

Navigating Pricing Strategies in the Video Game Industry: Evidence from Passionate Gamers

Emanuela Conti¹, Alessio Travasi², Fabio Musso³

Abstract

The video game industry has emerged as a major global entertainment force, propelled by technological advancements and evolving consumer preferences. This paper critically examines the pricing strategies employed within the industry from the perspective of passionate gamers, focusing on the impact of digital distribution platforms and price strategies on consumer purchasing behaviour and market dynamics. Through an exploratory online survey conducted among Italian gaming community members, this study elucidates trends in consumer perceptions, highlighting sensitivities to game prices and preferences for value-driven purchases. The results indicate that while consumers exhibit high price sensitivity, they demonstrate a willingness to pay premiums for games perceived as offering substantial value, particularly those with immersive experiences and engaging narratives. Additionally, interviews with industry experts offer insights into strategic considerations underlying pricing decisions, underscoring the importance of aligning pricing strategies with consumer expectations to enhance engagement and revenue. Our empirical study enriches the existing marketing literature on an underexplored industry and marketing policy, shedding light on the adoption of specific pricing strategies in the video game industry. The findings present valuable implications for developers and marketers seeking to navigate the complexities of the modern video game industry and achieve sustainable growth.

Keywords: Video Game Industry, Pricing Strategy, Digital Game Distribution, Player Spending Behaviour

Introduction

The video game industry has evolved significantly from its early beginnings, where it was initially perceived as a niche market catering to a specific demographic, into a

¹ Emanuela Conti, Assistant Professor of Marketing, Department of Economics, Society and Politics (DESP), University of Urbino Carlo Bo.

² Alessio Travasi, PhD student in Global Studies, University of Urbino Carlo Bo.

³ Fabio Musso, Full Professor of International Marketing, Department of Economics, Society and Politics (DESP), University of Urbino Carlo Bo.

multi-billion-dollar global powerhouse. This transformation can be attributed to technological advancements, changes in consumer preferences, and the integration of video games into popular culture. By 2023, the industry had surpassed \$340 billion, outstripping traditional entertainment sectors like film and music (Zandt, 2023; Precedence Research, 2023). The overall market value for that year was estimated at around \$184 billion, with the mobile gaming segment alone accounting for over 40% of revenues (Newzoo, 2023; Grand View Research, 2023). Moreover, the market is projected to grow beyond \$664 billion by 2033 (Precedence Research, 2023). The number of gamers worldwide has surged to over three billion, reflecting the medium's broad appeal across various demographics (Howart, 2023).

A critical aspect of this growth has been the shift from physical to digital distribution, with platforms like Steam, PlayStation Network, and Xbox Live at the forefront of this transformation. These platforms have not only facilitated global access but have also introduced new pricing paradigms that leverage dynamic and flexible models. The importance of pricing strategies in this industry cannot be overstated, as they directly impact consumer purchasing decisions and, ultimately, a game's success in the market (Gregori et al., 2023).

The research aims to explore game players' characteristics and attitudes toward pricing models, focusing on how digital distribution and evolving consumer expectations shape pricing decisions. This allows to evaluate the effectiveness of various pricing strategies in maximizing revenue and player engagement. In particular, the role of digital transformation is examined, highlighting the impact of digital distribution platforms, microtransactions, and downloadable content (DLC) on game monetization. These elements have fundamentally altered the way games are marketed and sold, providing new revenue streams and reshaping consumer interactions. Furthermore, the evolution of pricing strategies is explored, considering how traditional and modern approaches have adapted to technological changes and consumer expectations. By delving into these interconnected themes, the paper offers insights into the complex landscape of the video game industry, highlighting the key factors that influence its pricing models and market dynamics.

The paper is structured as follows: the literature review section examines the evolution and impact of the video game industry, the role of digital transformation and the development of pricing strategies. The methodology paragraph outlines research design and data collection processes. The results represent the main findings, followed by a discussion of their implications. The paper then wraps up with indications on future research directions and managerial implications.

Literature Review

Evolution and Impact of the Video Game Industry

The video game industry has evolved from a niche market into a dominant force in global entertainment, with significant cultural and economic impacts. Initially seen as a pastime for a limited audience, video games are now recognized as a mainstream cultural phenomenon, comparable to cinema and television in their influence on society. In fact, video games have become a dynamic medium for storytelling and artistic expression, capable of conveying complex narratives and emotions through interactive experiences (Galloway, 2006). The rise of video games as a cultural force has been paralleled by technological advancements, including the development of virtual reality and cloud gaming, which have further expanded the possibilities for interactive entertainment (Salen & Zimmerman, 2004).

The historical trajectory of the video game industry underscores its rapid expansion and diversification. From the introduction of arcade games and early home consoles in the 1970s and 1980s to the development of sophisticated, high-definition gaming experiences in the modern era, the industry has consistently adapted to technological innovations and changing consumer preferences (Kent, 2001). Key milestones in this evolution include the transition from 2D to 3D graphics, the advent of online multiplayer capabilities, and the proliferation of mobile gaming platforms (Newman, 2013).

The Role of Digital Transformation: Microtransactions and DLC

Digital distribution has revolutionized the pricing landscape by enabling developers to reach global audiences with minimal distribution costs. Platforms such as Steam and the PlayStation Network have facilitated the implementation of dynamic pricing models, including time-limited discounts, bundling, and regional pricing (Tassi, 2013). These models allow developers to respond quickly to market changes and consumer preferences, maximizing revenue and enhancing player engagement (Ostrovsky & Schwarz, 2011).

Microtransactions and downloadable content (DLC) are integral components of contemporary video game monetization strategies. Microtransactions enable players to purchase virtual goods such as cosmetic items and in-game currency, often enhancing their gaming experience without affecting core gameplay mechanics (Hernandez, 2020). This model has been particularly successful in free-to-play games, which offer the base game for free but monetize through optional purchases (Marder et al., 2019). DLC provides additional content that extends the original game, offering new missions, characters, and features. This approach increases a game's lifespan and generates additional revenue streams post-launch (Ballou, 2018). However, the use of microtransactions and DLC has sparked debates about fairness and value, with some

players expressing concerns over pay-to-win dynamics and the potential for games to be designed to encourage spending (Hamari et al., 2017).

The evolution of Pricing Strategies

Pricing strategies in the video game industry are crucial determinants of market success and have evolved in response to technological advances and consumer expectations. The pricing of video games is influenced by various factors, including production costs, consumer demand, and competitive positioning. Traditionally, video games were priced based on a cost-plus model, where prices reflected the cost of production and a markup for profit. However, with the advent of digital distribution, more dynamic pricing models have emerged (Marchand & Hennig-Thurau, 2013).

Cost-based pricing remains a fundamental strategy, where prices are set by adding a markup to the production cost. This approach ensures that production costs are covered, but it may not always align with market demand or consumer willingness to pay (Kharpal, 2018). In contrast, demand-based pricing involves setting prices according to consumer demand and perceived value. This strategy allows for premium pricing of highly anticipated titles and lower prices for less popular games. Lastly, competition-based pricing considers the pricing strategies of competitors to position a game competitively in the market (Clements & Ohashi, 2005).

Today, the video game industry employs various business models, each influencing pricing strategies differently. The traditional premium model involves a one-time purchase price, while the free-to-play model generates revenue through microtransactions. Subscription services, such as Xbox Game Pass, offer access to a library of games for a monthly fee, providing a steady revenue stream for developers and value for consumers (Chapple, 2016). Price discrimination and psychological pricing are also prevalent in the industry. Price discrimination involves charging different prices to different consumers based on factors such as location, purchase history, or willingness to pay. Psychological pricing techniques, such as setting prices just below a round number (e.g., \$59.99 instead of \$60), are used to create the perception of value (Van Dreunen, 2015). These strategies are designed to maximize sales and appeal to different consumer segments, balancing accessibility with profitability (Nair, 2007).

Furthermore, the proliferation of digital storefronts has further influenced pricing strategies, with platforms like Steam and Epic Games Store offering developers control over pricing and promotional tactics. These platforms support a range of pricing options, including early access pricing, seasonal sales, and regional discounts, enabling developers to tailor their strategies to specific markets (Anderson, 2009). The flexibility of digital pricing also allows for experimentation with different models to determine

optimal pricing strategies for maximizing revenue and player engagement (Davidovici-Nora, 2014).

Hence, pricing policies in the video game industry combine traditional pricing models from marketing literature with new pricing dynamics typical of online sales and industry-specific approaches. However, existing marketing literature highlights the need for empirical investigation of gamer behaviours and their perceptions of pricing policies in purchasing decisions. This study aims to fill this gap by exploring the impact of video game prices on gamers purchasing decisions. Therefore, our research question is: *How do pricing policies in the video game industry impact purchasing behaviour?*

Methodology

This study employed an exploratory online survey methodology to investigate consumer perceptions of pricing strategies within the video game industry, focusing on Italian video game consumers. The survey was designed to collect empirical data on price sensitivity and willingness to pay for video games, providing insights into consumer behaviour and preferences. It also explores the socio-demographic characteristics of gamers and their preferences for products and platforms.

The survey was disseminated through gaming communities on platforms such as Discord, WhatsApp, and Steam. Due to limitations on sharing external links, the survey was primarily distributed within communities where one researcher was an active participant. Approximately 600 potential respondents were targeted, resulting in a total of 78 completed responses.

The data collection period spanned the month of October 2023, after which the responses were subjected to comprehensive analysis. The survey instrument was structured into four distinct sections, with access to one section contingent upon specific prior responses. The sections were as follows: I) *Demographic Information*: This section gathered data on the participants' demographics, including gender, age, and income levels. This information was essential for understanding the diverse backgrounds and resource availability among the gaming population; II) *Video Game Consumption*: Participants provided information about their gaming habits, including the amount of time spent playing, preferred genres, and gaming platforms utilized. This section aimed to categorize participants based on their gaming preferences and behaviours. III) *Price Perception*: This section aimed to assess participants' sensitivity to game pricing and their willingness to pay for different editions of games. Questions focused on purchasing decisions related to standard and deluxe editions, offering insights into consumer attitudes toward various pricing models; IV) *Purchase of Additional Content*: Accessible only to participants who reported making in-game purchases, this section collected data on perceptions of pricing for additional content

such as downloadable content (DLCs), skins, and other virtual items. Participants also provided insights into their willingness to continue purchasing such content.

The questionnaire comprised a mix of question types, including binary yes/no options, Likert scale ratings, and open-ended responses, designed to capture a comprehensive view of consumer experiences and perceptions. This methodological approach facilitated a nuanced analysis of consumer behaviour related to pricing strategies in the video game industry. By focusing on a targeted audience of active gamers, the study sought to uncover detailed insights into consumer expectations and the efficacy of different pricing models within this dynamic industry.

Results

Sample Characteristics

The sample of the online survey consists of video game enthusiasts as the questionnaire was distributed within gaming communities. As shown in Table 1, the majority of respondents are male (71%) and predominantly fall within the age group of 18 to 24 years (44%), closely followed by those aged 25 to 34 years (41%). The most common income range is between €15,000 and €28,000, while the least common is above €50,000.

Table 1: Sample Characteristics

Category	N (%)
Gender	- Male: 55 (71%) - Female: 22 (28%) - Prefer not to say: 1 (1%)
Age	- 18-24 age group: 34 (44%) - 25-34 age group: 32 (41%) - 35-44 age group: 9 (12%) - Over 44 age group: 3 (4%)
Income levels	- Up to 15.000 euros: 13 (17%) - 15.000-28.000 euros: 30 (38%) - 28.000-50.000 euros: 24 (31%) - > 50.000 euros: 2 (3%) - Did not respond: 9 (11%)

Video Game Consumption

A significant observation that emerged from the analysis of the data collected in the “Video Game Consumption” section of the questionnaire is that, despite 90% of

participants (70 out of 78) using video games on a weekly basis – 44 of whom do so daily – only slightly more than half reported frequently purchasing video games. This trend may suggest a notable longevity and replayability of modern video games. Specifically, this phenomenon could be attributed to the growing prevalence of the free-to-play model, which is becoming increasingly dominant in the gaming landscape.

The most commonly used platforms by respondents are Personal Computers and Smartphones, followed by Sony, Microsoft, and Nintendo consoles.

Concerning videogame genres, our study reveals that action games (selected by 84.6% of users) and adventure games (selected by 80.8% of the total) prevail. Then, strategic video games are voted by more than half of gamers, and sports, simulation and role-playing video games, which are also quite popular.

The most used type of video game by participants of the survey is multiplayer (56.4%), while the paid model (62%) prevails compared to the free-to-play model (38%).

Price Sensitivity

The survey results indicate that the video game industry is navigating a complex landscape of consumer expectations, with pricing strategies playing a pivotal role in shaping purchasing decisions. A significant majority of gamers, approximately 68%, reported that the price of a game is a critical factor in their decision-making process.

Consistent with this result, 52.6% of respondents prefer to wait for discounts and promotions rather than purchasing video games at full price at launch. Additionally, the majority of gamers (73%) prefer to buy the standard version of a video game, perhaps because they are price-sensitive and reluctant to spend a larger amount on alternative versions of the basic video game. The majority of respondents (87%) gave up on purchasing because they considered the price too high. This finding is in line with the high sensitivity to price of gamers.

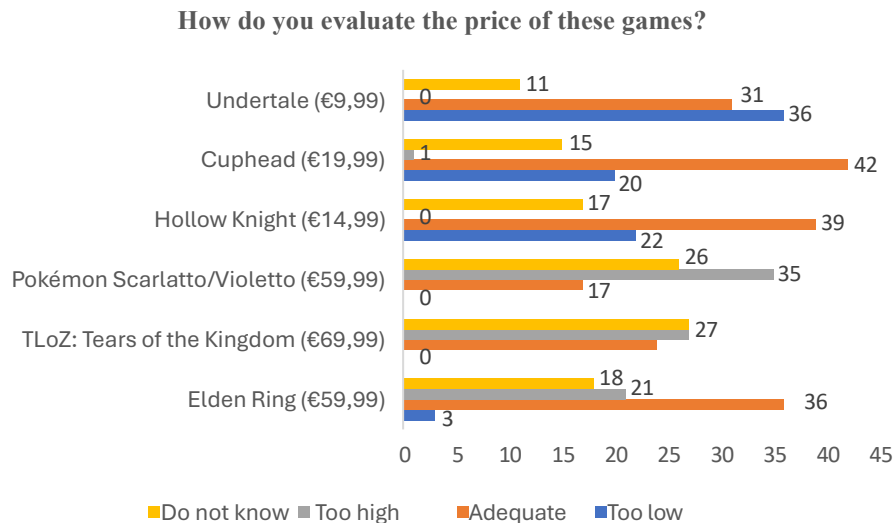
All of the above findings on price perception highlight the necessity for developers to strike a balance between affordability and perceived value. Gamers tend to evaluate the cost against factors such as game quality, narrative depth, replay ability, and graphical fidelity, all of which contribute to the overall gaming experience.

Interestingly, the data reveals a strong preference for games that offer substantial content and engagement. Around 75% of respondents expressed willingness to pay higher prices for games that deliver exceptional value, characterized by immersive storytelling, comprehensive gameplay mechanics, and robust online communities. This indicates a growing trend towards valuing qualitative aspects of games over quantitative pricing metrics. Such insights suggest that while initial pricing remains crucial, the perceived quality and breadth of a game can justify higher price points, thereby aligning consumer expectations with market realities.

The free-to-play model has emerged as a particularly popular pricing strategy, with 62% of survey participants favoring this approach due to its low entry barrier. This model enables gamers to explore and engage with a game without the upfront commitment, thus expanding the potential player base. It also provides developers with opportunities for monetization through microtransactions and in-game purchases.

The data analysis further reveals that consumers shape their perceptions of video game pricing through word of mouth and other factors beyond direct gameplay experience. This is why many companies in the industry implement targeted marketing campaigns to influence gamers' perceived value for money. These efforts often include distributing games early to content creators and gaming critics, as well as organizing industry events and trade shows like Nintendo Direct or Gamescom.

Figure 1: Triple-A vs. Independent Video Games price perceptions



Source: Authors' own elaboration

Another notable finding is the different price perceptions regarding triple-A video games compared to independent video games. Six video games were chosen that have had a huge media impact in the industry and are therefore known to the gaming public. The first three were included as pearls of the independent video game panorama and considered, both by the public and critics, among the best Indie video games ever. The last three are instead included as Triple-A video games.

The results – summarized in Figure 1 – show that a good portion of gamers consider the price of independent video games (Hollow Knight, Cuphead and Undertale) too low

and would be willing to spend more to play them. They perceive the high quality and potential of these video games even if they were developed with little or no budget. For triple-A video games, there is a tendency to evaluate the price as adequate or too high, especially in the case of Tears of the Kingdom (€69.99) and Pokémon Scarlet/Violet (€59.99).

From the data analysis, it also emerged that the average price that a gamer is willing to pay is €62,038, reflecting the prices of today's gaming industry, with the majority of video games being sold at full price at €59.99.

Purchasing of additional content

Although the free-to-play model has emerged as a particularly popular pricing strategy, 45% of players engaging in microtransactions reported monthly spending ranging from €10 to €50, highlighting a willingness to invest in enhancements that personalize or elevate their gaming experience. These purchases often include cosmetic items, such as skins and emotes, which do not affect gameplay balance but enhance the visual and personal connection to the game.

Despite the popularity of microtransactions, there is a growing concern about fairness and balance. Approximately 60% of respondents expressed reservations about pay-to-win mechanics, which offer competitive advantages to players who spend more money. This sentiment reflects a broader demand for transparency and ethical practices in game monetization, emphasizing the importance of maintaining a level playing field. Such consumer concerns underscore the need for developers to carefully design and implement microtransaction models that enhance rather than disrupt the gaming experience.

Conclusions

This study aimed to fill a gap in the marketing literature regarding consumers' perceptions about pricing policies in the video game industry. An online explorative survey on a selected sample of passionate video game players allowed us to shed light on an underexamined industry of digital products.

The findings of this study reveal that the video game industry's pricing strategies have evolved significantly to adapt to a rapidly changing digital-first marketplace. The industry is characterized by a diverse array of pricing models, ranging from traditional premium pricing to innovative free-to-play strategies, each catering to different segments of the gaming population. This evolution is driven by technological advancements, shifting consumer expectations, and the increasing importance of digital distribution platforms.

The empirical results confirm the general theories on pricing policy in the marketing literature (Gregori et al., 2022), highlighting its critical importance across all sectors,

particularly in this industry, where consumers are willing to pay premium prices for access to new valuable products and components. While traditional pricing models remain valid, industry-specific models have also been identified. This study offers preliminary managerial implications for producers, distributors, and policymakers.

For developers and publishers, the challenge lies in balancing initial game pricing with ongoing monetization through microtransactions and DLC. This requires a nuanced understanding of consumer behaviour and preferences, as well as a commitment to transparency and fairness in monetization practices. The study highlights the need for developers to consider both the competitive landscape and consumer expectations when designing pricing strategies, ensuring that they align with player values and perceptions of fairness.

The insights gathered from the survey and expert interviews suggest that while initial game pricing remains a critical factor in consumer decision-making, the perceived quality and value of a game can justify higher price points. Players are willing to invest in games that offer exceptional content and engagement, provided that monetization practices are fair and transparent. This underscores the importance of developing robust and engaging games that resonate with players on a personal level, fostering long-term engagement and loyalty.

In conclusion, the video game industry stands at a crossroads, where traditional pricing models are being challenged by digital innovations and evolving consumer expectations. By embracing these changes and leveraging digital distribution platforms, developers can unlock new opportunities for engagement and revenue, ultimately driving the industry's continued growth and success. The ability to adapt and innovate in this dynamic environment will determine the future trajectory of the industry, shaping the experiences of millions of gamers worldwide.

Future research should explore wider samples of gamers and the long-term impact of microtransactions on player satisfaction and brand loyalty, examining how different monetization strategies affect the overall gaming experience. Additionally, there is potential for innovative pricing models, such as subscription services and blockchain-based monetization, to further shape the industry's future. Surveys conducted on producers and distributors would also be beneficial for understanding trends in marketing policies within the video game industry, as well as conducting case studies to examine best practices in innovative pricing models. Understanding these dynamics will be crucial for developers and publishers aiming to navigate the complexities of the modern video game market and achieve sustainable growth.

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