 July 2020, https://www.investopedia.com/articles/markets/012716/analyzing-porters-five-forces-electronic-arts-ea.asp

product differentiation, due to the high capital requirements to develop a game. In general, gamers do not have a solid brand loyalty towards a single game manufacturer, since they aim to buy the best-reviewed games and are not concerned with who makes them. Epic counters this problem by offering a vast range of games from different developers in their Store and often giving discounts on certain titles. Fortnite, game developed by Epic Games themselves, is what mainly differentiates the company from its competitors. The huge success of the game gained through the years allowed Epic to be a step ahead of its competitors, reducing the risk of rivalry.

The threat of new entry in the gaming industry for a company such as Epic Games is moderate. It is not challenging to enter the market, but it is difficult for a company to release a game that surpasses an already well-established title. Entry is facilitated by low government regulations and relatively accessible costs. Programming a videogame is not so expensive in terms of capital, but it requires a large intellectual capacity to develop and bring to life a new innovative concept through coding.[30]

The threat of substitutes in the gaming industry is moderate. A substitute is not always a similar product or service from a competitor, such as Steam[31], but it may often be a product in a different niche that a consumer might choose in place of a company's offering.[32] One substitute may be app-based games, playable on smartphones or tablets, which have the advantage of usually being free-to-play and use in-game ads as a source of revenue. Some often cost under $5 whereas console or PC games cost between $60-$70 upon release.

The bargaining power of suppliers does not cause a serious threat to Epic Games. Epic partners up with a large number of developers making it easy for the company to switch suppliers almost any time.

Bargaining power of buyers is a serious threat in the gaming industry. Gamers are very selective when choosing which game to purchase since videogames are very subjective. Gamers usually tend to think collectively and before purchasing a game it is important for them to check reviews, often coming from streamers, to decide whether or not a game is worth the shot. A company in the industry must offer a wide range of games and try its best not to cause any
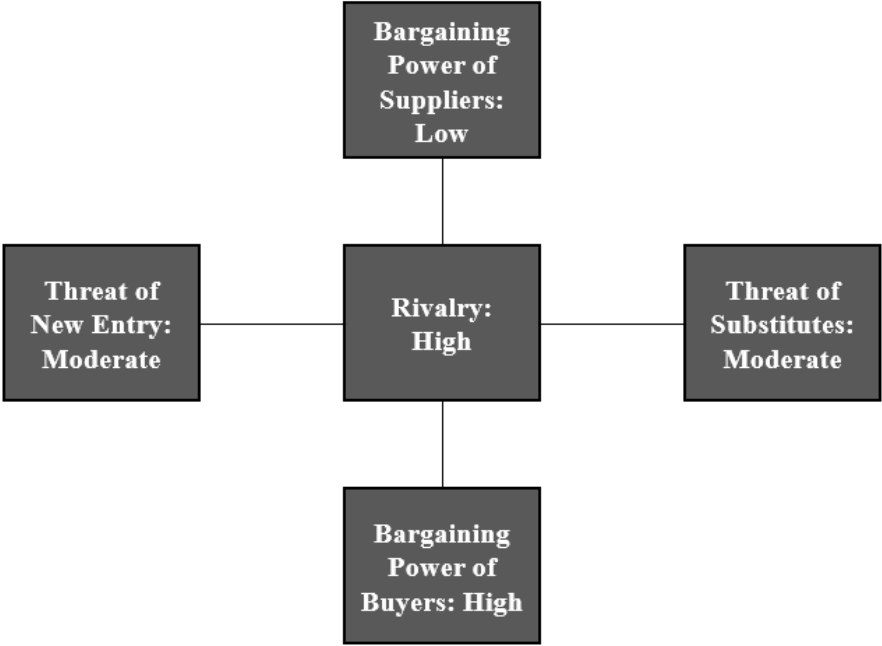
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[30] Depersio, Greg. "Porter's Five Forces and Electronic Arts (EA)". Investopedia, 7 July 2020, https://www.investopedia.com/articles/markets/012716/analyzing-porters-five-forces-electronic-arts-ea.asp
[31] Steam is the Epic Games Store's largest competitor, offering a marketplace for videogames and special offers.
[32] Depersio, Greg. "Porter's Five Forces and Electronic Arts (EA)". Investopedia, 7 July 2020, https://www.investopedia.com/articles/markets/012716/analyzing-porters-five-forces-electronic-arts-ea.asp

disappointment in terms of wait or development of the title, in order not to ruin a company's reputation.

Table 3:

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                    ┌─────────────┐
                    │ Bargaining  │
                    │ Power of    │
                    │ Suppliers:  │
                    │    Low      │
                    └──────┬──────┘
                           │
┌─────────────┐    ┌──────┴──────┐    ┌─────────────┐
│ Threat of   │    │   Rivalry:  │    │ Threat of   │
│ New Entry:  ├────┤    High     ├────┤ Substitutes:│
│ Moderate    │    │             │    │ Moderate    │
└─────────────┘    └──────┬──────┘    └─────────────┘
                           │
                    ┌──────┴──────┐
                    │ Bargaining  │
                    │ Power of    │
                    │ Buyers: High│
                    └─────────────┘
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VI.   How Epic Runs its Business

Epic Games has achieved great success in the recent years not only through the use of a solid corporate strategy, but also thanks to the release of their largest and most ongoing game, Fortnite. Released in 2017 as a third-person battle royale, Fortnite gathered the attention of many gamers around the world which led the game to boost in popularity and revenues. The game is divided into three main modes: Battle Royale, the most popular, where one hundred players compete against each other to be the last one standing, Save the World, a post-apocalyptic survival game, and Creative, where the only limit is the player's creativity. At the time Battle Royale was released, there was one main competitor in the industry that Epic had to face, being PlayerUnknown's Battlegrounds, or simply PUBG, a battle royale game developed by PUBG Studios (a subsidiary of Krafton), which was already popular and established worldwide, especially in Asia. The strategy that allowed Epic to differentiate its product from the competitors was to release Fortnite's Battle Royale as a free-to-play game mode, characterized by internal microtransactions which served no upgrade or advantage to players other than character personalization. The game gathered more than 10 million players

worldwide in the first two weeks of release.[33] [34] Another successful game that was initially developed by Mediatonic is Fall Guys, which was released as a free Beta for PS4 whereas its price was $20 for PC. After the acquisition of the developer from Epic, the game was re-released as a soft reboot in Summer 2022 completely free-to-play for every platform. This not only set a record of downloads, but also boosted up Epic's reputation as a developer.

One of Epic's strongest strategies is to offer exclusivity deals, since exclusives are part of the growth of many successful platforms for games and other forms of digital entertainment, such as streaming and music.[35] To achieve this, Epic works in partnership with publishers and developers to offer games exclusively on their store. One might wonder how is this beneficial for both parts. This works out because, in exchange for exclusivity, Epic provides them with financial support for development and marketing of their games, which allows developers to build up more polished games with less uncertainty for the creators.[36] Epic will also grant creators with 88% of all revenue from their game, while many stores only offer 70%. Another strong strategy adopted by Epic is the support-a-creator program, which enables content creators to earn money from games in the Store by using links and tags. The Epic Games Store offers weekly free games and special exclusive offers to establish a strong relationship with its customers.

One of the secrets behind Epic's success is most definitely its partnerships and cultural crossovers. Fortnite is the game that contains the highest number of partnerships ever made, making it a real multiverse game. Like the Oasis, a fictional hyper-realistic VR videogame from the movie Ready Player One (Spielberg, 2018) created in the year 2012 as a way to escape from the cruel reality of the future, Fortnite has become a cultural phenomenon. "It has come to the point where users live a portion of their lives online in the world of Fortnite, socializing and competing."[37] The Oasis has no limits, and the player can play as any pop culture or videogame character preferred. The movie is set in the year 2045 and as technology advanced, the game became more and more realistic, and people often forgot about their real lives, acting as enemies

[33] Davenport, James. "Fortnite Battle Royale was developed in just two months, wasn't originally free-to-play". PC Gamer, 22 March 2018, https://www.pcgamer.com/fortnite-battle-royale-was-developed-in-just-two-months-and-wasnt-originally-going-to-be-free-to-play/
[34] Duggan, James. "How Fortnite Became the Biggest Game in the World - IGN Expert Mode". IGN, 18 April 2018, https://www.ign.com/articles/2018/04/17/how-fortnite-became-the-biggest-game-in-the-world-ign-expert-mode
[35] "Frequently Asked Questions". Epic Games, https://www.epicgames.com/site/en-US/epic-games-store-faq
[36] "Frequently Asked Questions". Epic Games, https://www.epicgames.com/site/en-US/epic-games-store-faq
[37] "Life in the Worlds of The OASIS and Fortnite". Binge-Watching Confession, 8 July 2019, https://bingewatchingconfession.wordpress.com/2019/07/08/life-in-the-worlds-of-the-oasis-and-fortnite/

or friends, consumers or creators and as fans or stars.[38] Although today's technology is still limited to compare the two games, Fortnite is a step towards our impending future of living life virtually. Some people use Fortnite as a way to escape reality and it is often seen as a place to socialize and work together with friends to reach the goal of winning. It requires skills, practice, concentration, patience and collaboration to be the last man standing.

Epic Games grants total security in terms of customers' accounts, since it adopts the Two-Factor Authentication (2FA) method, which requires a code from a personal secondary device before a login, making it difficult for someone to gain unauthorized access.

- Scope Analysis

The scope analysis will focus on three main features that will allow to identify and analyse the company's efficiency and qualities.

- Geographical Scope: As previously stated, the Epic Games Store operates in almost all countries in the world, apart from some exceptions given by specific regulations. Each market in which the firm operates differs from one another in terms of cultural, demographic and economic differences. Asia is characterized by a high concentration of gamers and therefore contributes to a large part of the company's revenues. Nevertheless, North America and Europe still cover a huge market size and success for Epic.

- Product Scope: The Epic Games Store offers a wide range of products, making it one of the most significant marketplaces for videogames. Most of the products offered by the platform are exclusives given by creators to boost their popularity. All offers are almost identical across all geographical markets, unless otherwise stated by internal laws, granting Epic a strong public image.

- Customer Scope: Epic Games' main objective is to create a strong bond between the company and its customer base. The design of social events and community bonding strategies helps the company to get closer to its customers which allows them to become more loyal towards Epic. These factors put together not only create a strong brand image, but also allow to increase revenues and annual sales.

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[38] "Life in the Worlds of The OASIS and Fortnite". Binge-Watching Confession, 8 July 2019, https://bingewatchingconfession.wordpress.com/2019/07/08/life-in-the-worlds-of-the-oasis-and-fortnite/

- The Epic Games Business Model

Before defining how Epic makes profits through its well-elaborated strategy, it is important to analyse the two environments in which it operates, the external and internal environment. The external environment makes up the general representation of the industry including performance analysis, which helps managers to assess the company's potential in such an environment. On the other hand, the internal environment focuses on the potential profitability of a company and the success it can have in the market.

"Epic provides an end-to-end digital ecosystem for developers and creators to build, distribute and operate videogames."[39] As shown in **Table 4**, Epic's business model is mainly composed of three primary revenue sources: Unreal Engine, Games (mostly Fortnite) and Epic Games Store. However, most of these sources are "free-to-play", so how does Epic benefit from them? This is where Epic's strong business model comes into play. Unreal Engine is completely free to use, and Epic does not charge other companies to use it but takes a 5% cut of all gross revenues from games or applications created using the Engine.[40] Fortnite's nature of being free-to-play allows the game to be easily accessible to everyone. Although the game itself is free, it offers in-game purchases, such as accessories (skins and emotes[41])[42], that can only be obtained through real money transactions, which are then converted into the game's currency called V-bucks. Lastly, the Epic Games Store provides a substantial part of Epic's total revenues since the company takes a 12% share per sale to operate at a profit.[43]

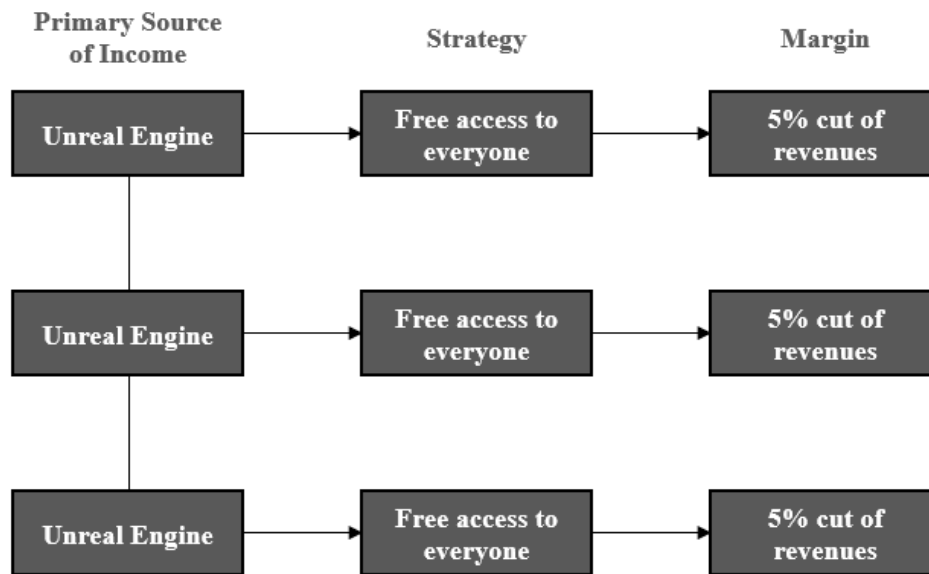[39] Ainbinder, Ronen. "How Epic Games Makes Money?". Sports-Tech Biz, 5 February 2021, https://www.sportstechbiz.com/p/how-epic-games-makes-money?triedSigningIn=true

[40] Ainbinder, Ronen. "How Epic Games Makes Money?". Sports-Tech Biz, 5 February 2021, https://www.sportstechbiz.com/p/how-epic-games-makes-money?triedSigningIn=true

[41] Dance moves performed by the chosen character in the game.

[42] Which are mainly for aesthetic purposes and do not grant any type of competitive advantage to gamers.

[43] Ainbinder, Ronen. "How Epic Games Makes Money?". Sports-Tech Biz, 5 February 2021, https://www.sportstechbiz.com/p/how-epic-games-makes-money?triedSigningIn=true

Table 4:

Primary Source of Income	Strategy	Margin
Unreal Engine	Free access to everyone	5% cut of revenues
Unreal Engine	Free access to everyone	5% cut of revenues
Unreal Engine	Free access to everyone	5% cut of revenues

- M&A to Fuel Growth

Mergers and Acquisitions refers to the consolidation of companies or assets through various types of financial transactions, including mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions. Epic heavily relied on acquisitions of already well-known game developers to increase the market share and expand their expertise to sectors other than pure gaming. This analysis is based on data collected by Crunchbase and Pitchbook and a total of 17 acquisitions will be considered to carry it out. Epic's last round as of May 2022 included the participation of Sony and Kirkbi investing $1 billion each, pushing the company's valuation to $31.5 billion, and allowing the company to get closer to its dream of building a metaverse. As shown in the map below, Epic's acquisitions range globally with 35% in the US, 24% in the Uk and 12% in Canada, while the rest (France, Serbia, Slovakia, Finland and Sweden) account for 6% each. Most of these acquisitions are part of the communication services sector (76%), while the others are part of the information technology sector (24%). The median age of the startups belonging to the communication services sector is 11 years at the time of acquisition, whereas the ones belonging to the information technology sector have a median age of 4 years at the time of acquisition.[44]

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[44] Mithra, Rajan. "Add to Cart: Epic Games' Acquisitions". VCBay, 27 May 2022, https://www.vcbay.news/2022/05/27/add-to-cart-epic-games-acquisitions/

45

Epic's most recent acquisition has been Bandcamp, an online store and community space where users can discover, connect with and support independent musicians. This was not the only music-related acquisition from Epic, in fact it acquired Harmonix, developer of music-oriented videogames like Rock Band and Dance Central, in 2021. This new sector gives Epic the opportunity to experiment and reimagine the way music is perceived in the metaverse. With the support of Harmonix, Epic will build up new experiences and gameplays in Fortnite. Another large acquisition was made in April 2021, where Canadian startup ArtStation, developer of a space where creators from different industries such as games media and entertainment can share their portfolios and post or discover job opportunities. This company will continue to operate as an independent platform and will use Unreal Engine to grant access to tools, resources and connections.[46]

Epic's strategy not only includes mergers and acquisitions, but also uses partnerships as a way to attract more users from different sectors. At the beginning of 2022, Epic partnered up with American artist and designer KAWS, and Serpentine Art Gallery, in order to create a bridge between the physical and virtual art world. KAWS' exhibition opened at Serpentine North was also displayed virtually in a dedicated area of Fortnite, where players from all around the world could access the show to experience art.
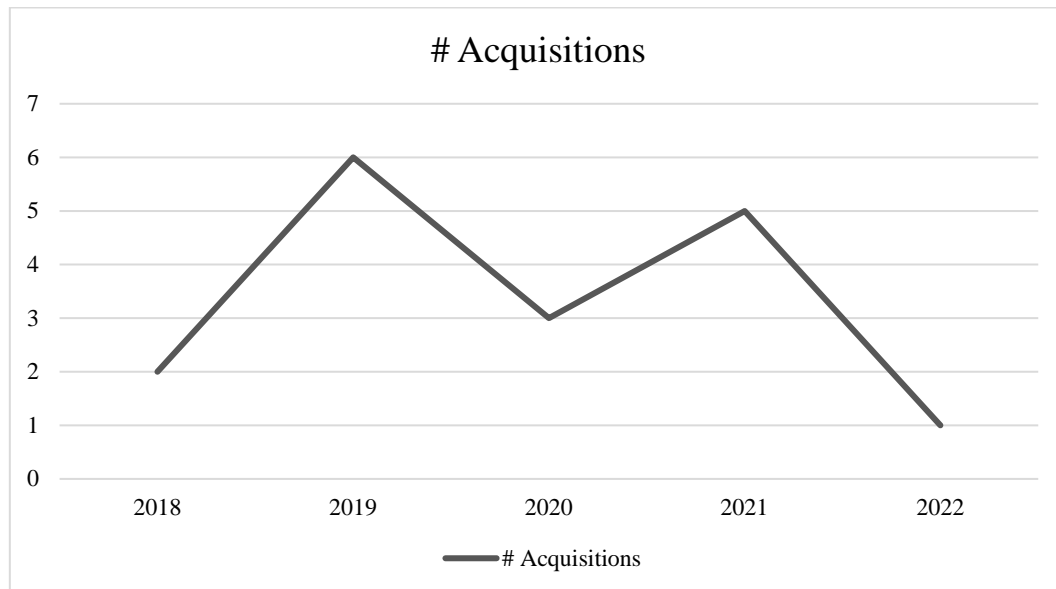
The top three countries (US, UK and Canada) account for 71% of Epic's acquisitions, where Canada has the youngest startups (median age 8 years) and the US has the oldest (median age 16.5 years). As shown in **Table 5** below, the peak of acquisitions was in 2019, where Epic bought six companies. This trend has been in a downfall since but, with its recent $2 billion

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[45] Mithra, Rajan. "Add to Cart: Epic Games' Acquisitions". VCBay, 27 May 2022, https://www.vcbay.news/2022/05/27/add-to-cart-epic-games-acquisitions/
[46] Mithra, Rajan. "Add to Cart: Epic Games' Acquisitions". VCBay, 27 May 2022, https://www.vcbay.news/2022/05/27/add-to-cart-epic-games-acquisitions/

infusion, Epic has the opportunity to acquire more companies in the near future, given the depressed valuations in the current environment.[47]

Table 5:

Acquisitions

(Line chart titled "# Acquisitions". Y-axis from 0 to 7. X-axis years 2018–2022. Values: 2018 = 2, 2019 = 6, 2020 = 3, 2021 = 5, 2022 = 1. Legend: — # Acquisitions)

- SWOT analysis

The SWOT analysis is a helpful tool when it comes to analyse the Strengths, Weaknesses, Opportunities and Threats of a company. In terms of Epic Games, this analysis will show how the company is at the top in revenue and popularity in the gaming industry and eventually what could be the downfall, if any.

Strengths

Epic has the ability to retain the same customers and have them keep buying their products by releasing original cosmetics that attract gamers to buy them.[48] Fortnite is always being updated with new weapons and game modes every once in a while, which keep the game fresh and ongoing.

Another strength is that games owned by Epic host in-game events or tournaments where everyone can join and often earn rewards. This might also be supported by the various partnerships with streamers, mostly from Twitch[49], who in turn play Fortnite while advertising

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[47] Mithra, Rajan. "Add to Cart: Epic Games' Acquisitions". VCBay, 27 May 2022, https://www.vcbay.news/2022/05/27/add-to-cart-epic-games-acquisitions/

[48] Dinh, Danny. "Epic Games SWOT Analysis". Course Hero, 15 November 2018, https://www.coursehero.com/file/61266256/BUS-320-SWOT-Analysisdocx/

[49] Streaming platform owned by Amazon, used to stream videogames, esports and any type of community and social event.

in-game purchases and Twitch Prime, a subscription program that lets customers earn free rewards for all games under the partnership.

Weaknesses

One weakness is often associated to Fortnite updates which, upon release, might present some issues and bugs[50] that will later be solved with patches[51]. In some cases, issues arise due to a high number of gamers that blocks the servers on which the game operates. This often happens during live in-game events, such as the Marshmello[52] concert back in 2019, where millions of gamers attended it and overpopulated servers.

Another weakness that has mostly been resolved is that Epic's updates generally focus more on bigger platforms such as PC, PlayStation and Xbox while the smaller ones such as Mobile and Nintendo Switch are left behind. However, as both Mobile and Switch sales grew in number and younger gamers began to join the market, Epic has kept dating all updates.

Opportunities

Back in 2018, Fortnite was very successful in the US and Epic decided to grab the opportunity to expand to Europe and Asia where there are very skilled players, and to create and solidify a strong fan base. In 2019 Fortnite hosted its first World Cup event where gamers from around the world could compete to win the final prize of $3 million and gain the title of Fortnite World Champion[53].

As of August 2022, Fortnite has partnered up with 141[54] different pop culture franchises and celebrities, including big names such as Marvel, Star Wars, DC Comics and Ninja[55]. The most recurring partnership is the one with Marvel, where many cosmetics were made, and a dedicated game mode was developed to promote Marvel's Avengers: Infinity War in 2019. The most recent partnership and probably one of the biggest ever made is Fortnite x Dragon Ball, the world's famous anime made in 1989. Characters such as Goku and Vegeta were added to the game, together with their special abilities that can be used by players to compete against each

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[50] A bug is an unexpected result from the code used in the development of a game.
[51] A patch is a set of changes or updates to a computer program to fix or improve it.
[52] Popular American DJ who performed in the first virtual concert in an in-game location called Pleasant Park where he also presented a new song called *Happier*.
[53] The tournament was won by 16-year-old Kyle Giersdorf, also known by his gamer tag "Bugha".
[54] Tsiaoussidis, Alex. "Every single Fortnite collab & crossover in battle royale's history". Dexerto, 19 August 2022, https://www.dexerto.com/fortnite/every-fortnite-collab-crossover-battle-royale-history-1645672/
[55] One of the most famous and influential streamers to become famous thanks to the content created in *Fortnite*.

other. The more content is added to the game, the more trends it creates, and hashtags begin to become popular on social media, boosting the game's attention and attracting millions of new gamers from each age group.

Threats

One of the biggest threats for Epic Games would be for Fortnite to come to an end, however, given the exponential growth and success it received in these years, and following future trends and estimates, Fortnite's downfall is nowhere near happening in its current state.

Since most gamers who play Fortnite are kids ranging from 7-14 years old, most parents are concerned about the game being too addicting and that it may lead their kids to not focus on school and other social activities.[56] To resolve this issue, Epic worked out a time limit set by parents according to their preferences in order to prevent the overuse of the game by their children. However, time is not the only issue. Since even older people are part of the Fortnite community, children might be exposed to a toxic environment, with bad language and any types of people. This might cause lawsuits from parents who often try to get the game banned.

- Financial Analysis

To gain an accurate insight of the effectiveness of Epic's current strategy, this section, together with Appendix B, will cover a financial assessment of the performance and stability of the company. The financials of the company will give a retrospective on Epic's past performance and will predict its potential growth in the future. Any problems present in the company's financial statements could be identified as flaws and potential inefficiencies.

In 2019, Fortnite became the first ever battle royale to reach 250 million registered players, setting a world record.[57] According to Statista, the gross revenue generated by Epic Games in 2021 was $5.75 billion ($5.1 billion coming from Fortnite alone), a mind-blowing achievement in the sector. The estimated gross revenue at the end of 2022 is approximately $6.27 billion. There are currently 350 million registered Fortnite users worldwide and trends suggest that this number will grow in the near future. Moreover, the Epic Games Store reached a stunning 194 million active PC users, with 31.1 million daily and a peak of 62 million in December 2021, an 11% increase from 2020's peak.

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[56] Dinh, Danny. "Epic Games SWOT Analysis". Course Hero, 15 November 2018, https://www.coursehero.com/file/61266256/BUS-320-SWOT-Analysisdocx/
[57] F., Victoria. "The Most Incredible World Records In Fortnite". Looper, 6 June 2022, https://www.looper.com/886397/the-most-incredible-world-records-in-fortnite/

The Epic Games Store was launched back in December 2018, and it soon began to generate record numbers. As **Table 6** demonstrates, Epic Games Store offered its users 190 games back in 2019 which then increased to 471 in 2020 and to an astonishing 917 in 2021. That is a 383% increase in just two years thanks to the latest mergers and acquisitions of game-developing companies that have allowed Epic to gain an advantage over its competition. After the huge success received from Fortnite, Epic invested its revenues in building up a solid marketplace where gamers could easily purchase videogames and be updated with the latest news on videogames. 2018 was also the year that generated the highest EBIT with $2.9 billion, which soon declined to $720 million in 2019.

The latest data collected in 2021 shows a positive trend in Epic's growth. There were more than 194 million total PC customers (an increase of 34 million from 2020) with 62 million monthly active users in December 2021. This increase in users led to a boost in consumer spending, up to $840 million spent by PC players on the Epic Games Store and $300 million spent by players on third-party PC games.[58] Epic collaborated with developers and publishers to give away 89 free games worth $2,120 and 76 free games peaked in concurrent users on PC. The Store's community spent an outstanding 6.2 billion hours in-game in just 2021. This community boost led to an increase in Epic's social activity on various platforms, such as Instagram (5% increase to 5.8 million followers), Twitter (7% increase to 4.4 million) and Facebook (18% increase to 1.3 million). Moreover, 235 countries and territories were represented by Creators in 2021, and 4.7 million Creator Codes were used on third-party store purchases. Titles of the biggest games on the Epic Games Store include Fortnite, Rocket League, GTA V and Far Cry 6.

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[58] "Epic Games Store 2021 Year in Review". Epic Games, 27 January 2022, https://www.epicgames.com/site/en-US/news/epic-games-store-2021-year-in-review

Table 6:

Number of Available Games
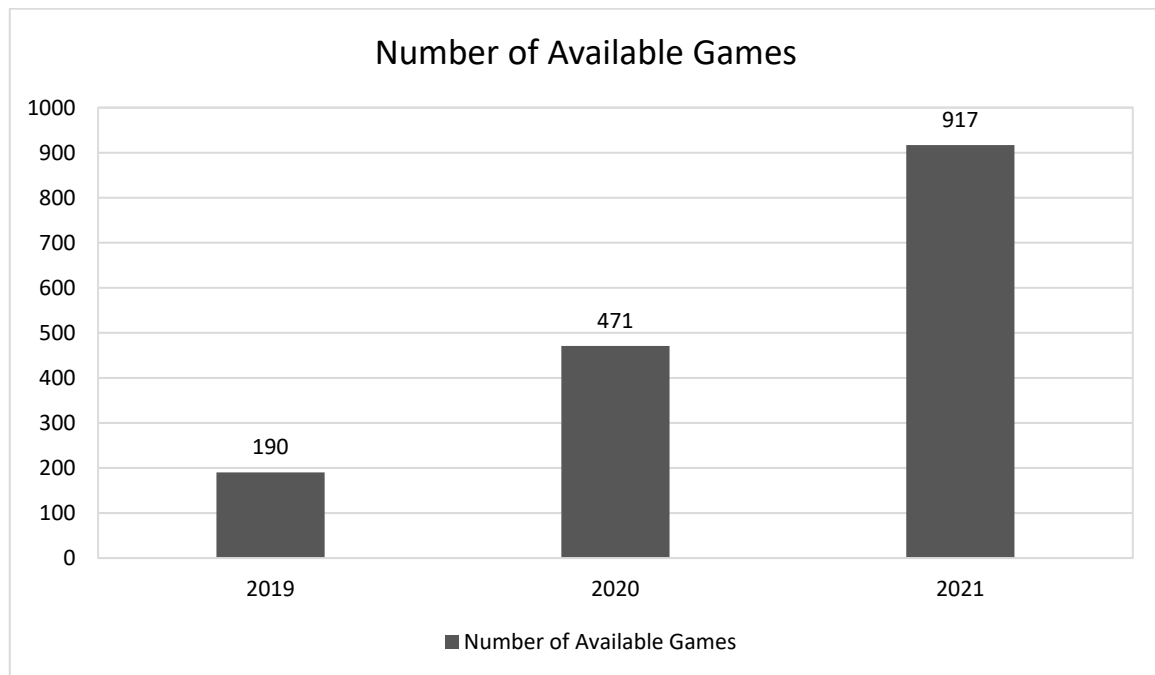
- How is the Gaming Industry Going to Grow in the Future?[59]

In order to elaborate a more accurate financial analysis, this section will give an overview of the main numbers that drive the gaming industry and will provide estimates and trends for future potential growth.

In 2021, the gaming industry was valued at $198.40 billion, and it is expected to grow up to $339.95 billion by 2027, with a CAGR of 8.94%. As previously stated in the section regarding the industry growth in the post-pandemic era, the worldwide lockdowns were a key element in establishing such an exponential growth. The different segments of the gaming industry introduced in **Section V.** of this paper are the main players that drive this industry leading to its growth. Mobile games are the fastest-growing segment of the gaming industry, with gamers spending $93.2 billion on them, compared to the $87.1 billion spent on console and PC games combined. Data taken from Pitchbook confirms that venture capital investments in the worldwide gaming business have doubled in 2021 to $11.2 billion and that mergers and acquisitions expenditures have tripled to $26.2 billion. According to research that was conducted by Streamlabs and Stream Hatchet, when the pandemic first hit in 2020, Twitch received an astonishing 83% year-on-year increase in viewing, with over 5 billion hours of video. The other factor that characterizes this boom is the demographic growth of the

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[59] "In depth analysis of the Gaming Industry: Part 1". 13 February 2022, https://bsic.it/in-depth-analysis-of-the-gaming-industry-1/

market. Being larger than the film and music industries combined, the videogame industry counts over 2 billion gamers worldwide (26% of the world's population) as of 2021 and according to a 5.6% year-on-year growth forecast, this number will reach 3.07 billion by 2023. Overall, 2021 was an outstanding year for the gaming industry M&A, with around $25.6 billion transacted across 214 deals.

The latest trends suggest a high concentration of M&A over time and, and as **Table 7** shows, the gaming industry has been characterized by a large volume of VC investments. This may suggest that big players in the industry are here to stay and to consolidate the market in gaming houses. Small companies tend to stay private longer and are acquired by large companies which opt for inorganic growth.

Table 7:
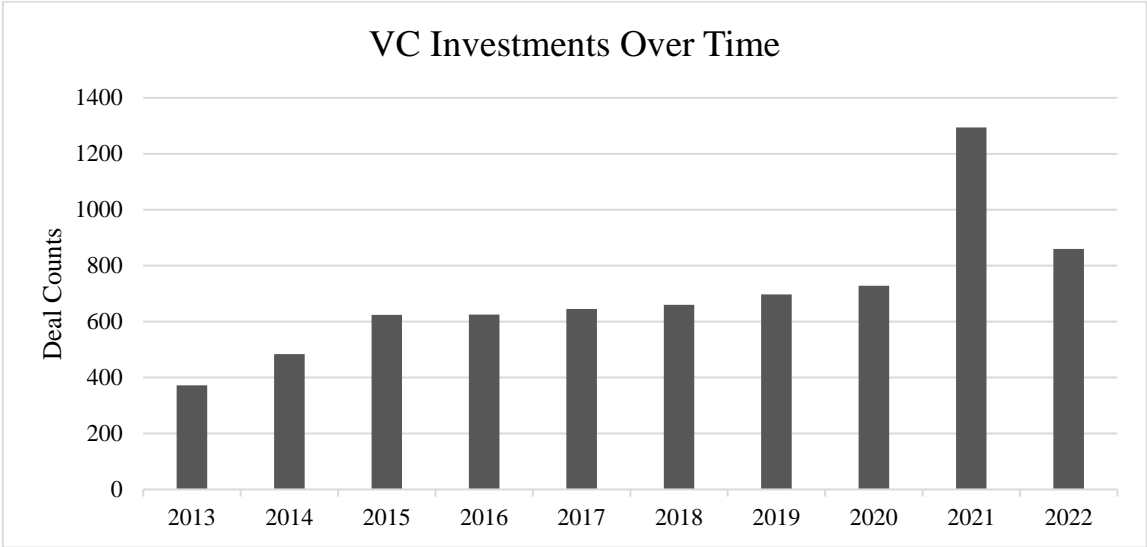
The growth in the gaming industry can be seen in **Table 8**, which illustrates the concept of company growth supported as valuations rise due to the value of gaming attracting more investors.

Table 8:
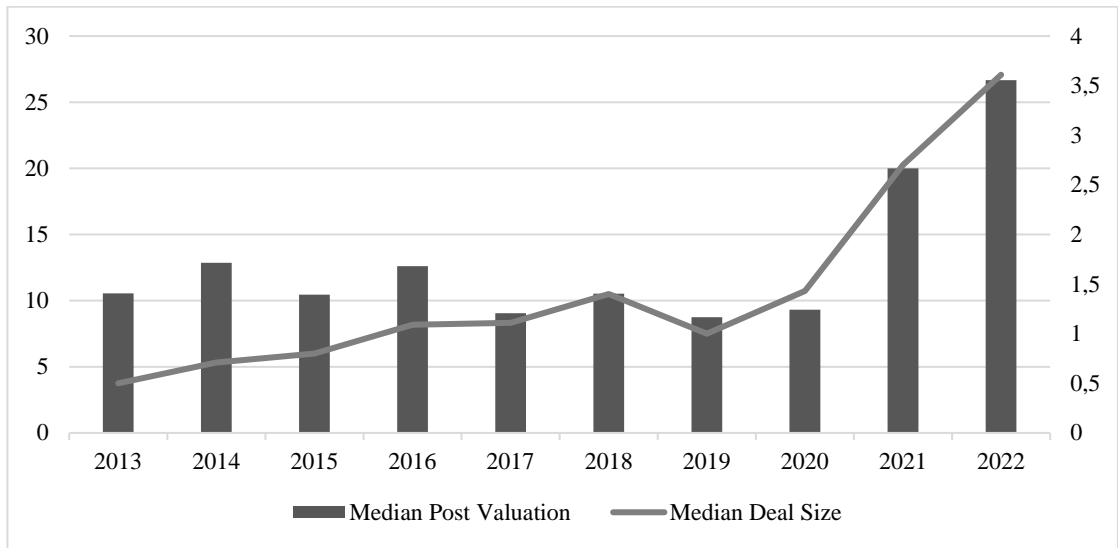
The next section of this paper will take into consideration the financial analysis of Activision Blizzard, one of Epic's main competitors, in order to develop a comparison between the two gaming giants.

- Activision Blizzard

Activision is an American videogame publisher based in Santa Monica, California. It is the publishing business of its parent company Activision Blizzard, and it is one of the largest third-party videogame publishers in the world. This allows the company to be one of, if not the largest competitors of Epic Games. The main difference between Epic Games and Activision Blizzard is that the former is a privately held company, not tradable in the stock exchange market, whereas the latter is publicly listed on the NASDAQ stock exchange market (ATVI), and it has been a member of the S&P 500 index since 2015. Activision's most notable titles include Call of Duty, World of Warcraft and Candy Crush, three very unique and distinctive games that allow gamers to differentiate their gameplay and experience new virtual worlds. In January 2022, Activision Blizzard was acquired by Microsoft in an all-cash transaction valued at $68.7 billion and $95 per share, setting Microsoft as the third largest gaming company by revenue after Tencent and Sony, and establishing the deal as the largest acquisition ever in the videogame space. This deal allowed the price per share to peak at the beginning of the year to $81.50, compared to a downfall of $57.36 in November 2021. The acquisition allowed the price per share to remain generally balanced with small fluctuations. 2022 is currently the top year for videogame M&A announcements in terms of the gross

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[60] Pitchbook

transaction value.[61] The Microsoft-Activision deal was made just over a week after Take-Two Interactive, which owns GTA developer Rockstar Games, announced it would buy the mobile game giant Zynga for $12.7 billion.

- Value Chain Analysis (**Table 9**)

The value chain analysis is a model used to identify a company's primary and support activities that add value to its final product and then analyse these activities to reduce costs or increase differentiation.[62] The generic value chain model was introduced by Michael Porter in 1985, to represent all the internal activities a company engages in to produce goods and services. The primary activities add value to the final product directly, whereas the support activities add value indirectly. He identifies the primary activities to be inbound logistics, operations, outbound logistics, marketing & sales and service. On the other hand, the firm support activities focus on four main centres, firm infrastructure, human resource management, procurement and technology.

Table 9:
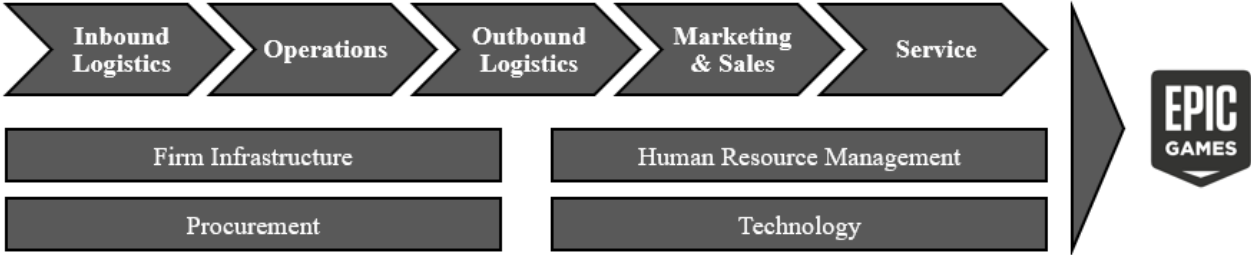
Competitive advantage is driven by technological improvements or innovation in business models. Support activities such as information systems, R&D or general management are usually the most important source of differentiation advantage. On the other hand, the primary activities are usually associated with a cost advantage, where costs can be easily identified for each activity and properly managed.[63] The value chain analysis can be approached in two

[61] Barbour, Neil. "2022 already record year for video game M&A". S&P Global Market Intelligence, 3 March, 2022, https://www.spglobal.com/marketintelligence/en/news-insights/blog/2022-already-record-year-for-video-game-ma

[62] Jurevicius, Ovidijus. "Value Chain Analysis". Strategic Management Insight, 16 August 2022, https://strategicmanagementinsight.com/tools/value-chain-analysis/#:~:text=Value%20chain%20analysis%20(VCA)%20is,when%20transforming%20inputs%20into%20outputs.

[63] Jurevicius, Ovidijus. "Value Chain Analysis". Strategic Management Insight, 16 August 2022, https://strategicmanagementinsight.com/tools/value-chain-analysis/#:~:text=Value%20chain%20analysis%20(VCA)%20is,when%20transforming%20inputs%20into%20outputs.

different ways, according to which type of competitive advantage the company wants to create, either cost advantage or differentiation advantage.

Primary Activities

As a main player in the industry, Epic must create and capture value. If it fails to do so the company would end up having an unexpected result. Epic's value chain may be explained by understanding the activities which the American firm uses to generate profit. Inbound logistics refers to the pre-production process of gathering and stocking materials. Epic Games produces digital goods, meaning that its inbound logistics can be identified as the ideas and labour put into the pre-production of a game. There must be an education behind the development of a game in order to guarantee its quality.

Epic's operations are mainly centred around the production and development of Unreal Engine. Any issue arising from the engine may detract enjoyment from a customer's use of the product. However, being the most powerful and efficient game engine ever made, Epic can rely on its loyal customer base to fully enjoy its product. Another operation is to continuously keep Fortnite updated in order to satisfy the wants and needs of gamers and keep the game fresh and ongoing. Epic must ensure a good quality of their games as well as their speed to run on different platforms and compatibility among them.

The outbound logistics focus on the post-production distribution of videogames. Epic does that through its online Store which operates and gives access to the American, European and Asian markets. Being completely digital products, the videogames available on the Store have no shipment costs and can be accessed from anywhere as soon as they are released. This direct contact between the company and the customers strengthens the solid bond that Epic has with its fans.

The next step of the value chain analysis is the marketing & sales section. Epic's marketing strategy is one of the strongest and effective of the last years.[64] Assuming new gamers enter the market, uninformed about the types of videogames, they might not see any differences between the various genres. For this reason, Epic heavily relies on its best game, Fortnite, aiming to distinguish it from its competition by creating partnerships and game modes to attract a larger audience. Its blog is used as a social way to share news and updates on the game, often sponsoring cosmetics created from its partnerships.

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[64] See **Appendix C**.

Epic offers multiple services which help to improve the product experience for customers. Epic Online Services are free, cross-platform services that make it easier and faster for developers to successfully launch, operate and scale high-quality games.[65] This service is constantly evolving to serve all games and their players, granting creators the freedom to distribute their games across all platforms and players access to all friends. Game services include voice chat, achievements, matchmaking and more, whereas account services focus on connecting players with their friends on all platforms and stores. Players can log in using accounts from PlayStation, Xbox, Switch, Facebook, Google, Apple, Steam, and Epic.

Support Activities

Epic uses its support activities to improve the primary ones. A successful company needs to have the best support activities to take on its competition. Epic's infrastructure is purely web-based, facilitating the production and distribution of software and videogames. The American company is controlled by its founder and current CEO Tim Sweeney, and it has a board of directors composed by 15 executives controlled by co-founder Mark Rein who is also the vice president.

Community building has always been essential in Epic's rise among the top market players. This is why human resource management is a key tool used by the firm to affect marketing and sales activities. The reason for this is the large fan base that characterises Epic. A dedicated section of their website offers Player Support, by having different frequently occurring problems divided into topics, and if a problem is not on there then it is possible to contact them directly through customer service. The loyalty of customers drives the demand and without Epic's premium treatment of these individuals, the system could be affected. The various events organized by Epic add value to the company by sponsoring their products and partnerships.

Procurement for Epic Games is a fundamental activity, since it is used to obtain the necessary skills, knowledge and components used in software production. The aim of the partnerships entered by Epic is to add value to the company through the concept of brand extension.

Technology plays a big role in Epic's success. The development of more efficient technologies allows for the creation of innovative products and components that improve both software and game performance and the gamer's experience. The most recent innovation is the ultra-realistic game engine released in 2022, which uses top-notch technology to build games and establish

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[65] "What are Epic Online Services?". Epic Games, https://www.epicgames.com/help/en-US/epic-accounts-c5719348850459/general-support-c5719341353627/what-are-epic-online-services-a5720272025755

itself as the leader in the market.[66] Moreover, Epic constantly updates Fortnite, with new mechanics and graphics, often to test these innovations and see whether people would like them or not.

VII.   Today's Competitive Advantage

This section of the paper will focus on the application of the previously discussed macro areas that will help to better understand what are the features that have allowed Epic to achieve both a top market player position and a loyal customer base. The macro areas that give Epic a competitive advantage over the other companies in the industry are product mix differentiation, community and customer base and technology. It is important to model these macro areas to best analyse and describe the industry according to the more distinctive trends and key factors that lead to success.

Before analysing the competitive advantage, it must first be defined. Competitive advantage is the ability of a firm to excel in a field, being more profitable and efficient compared to the other players present in the industry. A company achieves a competitive advantage when it is able to adjust its strategies by creating and capturing value. The two main ways for a firm to gain an advantage in an industry are based on strategy and efficiency. The former is applied when using a differentiation strategy to create a product mix and offer more than its competition, therefore attracting a larger customer base, whereas the latter focuses on cost-cutting, by providing cheaper products that capture customers' attention and interest while still having a similar product experience.

-    Epic's Competitive Advantage

It is important to define Epic's operations before identifying the type of competitive advantage the company uses to characterise its activities. Epic develops and publishes videogames through a mix of traditional and innovative ways. Consumers in the gaming industry are price sensitive, depending both on their loyalty towards the brand and their knowledge of the gaming world. This is why Epic Games cannot focus its strategy purely on cost reduction. The main feature that distinguishes Epic from its competitors is the product mix it offers. Since the release of Fortnite and Unreal Engine, Epic was fuelled by a constant increase in revenues. The company's impact on the market is possible thanks to the performance of its products. The other factor that is essential for Epic's success is its customers. The different social activities such as tournaments offered by Epic are a way to gather the gaming community and strengthen their

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[66] See **Appendix A**.

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loyalty towards the company. Epic, compared to other players in the market, serves a diverse composition of customers with different tastes and preferences. In order to satisfy the wants and needs of everyone, Epic must offer the best quality out of its games. As previously analysed in section **VI.** of this paper, the way Epic runs its business allows the company to retain a leading position in the market. Its strong strategy is what defines the company and the positive trends received in the last 5 years[67] suggest constant growth in the future.

VIII. Conclusion

Epic Games is a complex, dynamic and successful company. The strategy used by Epic has led it towards a better future. The management of the company is currently adopting a mix of different strategies which have been proven to be successful and innovative. It is most notable to say that Fortnite has been the turning point for the company, a game that boosted its revenues to unimaginable numbers and that it broke several records. The first thing one thinks of when speaking of Epic Games is Fortnite, the most influential game in the last decades. The loyal community surrounding Epic Games has allowed the company to obtain a strong public image that differentiates it from its competition. Inside the niche of Epic's gamers, there is a high degree of differentiation among them. There are gamers from all age groups and from all around the world who enjoy playing in a community where everyone is welcome. The Unreal Engine managed to break its competition, marking it as the most powerful and efficient game development engine of all time. Most companies now adopt it to make their games more realistic and run better on all platforms. The macro areas identified and analysed in this paper are Epic's main source of competitive advantage. These managed to improve the activities in the value chain and to boost product differentiation. The goal of this strategic analysis was to understand how Epic operates and which factors have led to the current profitability in such a large market. After this analysis, it can be said that Epic Games has a competitive advantage over the other firms in the industry. The unconditional love of the community is what allows Epic to sell and test new products. The constant product innovation and performance are the key factors to continue to operate successfully in the market.

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[67] See **Appendix B**.

- **Appendix A**

As previously analysed, the two biggest reasons for Epic's great success are its most popular products: Unreal Engine and Fortnite. Unreal Engine pushes the frontiers of virtual world building to another level, while Fortnite broke every game record with its unbelievable numbers.

Unreal Engine

Epic has established itself as a successful company also because of its powerful game engine. Although there are various alternatives to Unreal Engine, Epic has managed to differentiate its product with innovative technology and a strong strategy of making it free for everyone. Epic's main competitor in the game engine market is Unity 3D, a simpler and less complex engine that can be a good choice to learn the basics of coding and creating videogames. However, with the latest version of the Unreal Engine (engine 5 released in April 2022), Epic gained the first spot in engine development, with ultra-realistic graphics and easy access for everyone. The major feature offered by version 5 is Nanite, a program that gives users the ability to import high-detailed photographic source materials into games. This move is a huge leap toward performance, and it is a consequence of the rising demand for efficient, high-speed gaming engines.

Fortnite

The biggest factor that has allowed Fortnite to become the most played battle-royale game ever is its unique mechanics that allow the players to build structures and create a proper shelter from enemy fire and its strong partnerships with various brands and pop culture franchises. The game is divided into seasons, each with variable times but usually last for three months, which introduce new themes, storylines and skins every time. This seasonal revamp is used by Epic to refresh the game and keep its loyal customers always interested in playing the game.[68] Cultural crossovers are the key to success. Gamers are able to play with famous fictional characters such as Thanos[69] or Darth Vader[70] and make them clash into last-man-standing battles, pushing the gaming experience to high enjoyability levels.

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[68] Richardson, Simon. "The secret to Epic Games' success? Partnerships and cultural crossover". The Drum, 18 May 2022, https://www.thedrum.com/opinion/2022/05/18/the-secret-epic-games-success-partnerships-and-cultural-crossover

[69] *Marvel*'s most famous and iconic villain.

[70] *Star Wars* most famous and iconic villain.

- **Appendix B**

Epic Games main financials (Statista)

Main Financials	2018	2019	2020	2021	2022
Gross Revenue	$5,628,000,000	$4,221,000,000	$5,100,000,000	$5,753,410,000	$6,269,400,000
% Change	-	-25%	20.82%	12.81%	8.97%
EBITDA	$2,900,000,000	$7,000,000	$1,000,000,000		

In the last 5 years, Epic Games' performance has been characterized by an overall positive trend. In fact, since 2018 revenues have increased by 11% as of 2022. The reason for such a constant trend is probably linked to its strong strategy.

This data allows the reader to understand the company's performance over the last five years. These financials provide a useful snapshot that can be used to determine the effectiveness of Epic's strategies. Despite the market still recovering, Epic has managed to achieve a successful financial performance and it is probably going to continue to grow more thanks to the new opportunities to exploit and turn into profit.

Being a privately held company, in-depth financials regarding Epic Games are not available to the public.

- **Appendix C**

Epic's marketing strategy and advertising

Fortnite World Cup

The Fortnite World Cup was introduced in 2019 during the game's season 9. Over 40 million players from 200 different countries participated in it to compete in the $30 million Solo and Duos Finals, $3 million Creative Finals and $3 million Charity Pro-Am.[71] There were over 19,000 fans who attended the three-day finals in person, selling out all tickets in the Arthur Ashe Stadium. The solo player final (most popular game mode) peaked at over 2.3 million concurrent users on both YouTube and Twitch, making the world cup the most watched competitive gaming event of all time.

This event set a turning point for Fortnite's competitive aspect. Starting from the following season from the event, Season X (10th instalment in the game), Epic introduced weekly competitions with the goal of becoming Fortnite's Season X Champions, with millions of dollars at stake. To make this even more social friendly, a leaderboard was added to track progress and to follow players in this quest. Due to the pandemic outburst in 2020, the world cup was cancelled in that year and also in 2021. There are high hopes for it to come back in 2022.

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[71] The Fortnite Team. "The Fortntie World Cup | A Record-Setting Tournament". Epic Games, 1 August 2019, https://www.epicgames.com/fortnite/en-US/news/the-fortnite-world-cup-a-record-setting-tournament

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