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Rovio and Angry Birds

It all started with a simple screenshot of an unhappy-looking bird.

The simple slingshot game developed by a small Finnish company, pitting various wingless birds against smirking green pigs, has become a worldwide phenomenon. Since its release in 2009, Rovio Entertainment's *Angry Birds* application has been downloaded by more than half a billion people worldwide.¹

Despite its success in terms of numbers, Rovio's market prominence was due entirely to one very casual gaming application. The company had to find ways to expand their scope and generate revenue while trying to stay above their many competitors. The gaming industry has always been saturated with games, and most that achieve sudden peak popularity lack long-term impact.

With this in mind, Rovio's goal was simple - they had a hit game on their hands, and they were going to use the opportunity to turn it into something more instead of letting it fade into obscurity.

Company Background

Rovio was formed by three students from the Aalto University School of Science and Technology in Helsinki, Finland. After a success with a mobile game development competition, they decided to form their own company, initially named Relude. One of these founders was Niklas Hed, who now runs the company with his cousin, CEO Mikael Hed.

The startup company, located in Espoo, Finland, was small, and at first the three founders did most of the work developing games. By 2005, after receiving a small investment, the company expanded to 25 people and renamed itself Rovio. Rovio sustained itself by doing projects for other companies such as EA, but nothing garnered them enough independent commercial success to sustain revenue.²

The gaming landscape changed in 2007 with the release of the iPhone, along with the Apple App store. This solved distribution problems, but Rovio had yet to release a game to conquer the app store. Acknowledging the competitiveness of the application market, the Heds developed necessary criteria: the game had to load quickly, must appeal to all audiences and, pending success, needed to be translatable to other platforms.³

In early 2009 Rovio found itself on the brink of bankruptcy. CEO Mikael Hed knew they had to develop the perfect game to stay in business. With the situation dire, a game designer brought a single screenshot of unhappy-looking round cartoon birds trudging on the ground to a meeting.³ The characters resonated well with everybody in the room, so much so that the company set out to design a game around

the birds. "The most important part inspiration-wise for us were the characters," said Mikael Hed in an interview.²

Development of the game began later that month, and the original concepts were radically different than the final product. The antagonists of the franchise, the sickly green pigs, were based off the swine flu epidemic. Backstories and birds with different playing abilities slowly formed. Angry Birds' initial budget was 100,000 Euros - the game would go on to gross over 50 million euros.³

Zooming to Prominence

The game, Rovio's 52nd title, was finally released in December 2009, and became an overnight hit in Finland, rocketing to number one in the Apple App Store. However, it was still buried under the other applications in English-speaking countries.

In mid-February Apple UK decided to feature the game, which gave Rovio the chance it desperately needed. The company created a short Youtube video in preparation of the feature. Soon after the game jumped to number one in the UK and, not long after, the United States.² It has since held a steady position in both countries as one of the most downloaded applications.

In March 2011, Rovio received a \$42 million investment from Accel Partners, Atomico Ventures, and Felicis Ventures LLC, all venture capital firms. Accel was attractive as a partner because of its ties to the entertainment industry.¹⁸ Niklas Zennström, co-founder of Skype and founder of Atomico Ventures, also joined Rovio's board.¹⁰ The investment allowed Rovio to continue its international expansion across mobile platforms, social media markets, and beyond. (See Exhibit 1)

By November 2011, Angry Birds boasted an impressive user base. At one point or another, it had been the number one paid application on iTunes in over 68 countries, and had broken the half a billion download barrier across platforms. Every day, 30 million daily active users play a collective 300 million minutes.¹ Revenues in 2011 reached 102 million, and Rovio is currently seeking funding that would give it a 1.2 Billion valuation by 2012.¹⁶ (See Exhibit 2) Earlier this year, Rovio also reportedly turned down a \$2.25 billion acquisition offer from Zynga, a San Francisco-based game developing company.²¹

There are several reasons Angry Birds has reached the level of success it has attained.

Simplicity

Because Rovio wanted the game to appeal to everybody, they made it incredibly simple. Players launched birds at the enemy green pigs using a slingshot concept, aiming with their finger on the touchscreen. A level was completed once all pigs were "popped". The casual player could get through levels quickly with less stars awarded, while the more dedicated players strived for perfection on each level. The result was a game that allowed users to play either a couple seconds or a couple of hours; it allowed for instant gratification.

Mikael Hed explained: "It has to be easy to pick up and play but hard to master. The "easy to learn" part was really important to us. When you see one screenshot of the game you know what you have

to do. Angry Birds is simple, but it still has depth. It has to be so much fun that players want to return to the game over and over again.”²

Monetization

In the US store, Rovio charges \$0.99 for the application. They also offer a free “Lite” version, which gives users a taste of some of the gaming levels. Though the price is low, especially compared to other popular gaming applications, Rovio has found ways to extract more revenue from Angry Birds by offering in-game paid upgrades and releasing different paid versions of the game.

Mighty Eagle

In December 2011, Rovio introduced the Mighty Eagle, a new bird in the Angry Birds game that can be used once per hour to clear any frustrating, uncompleted levels. With the introduction of the Mighty Eagle, Rovio added another dimension to its game--players could use the add-on, without limit, in previously completed levels with the goal of destroying as much of the scenery as possible. To use the Mighty Eagle, players have to make a one-time, in-game purchase of \$0.99. Though creating the add-on barely cost Rovio anything, by April 2011 it had been downloaded 2 million times.³ The Mighty Eagle is currently only available in the U.S. for iOS since Apple Store customers have iTunes accounts with pre-linked credit cards. However, Rovio has been testing an Android update named the “Bad Piggy Bank” with Elisa, a wireless service in Finland, whose customers can charge the in-app purchases to their mobile phone bills. Rovio expects this service to eventually become available to all Android users.³⁰

Angry Birds Seasons

In October 2010, Rovio released Angry Birds Halloween, a Halloween edition of the game that was exclusive to iOS.³¹ A separate application from the main game, Angry Birds Halloween featured new Halloween-themed levels and also costs \$0.99. Gameplay functioned exactly the same. That following December, Rovio released a free update to those who had purchased the Halloween edition. The update included 25 new Christmas-themed levels, to be released each day like an Advent calendar.³² Thus Angry Birds Seasons was born, with updates of other holiday-themed levels for Valentine’s Day, St. Patrick’s Day, Easter, and the Chinese Mooncake Festival following. Angry Birds Seasons was released to iOS, Android and Symbian devices.

Angry Birds Rio

In February 2011, through a partnership with Twentieth Century Fox, Rovio released Angry Birds Rio for \$0.99 on the iOS and Android platforms. The new, separate application featured Angry Birds characters in Rio de Janeiro with characters from the film *Rio*, which hit theaters on April 15. Downloads reached 10 million by the end of the month.⁴

Compatibility with Many Platforms

As previously mentioned, Angry Birds started out as an application for the iPhone and quickly expanded to include Android, Symbian, and every major smartphone platform. It has since expanded to web browsers and social networking sites.

Smartphones

Following the initial release of Angry Birds for the Apple iPhone, several versions of Angry Birds have become available for a number of different devices, starting with other smartphones. The first of these was Nokia's N900 handset, which could download the game through the Ovi online store.²² In August 2010, Angry Birds was available to Palm Pre phones running Palm's webOS operating system.²³ Symbian operating phones received a version of the game in October 2010.²⁴

In October 2010, Rovio also released Angry Birds for Android devices. Unlike previous versions of the game available on the iTunes App Store, the Angry Birds application for Android was free. This was due to the fact that paid applications weren't supported on Android in some nations, and Rovio wanted Angry Birds to be accessible for more people. Upon initial release on GetJar, the world's largest free app store, the amount of users trying to download the game crashed the site.¹⁴ Once the application also became available on the Android Market, the demo was downloaded more times than any other game demo on the market.¹⁵

However, a following Android update to the game generated a significant amount of negative feedback. Many players had trouble running the game on their devices, especially those on older and slower performing Android phones. Though Rovio did little to explain the problem, while they were performing additional tests on the update, they released a "lightweight" version of the app to cover the 21 types of Android devices that were now unsupported. By offering a temporary version that did not mean lighter game play or a lesser amount of levels, but rather a game experience optimized for devices with less processing power, Rovio demonstrated an impressive level of commitment to its customers.¹²

Angry Birds Magic

Rovio is currently developing a special version of the game exclusively for Nokia's NFC-enabled Symbian devices. The game, to be titled Angry Birds Magic, will include 20 levels. Players start with five of those levels available for play, with five more levels unlocked each time you make contact with another player on a NFC-enabled phone. This adds a new dimension of player-to-player interaction that was not present in previous versions of the game. All NFC Symbian devices sold in 2011, starting with the Nokia C7, will be pre-installed with a free version of Angry Birds Magic.⁵

Google

In May 2011, the appearance of a version of Angry Birds on Google Chrome marked the first time the game was available on desktop computer. Rovio designed exclusive levels for Google Chrome titled "The Chrome Dimension", available as a free add-on to any Google Chrome browser.¹⁹

In August 2011, Angry Birds expanded to its first social platform: Google+. Google+ allowed its users to share game updates with friends, participate in leaderboards, brag about their achievements, unlock special social levels, and invite people to play. The 10 million people already on Google+ were able to enjoy Angry Birds not only as a game, but also as a social experience. "Angry Birds for Google+ Games is a great start, but it's just our first step in social gaming," says Mikael Hed.¹³

Facebook

Although Rovio also started working on a version of Angry Birds for Facebook in early 2010, the project proved to be one of the largest internal projects for the company and has been ongoing for over a year. To successfully expand to the social networking platform, Rovio understood that it needed to

incorporate social aspects to the game. The Facebook version of Angry Birds will be available for free download, though it will feature game enhancements through the offering of virtual goods, such as the Mighty Eagle, that users can purchase electronically.¹⁸ To bring awareness to the game's move to Facebook, Rovio recently added a feature where if users "Like" Angry Birds on Facebook, they get three new levels added to their phones for free.¹⁷

Competition

The Heds have acknowledged many times in interviews the volatility of the gaming market - and how easily another popular game could topple Angry Birds from its position.

Smartphone Game Apps

There are very little barriers to entry in the smartphone game development industry. As evidenced by Rovio, all it takes is three guys and a virtual slingshot. While Angry Birds has occupied a spot in the Top 25 list of the Apple App store ever since its feature on Apple UK, there are several other apps, old and new, that have been vying for its coveted spot.²

Halfbrick Studio's Fruit Ninja, offering an even more simplistic gameplay, also has the addictive qualities of a successful gaming application. Players simply slice their fingers across pieces of fruit thrown up on their smartphone screens, gaining points as they splatter in vibrant colors. Currently in fourth place on the Apple App Store's Top Paid applications, it is only two spots away from Angry Bird's second place slot (See Exhibit 3). Halfbrick has made many of the same moves as Rovio in regards to their popular game application, such as expansion to other smartphone platforms²⁷, gaming consoles²⁶, and future plans for social networking integration.²⁵ The similarities in the movement between the two companies makes them competitors within several different parallel sectors within the gaming industry. Thus, Rovio needs to keep a close eye on the behavior and performance of other games that also started out as simple smartphone applications as they continue their expansion.

Zynga

Zynga is a browser-based game developer that is known for creating popular games as application widgets on social networking sites. In a recent poll in June 2011 for the top 25 Facebook games, four of Zynga's games, CityVille, Texas HoldEm Poker, Farmville, and FrontierVille were among the top 5.²⁰

Zynga's games endure because they turn gaming into a routine for players. Tending a virtual crop in FarmVille is as much of an obligation as tending a real crop if the virtual farmer wants to be successful. Zynga's games also have a strong social aspect that makes it ideal for social networking sites like Facebook. For example, a player on Cityville gains experience points by doing work in one of their friends' cities. Although Rovio will not be competing directly with Zynga in an economic sense, the two companies are still competing in a popularity sense. Rovio will need to incorporate social aspects into its game if they want Angry Birds to achieve the same level of popularity as Zynga's game on social networking sites.

Flying Beyond Phones

Since its release Rovio has constantly updated the game with more levels for free, rewarding current users. The company also answers fanmail, responds to Tweets, and takes user suggestions for levels and new birds seriously. In doing this they hope to build a steady relationship with their customer and create loyalty to Angry Birds. Said CEO Mikael Hed: "It doesn't make sense [to produce a slate of different games] when you have a hit of any caliber...When you create brand equity, to do that again would be a difficult task rather than nurture and build around what you have."⁸

Going forward, Rovio has already stated its intent to focus on expanding Angry Birds and its brand instead of developing new games.² Projections show that the application market is still growing, with 970 million potential customers and the mobile gaming business being worth 4.5 billion by 2013. While Rovio is confident the game will bring growing downloads and revenue, their main goal is expansion beyond mobile gaming - in short, to make Angry Birds a franchise.

Mikael Hed had estimated in April this year that 40% of Rovio's revenue is not directly related to the games, but are in fact from toys and other licensing deals.³ Rovio is certain that it wants to focus on franchise expansion - but to what type of market? Here, the company can consider several options.

Physical Store Expansion

By December 2010, the first Angry Birds plush toys were available for purchase through the application. Soon after these toys became available in retail and novelty stores. In November 2011 the company estimated that 1 million T-shirts and 1 million plush toys are sold every month.⁹ In May Rovio launched the Angry Birds board game, titled "Knock on Wood", produced by Mattel.²⁹

The first Angry Birds store opened in Finland in mid-November, and sells game CDs, recipe books, and the signature plush toys, among a variety of merchandise. Many of these items are already offered online for those outside of Finland to purchase. (See Exhibit 4)

Rovio could consider expanding these physical stores outside its home country. As previously mentioned, the merchandise has already become a hit in Finland and abroad. Expanding these physical stores could further help the company generate interest in the characters. This could help brand the characters as iconic images on their own accord, instead of being necessarily connected to game. While the game itself is very intangible, having physical stores would give customers the chance to tangibly interact with the characters, further building loyalty. All this could, in turn, generate revenues back to the original game.

However, building these stores could be a risky venture. Brick and mortar stores abroad would be extremely costly to Rovio, especially with regard to rent and hiring new salaried employees. Then, there is the risk that consumer demand would not be enough to sustain the stores. As merchandise is already sold in many novelty stores, there runs the risk of overlap and too much supply. If Rovio were to consider global expansion of physical stores, they should conduct research and seek out high-demand markets while considering fixed and operational costs.

Countries such as China may present high success; Rovio is already considering opening stores within a year. Angry Birds has already become somewhat of a cultural phenomenon there, downloaded 50

million times in China alone, and there is already an abundance of counterfeit merchandise in the Chinese markets. Rovio's chief marketing officer estimates potential sales to be approximately 100 million in the first year of operations.¹¹

TV and Movies

Rovio currently has several animated trailers on YouTube that have netted more than 200 million views to date. In June, Rovio purchased Kombo, a Helsinki-based animation studio, to expand its in-house animation capabilities.³³ Mikael Hed envisions bringing the Angry Birds story to the silver screen through a claymation film in the style of Aardman Animation.⁶ That same month, Rovio announced David Maisel, previously Executive Producer at Marvel Studios, to become Special Advisor to Rovio. Maisel, having produced movies such as Iron Man, Thor, and Captain America, will be at the head of any future Angry Birds feature-length films. "We welcome his experience and vision as we continue broadening our entertainment production scope at Rovio," says Mikael Hed. Similarly, Maisel believes "the business model, intellectual properties, and the franchise potential of Angry Birds give Rovio the most exciting prospects I have seen in the entertainment business since Marvel in 2003."⁷

In addition to possible feature-length films, Rovio has been seriously considering an animated TV series featuring the birds. The announcement was made in January, but no further details have surfaced.³⁷

This option faces some of the same potential problems that the brick and mortar stores face - mainly that of demand. The jump from a casual game to feature film or an animated series would be risky; there is uncertainty in demand. Furthermore, movies are experience goods, and especially without any sort of precedence, people would have to pay to see it before they know whether or not if they like it. There is no guarantee that an Angry Birds movie will be a box office hit. It is advisable in this case that Rovio first create smaller segments of shows online to gauge audience interest before they roll out longer shows or movies.

While Rovio has already made moves toward this option, actually producing these shows or movies could be extremely costly. Consumers would also lose the interaction aspect of a game with a purely visual movie, something Rovio has hoped to nurture with their merchandise line. In addition, the success of a feature-length film is often based upon the connection an audience feels with the characters up on the silver screen. Rovio could face a challenge in getting viewers to identify with birds that squawk instead of talk.

On the other hand, if it were to be a success, the franchise would experience huge growth with increased advertising and media attention. Potential revenue could be huge. This success could in turn parlay back into revenues for merchandise and the game. Because Angry Birds' YouTube videos have already generated many hits, interest in further media expansion is a reasonable assumption.

Further Expand Gaming Outreach

Rovio has been steadily expanding Angry Birds to many platforms. The game is available on devices such as the Nook Tablet³⁵ and handheld Playstation.³⁴ While Rovio already has plans to make versions of the Angry Birds application available for download on platforms such as the Wii and Xbox

360,³⁶ the company should also take steps towards creating more complex and interactive versions of the game for these same consoles.

As Angry Birds' success is extremely character-driven, creating a variety of games based on the characters would expand the game's outreach to those who are looking for less casual games. The current Angry Birds game is a very casual puzzle-genre game; Rovio could create, for example, an adventure game using the characters that would be played on gaming consoles. This could help the franchise and create loyalty to the characters, especially if the developed games are more interactive and more in-depth with clear storylines. A good example are the characters of Nintendo, like the Mario Brothers, who show up in many types of games as their popularity is character-driven. In an interview, Rovio's CMO, Vesterbacka, hinted: "When Mario drives a car, it becomes *Mario Kart*. When Mario flies to space it's *Mario Galaxy*. Our birds will do things, and go to unexpected places."²⁸ Furthermore, this option would likely be the least costly and the least risky. Rovio's current team of programmers are well suited to realize this option, and it would stay in line with Rovio's goal of expanding to as many platforms as possible.

On the other hand, revenue potential would be lower than the other two options. Also, this option would not help Rovio expand to markets outside of the gaming market. While Rovio would be able to stay true to its core competencies and further brand themselves as a game developer, the company could find itself boxed in with limited growth potential.

What's Next?

Rovio's international success results from their strategy of establishing Angry Birds as more than just a game. Though the gaming market is volatile and games often experience periods of peak popularity that then quickly diminishes, Rovio has taken steps to create a franchise and to thus ensure that customers won't soon forget the wingless bird characters that first flew onto their smartphones, evidenced by their constant popularity in app stores. If Rovio can take advantage of the various expansion options available to them, all of which will extend Rovio's reach to markets outside of the mobile gaming industry, the company can continue to brand Angry Birds and prolong the franchise's success.

For them, the sky's the limit.

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Exhibit 1

VC/Funding Activity table for Rovio Entertainment Ltd. displays the venture capital rounds, angel investments, debt or other funding raised by Rovio Entertainment Ltd..

| | DATE | INVESTOR | ROUND | INVESTOR TYPE |
|--|---------|--|-------|--------------------|
| | 2005 | Kaj Hed ¹ | Seed | Angel / Individual |
| | | TOTAL ROUND SEED \$1,000,000 | | |
| | 03/2011 | Atomico Ventures ² | A | Venture Capital |
| | 03/2011 | Felicis Ventures LLC | A | Venture Capital |
| | 03/2011 | Accel Partners | A | Venture Capital |
| | | TOTAL ROUND A \$42,000,000 | | |
| | | TOTAL OF FUNDING SHOWN ABOVE \$43,000,000 | | |

Notes

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|---|--|
| 1 | Trema International Holdings BV is the largest shareholder in Rovio. |
| 2 | Niklas Zennstrom, the co-founder of Skype will be joining Rovio's board. |

Source: PrivCo

Exhibit 2

Below are Rovio Entertainment Ltd. financials and other business metrics

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---------------------------------|---------------|--------------|---------------|------|------|
| Revenues | \$102,000,000 | \$70,000,000 | \$12,000,000 | | |
| Net Income (Loss) | \$14,000,000 | \$4,500,000 | (\$1,200,000) | | |
| Total Employees | 80 | 50 | 30 | 12 | 10 |
| Productivity (Revenue/Employee) | \$1,275,000 | \$1,400,000 | \$400,000 | | |

Notes

* Rovio Entertainment Ltd. fiscal year end: 06/30

Source: PrivCo

Exhibit 3

Top Paid Apps on the Apple App Store, accessed December 1, 2011



Exhibit 4

The First Angry Birds Store opens in Finland on 11-11-11

