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Video games

Fortnite's developer is entering the retail business

Epic hopes to break the dominance of a firm called Valve—and another called Google



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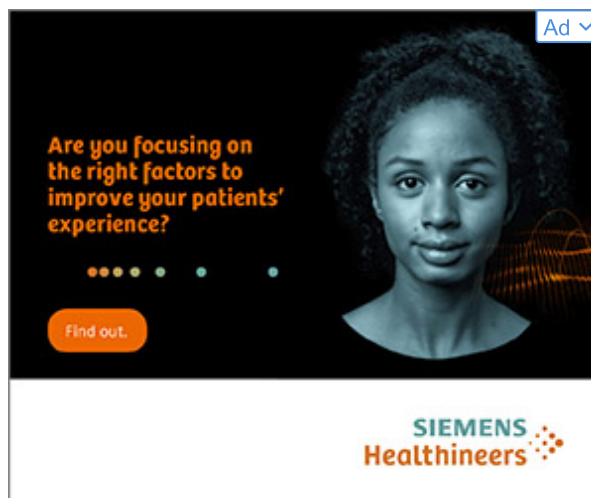
Print edition | Business

Mar 14th 2019

A YEAR AND a half after its launch, “Fortnite Battle Royale” remains one of the world’s most popular games. Epic, the maker of the lighthearted online shooter, reported that 10.7m players watched an in-game concert on February 2nd by Marshmello, a DJ. Concurrent player numbers regularly exceed 7m. Netflix says it views “Fortnite” as more of a competitor than video-streaming rivals like Hulu or HBO. Epic, meanwhile, has set its sights on a new set of rivals: digital shopkeepers.

These days video games are mostly sold not in boxes but as digital downloads. On the PC, the market is dominated by Steam, an online store run by Valve, a reclusive American games developer. On Android, Google’s Play Store rules. Epic wants in.

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Steam, the smaller of Epic's targets, already has competitors, such as Good Old Games and digital stores run by big publishers such as Electronic Arts and Ubisoft. None has made much of a dent. Valve is privately owned, so reliable numbers are scarce. But Steam is thought to have around 290m users and 20,000 titles; its PC market share may be above 70%. It takes a 30% cut of each game sold. A conservative estimate puts Valve's revenues in 2017 at \$4.3bn, making the total market worth at least \$13bn. Google's Play Store is even bigger. Once again, the firm does not report detailed numbers. But according to one estimate from SensorTower, a market-intelligence firm, in 2018 total sales were \$24.8bn, mostly from games. Like Valve, Google takes a 30% cut of every app sold.

Neither will be a walkover. Steam has social features that let gamers chat to friends and jump into games alongside them. The Play Store comes pre-installed on most Android phones (though it is not available in China). Both platforms benefit from "network effects" that reinforce their dominance. Developers face strong incentives to sell their games there because most other developers already do so, and users like having a one-stop shop.

Nevertheless, Epic makes a credible contender. It is part-owned by Tencent, a Chinese gaming goliath. "Fortnite" has earned it bucketfuls of cash, which have been topped up with a recent injection of \$1.25bn from private equity. It also has plenty of experience. Besides making games, Epic sells its "Unreal" video-game engine, a prefabricated framework around which developers can construct their own products. That gives the firm a good understanding of what developers want.

Most important, it has “Fortnite”. Despite its popularity, the game is not available on either Steam or the Play Store. Gamers must instead download Epic’s own software if they want to play. The PC version now includes a shopfront where they can buy other games. Later this year Epic’s Android app will offer something similar.

Epic’s playbook recalls Steam’s own when it first started in 2003. Popular Valve games such as “Counter-Strike” and “Half-Life 2” were bundled with Steam, providing an initial user base. Its 30% cut was a steal for developers compared with bricks-and-mortar shops. Epic plans to undercut Valve (and Google) in turn. It will charge developers just 12% and waive the 5% fee it levies on games that make use of “Unreal”.

Epic’s PC shop has already attracted several big titles, including “Metro Exodus” and “World War Z”. Valve has responded by reducing its cut to 25% or even 20%—but only for games with sales of more than \$10m and \$50m, respectively. The Android market is already fragmented; smartphone makers such as Huawei and Samsung run their own stores.

One firm missing from Epic’s target list is Apple. Its app store is the biggest of all, with estimated revenues of \$46.6bn in 2018. For now, it is invulnerable. Apple prevents smartphone users from installing software from anywhere but its own store. (A case alleging this is anti-competitive is currently before America’s courts.)

That may be just as well. Epic’s simultaneous attack on PC and mobile distribution is ambitious, says Joost van Dreunen at SuperData, a video-games analyst. To pull it off, the company must act fast. “Fortnite” will not remain a hit for ever; a rival game called “Apex Legends” signed up 25m players in the week after its launch last month. But Tim Sweeney, Epic’s founder and boss, does not lack ambition. Steam sells non-game software. The Play Store sell apps of all kinds. “If we succeed with games,” he says, “anything is possible.”

This article appeared in the Business section of the print edition under the headline "Ahead of Steam?"

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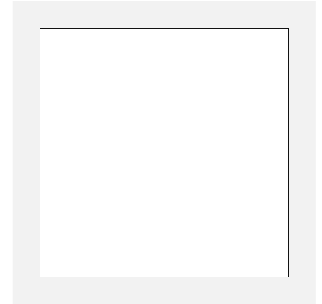
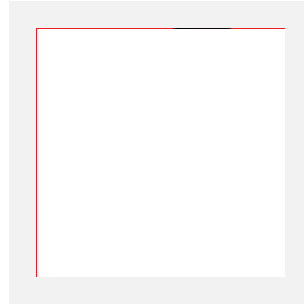
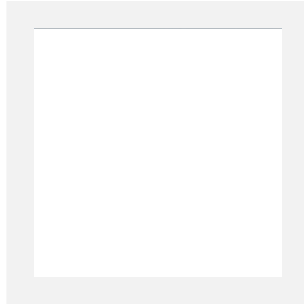
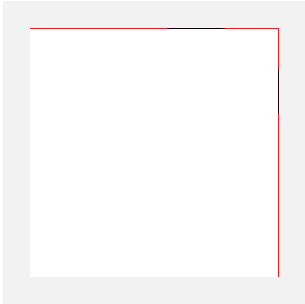
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