

Economic Analysis of Dragon's Den Gaming

Kristina Brock

Florida Institute of Technology

June 16<sup>th</sup>, 2019

Dr. Lester Hadsell

BUS5421

### Abstract

The objective of this analysis is to define the key market of Dragon's Den Gaming as well as compare it to other competitors with close substitutes. It also determines major obstacles to gaining market power and presents how to overcome those obstacles. Through the utilization of research and logic, the author presents price discrimination opportunities and assesses the viability of different methods of execution for those opportunities.

*Keywords:* key market, market obstacles, price discrimination, substitution

### **Economic Analysis of Dragon's Den Gaming**

Dragon's Den Gaming is a tabletop gaming store that is proposed to open in Orlando by Kristina and Jared Brock. According to its business plan the primary objective is to, "over the course of the first five years to see growth of a 10 percent profit margin" (Brock, 2019). In order to see that goal come to fruition Dragon's Den Gaming will need to have a healthy understanding of it's relevance in the local economy and how it measures up to its competition both directly and indirectly. It will also need to examine any price discrimination opportunities and evaluate how to maximize on those opportunities.

### **The Gaming Market**

Gaming is an interesting market. Its' buyer is unique in that the same consumer that buys video games will purchase tabletop games with the exact same voracity. This is due to the subculture with which gamers identify and the intense need to socialize that gamers desire. Video games allow gamers to socialize only online and they do not get the face-to-face interactions that are achieved through gaming together via trading card games, board games, and miniature games. A lot of gamers are seeking ways in which they can spend time playing games face to face and thus the tabletop market is seeing a significant rise in sales in the last five years.

### **The Buyer Persona**

The buyer persona of a gamer is typically an 18-30-year-old male from a relatively large racial demographic. They are mostly college educated. Though it should be noted that 53% of those from 30-49 also say they play video games according to Anna Brown of the Pew Research Center, (2017). Though men take up a majority of the market share women are also making a dent on the market recently for gamers, (see Figure 2.). Pew Research (2017) noted that four in ten women play games.

### **The Global Market**

When we look at the video and mobile gaming markets we see that, “In 2014, the mobile games market was worth \$25bn (£16bn) - up 42% on the previous year - and it shows no signs of slowing any time soon, with estimates for 2017 topping \$40bn (£25bn)” (Tesseras, 2015). The growth of gaming overall has contributed to growth as well in the tabletop sector. The Warhammer 40k and Magic the Gathering as well as board game and puzzle game markets seeing the largest market increases. “Tabletop games dominated the largest market share in 2017, growing at a CAGR of over 11% during the forecast period. The growing popularity of chance-based and strategy-oriented games among grade scholars, teenagers, and adults is driving the growth of this segment in the global market” (“\$12 Billion Board Games Market - Global Outlook and Forecast 2018-2023”, 2018).

### **The Local Market**

While the global market of games is a factor for consideration the local market is also to be considered. The Orlando area is a tourist destination. It hosts over 70 million tourists a year incoming as well as has a healthy population of over 6 million locals. Its top industries are leisure and hospitality as well as the retail trade however it has only 6 other brick and mortar game shops which would be in direct competition with Dragon's Den Gaming. Considering the previous assessment of Pew Research Center (2017) that 4 out of 10 women are gamers and that 6 in 10 American overall game, Orlando has a large market share that is under utilized on the local scale and a over abundance of tourists who are primed to spend in a turnover market.

### **Barriers to Entry**

A major barrier to entry that many competitors face when entering the market is lack of understanding of the market itself. Most who try to enter the market are gamers with little

business experience or background or are business minded individuals with little understanding of the gaming market. Gamers are unlike any other buyer and lack of understanding the buyer persona of the gamer has been the downfall of more than one budding game store entrepreneur, but more devastating than that is the gamer who opens a store without the knowledge to run a business. Kristina and Jared Brock have extensive knowledge of business. Jared has an accounting degree from University of South Alabama and Kristina is currently pursuing her Master of Business Administration Degree at Florida Institute of Technology. She also has already successfully run her own business as a Business and Marketing Consultant in the Esports professional gaming industry for over five years. This gives them a significant edge over their competitors as they enter the market.

### **Obstacles to Overcome**

The primary obstacle that Dragon's Den Gaming with must address is the substitution market. While they will have very little in direct competition due to very few brick and mortar store being in the local area, much of what they sell can be found online for cheaper prices and in bulk through Amazon, Walmart and other online retailers.

There are some concessions made by manufacturers through incentive programs to help retail stores like Dragon's Den Gaming to compete with online retailers. These programs entice players through exclusive items only sold or provided through retail brick and mortar stores.

### **Customer Service Focus**

Dragon's Den Gaming does not intend to try to beat out Amazon on the price point, instead they are focusing on a customer service aspect and promoting the social aspect of gaming through store events. While Amazon and Walmart can sell the same products, they are unlikely to be able to create the same gaming environment that can be experienced in a small destination

store. Gamers want to play the games they purchase and meet others that also play those games. Online retailers provide no space in which to do that and it is this weakness in the competition that Dragon's Den Gaming intends to exploit.

### **Price Discrimination Opportunities**

Through their focus on customer service and being a gaming destination store Dragon's Den Gaming will have events. These events present an opportunity for Dragon's Den Gaming to effectively utilize price discrimination to their benefit, particularly in relation to the Magic the Gathering tournaments they will host.

### **Getting Them in The Door**

Each month Dragon's Den Gaming will host tournaments on Friday nights where the manufacturer of Magic the Gathering puts up prizes and incentivizes players to enter tournaments in retail stores via the Friday Night Magic website. The website gives players points and promotional cards for playing in local stores as well as provides stores with exclusive rewards for hosting events. These are called FNM tournaments and they are free to enter.

After an FNM tournament which gets players in the store Dragon's Den Gaming will host in house draft tournaments where players pay a five-dollar entry that includes a booster pack. The price of a booster pack when bought singularly from the manufacturer is \$0.99. It sells normally for \$3.99. The winner of the draft tournament is usually presented with a game mat or other promotional prize that has been given to the store from the manufacturer in promotional materials at no cost.

**The Subscription Model**

Tournament Sales: Individual Purchase	Tournaments Played			
	1	2	3	4
Sales Price per player	\$ 5.00	\$ 10.00	\$ 15.00	\$ 20.00
Variable Cost per player	\$ 0.99	\$ 1.98	\$ 2.97	\$ 3.96
Gross Profit	\$ 4.01	\$ 8.02	\$ 12.03	\$ 16.04
Tournament Sales: Subscription Model				
Sales Price per player	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00
Variable Cost per player	\$ 0.99	\$ 1.98	\$ 2.97	\$ 3.96
Gross Profit	\$ 14.01	\$ 13.02	\$ 12.03	\$ 11.04

*Fig 1. Model of Tournament Sales of Individual vs Subscription Model Prices*

Dragon’s Den Gaming will offer a subscription model to its players which allows them to pay a flat rate per month of \$15.00. This gives the indication that they gain an added value of \$5.00 off if they play all four tournaments in a month or \$10.00 in the happenstance that there are five Fridays in the month. As can be seen in the chart above if the player does not attend all the tournaments the profits are increased significantly with the subscription model versus the individual player, whereas the difference in loss of profit margin is minimal.

This price discrimination rewards customer loyalty and is just a single example of how Dragon’s Den Gaming intends to maximize on price discrimination opportunities that present themselves. Other opportunities include utilization of customer loyalty phone applications and website discounts to frequent visitors.

**Complementary Products**

Most gamers are also part of other niche subcultures. These include anime, superhero, fantasy, sci-fi, and other niche fandoms. These subcultures each have their own complementary products that could be added to the store that would create opportunities for complementary

pricing decisions. There is also an opportunity for complementary good and services with other businesses in the community such as movie theatres and entertainment venues.

An example of this is when a superhero movie comes out, often products like board games and memorabilia can be purchased to be sold with that superhero as the focus. When a game is released that focuses on an anime or an anime character, sales for that anime go up. So, expanding into anime and manga makes sense as the store expands.

The possible pricing decisions for each of these products depends on the timing of the release of the related item. Keeping a keen eye on the pulse of the fandoms and knowing when the next big thing coming out is vital to being able to price products effectively and anticipate the hype surrounding each potential gain.



## References

\$12 Billion Board Games Market - Global Outlook and Forecast 2018-2023. (2018, August 07).

Retrieved from <https://www.globenewswire.com/news-release/2018/08/07/1548201/0/en/12-Billion-Board-Games-Market-Global-Outlook-and-Forecast-2018-2023.html>

Brock, K. (2019) Dragon's Den Gaming Business Plan. *Unpublished Manuscript*, Pages 1-31.

Florida Institute of Technology

Brown, A., & Brown, A. (2017). Who plays video games? Younger men, but many others too.

Retrieved from <https://www.pewresearch.org/fact-tank/2017/09/11/younger-men-play-video-games-but-so-do-a-diverse-group-of-other-americans/>

Tesseras, L. (2015). How brands can tap into the \$25bn mobile gaming market. *Marketing Week*

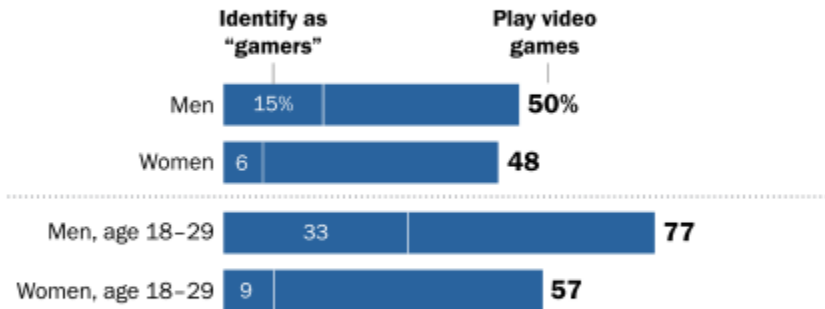
(Online Edition), 1. Retrieved from

<http://search.ebscohost.com.portal.lib.fit.edu/login.aspx?direct=true&db=bth&AN=100334830&site=ehost-live>

Pew Research Data

**Men and women play video games, but men are more likely to call themselves “gamers”**

*% of all adults who...*



Source: Survey conducted June 10 - July 12, 2015.

Note: "Play video games" includes those who identify as gamers. E.g., 50% of adults play video games, including 15% who consider themselves gamers.

**PEW RESEARCH CENTER**

Figure 2. Pew Research Center Data on Men and Women who play games.