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Business Models and Pricing Strategies for Video Games

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Abstract. With the development of The Times, more and more entertainment projects have emerged in people's lives. In recent years, among the most prominent, dynamic and profitable industries, there must be a place for video games. Therefore, this article will explore the various business models and pricing strategies adopted by game developers and publishers to maximize profits and attract players. This study, through literature review and typical case analysis, compares the performance and impact of different business models such as buyout, freemium, and subscription in practical applications. Research has found that game types and target users can significantly influence the choice and success rate of pricing strategies. Based on the existing problems, this paper suggests that game companies adopt more reasonable pricing methods, set reasonable discounts, and implement relevant measures to restrict game consumption, such as an anti-addiction mechanism. By analyzing the relationship between the business model of games and pricing strategies, theoretical support and practical references can be provided for game enterprises to formulate marketing and product strategies.

Keywords: Game type, business model, pricing strategy, target users.

1. Introduction

Since the beginning of the 21st century, the video game industry has developed rapidly. By 2013, global revenue had exceeded 76 billion US dollars, making it the fastest-growing industry in the entertainment sector [1]. This study focuses on the business models and pricing strategies adopted by the video game industry. Specifically, it examines how to implement various monetization methods across different game types and platforms, as well as how these strategies influence user behavior and revenue generation. As game developers increasingly rely on flexible pricing models and diversified revenue sources, analyzing these strategies can provide in-depth insights into how to optimize player satisfaction and business success. Research classifies the business models of video games into different types based on the ways in which value is created, delivered and captured. Common models include paid games, freemium, subscription-based, ad-supported, and hybrid systems [1]. Furthermore, the applicability of each mode usually depends on the platform of the game, the target audience, and the stage in the product life cycle [1]. This classification framework lays the foundation for analyzing how pricing strategies are consistent with game types and player behaviors. This article plans to explore the mainstream business models in the video game industry in the second part, including the buyout system, the freemium system, and the subscription system, respectively elaborating on their core logic, applicable scenarios, main features, and typical cases. The third part will focus on analyzing the pricing strategies of various game business models and provide examples for reference, exploring their pricing logic, implementation methods, and impact on player behavior. The fourth part will discuss the controversies and challenges currently faced by various models and put forward optimization suggestions. The fifth part is the conclusion, summarizing the research results and looking forward to the development trends of future business models and pricing strategies for video games.

2. Mainstream business models and cases of video games

The Pay-to-Play model requires players to make prepayment before downloading and accessing the full game content. After purchase, players can enjoy a complete gaming experience throughout the entire subsequent gameplay without paying any additional fees. This business model is designed to offer a fully developed and uninterrupted gaming experience, enabling developers to focus on narrative depth, cinematic presentation, and immersive world construction without being disrupted by frequent microtransactions. A famous example of this mode is “Black Myth: Wukong”, an action-adventure role-playing Game developed by Game Science. This game adopts a one-time purchase pricing strategy, which conforms to the industry practice of high-quality single-player games. The high production value, advanced graphics and complex game system prove that the relatively high upfront cost is reasonable. Through this business model, the game has sold over 20 million copies worldwide, generating a total revenue of over 961 million US dollars, and has become a benchmark case of internationalization in China’s game industry [2].

Free-to-Play is one of the mainstream business models of current mobile and client online games. This mode allows players to download and experience the basic content of the game for free, and the main source of profit comes from “in-app purchase items” within the game. The core logic is to attract a large number of users with free downloads and make customers have the desire to consume through eye-catching built-in props, so that they can make purchases within the game. The most typical and successful case is “Honor of Kings” under Tencent. This game can be downloaded for free, but the variety of skins it offers has aroused players’ desire to consume. Honor of Kings is one of the games with the highest revenue in the Chinese market in recent years. The reason for its success is that it launches various elements full of Chinese style to attract players to pay, such as skins with styles like the Spring Festival and Chinese mythology. According to Sensor Tower’s estimation, “Honor of Kings” ranked first globally in mobile game revenue in January 2025.

The Subscription model requires players to pay fees monthly, quarterly or annually to obtain the right to use the game or exclusive benefits. This model is generally applied to some game platforms. The core logic is to use some traditional classic games as its signature. These games are usually released many years ago and are renowned for their captivating gameplay and cultural influence. Game platforms aim to enrich their content libraries with these games to attract new audiences. A very typical example is the subscription model of Xbox. Microsoft released Xbox in 2001, and its main game console brought entertainment to players. It was not until 2017 that Microsoft launched Xbox Game Pass, a subscription system where players could play new games as long as they purchased it. This led to the huge success of the Xbox platform. As of January 2022, the subscriber base of Xbox was approximately 25 million gamers. It accounted for approximately 20% of Xbox’s $16.3 billion revenue in 2021 [3].

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3. Analysis of pricing strategies for video games

For Pay-to-Play mode games, their pricing is generally based on cost. This model is generally used for what people often refer to as AAA games, which are usually high-cost, high-quality and large-scale games. The game prices under this mode are generally between 200 and 600 yuan. Game developers usually take advantage of players' mentality of "the earlier you buy, the earlier you experience" when selling games in order to immediately gain access to the games, and players reinforce this trend to avoid potential plot Revelations. However, some consumers do not agree with this motivation. To attract this group, developers or digital distribution platforms often implement promotional discount strategies after the initial sales period. For instance, the Steam platform holds a "Summer Sale" event every year, during which it offers previously highly praised paid games at historically low prices, encouraging players seeking to take advantage of these temporary discounts to make purchasing decisions.

In contrast, the freemium model offers games for free to players, but game developers will use psychological and behavioral economics to drive revenue. A common strategy is to introduce limited-time purchase games, such as skins and clothing. This approach aims to take advantage of players' collecting tendencies and the scarcity effect, where, due to the expected longer waiting time for the return of future game items, the limited-time availability will generate a greater sense of urgency. Rewards for in-game stores or limited-time events are regularly rotated, as shown in "Valorant", "Genshin Impact" and "League of Legends", to maintain player engagement. Meanwhile, this type of game will also introduce "battle passes" to attract players to spend with high-cost performance. According to the game type and style, it has derived different forms of reward passes to meet the different needs of gamers [4]. The gacha mechanism and random lottery system also take advantage of players' tendency towards probabilistic rewards and their willingness to participate in index-driven decision-making. The developers took advantage of players' fear of time-limited rewards and their sunk costs, causing players' investment in such games to continue to be spent.

Finally, regarding the subscription pricing model, this model offers players the opportunity to continuously access high-quality games in exchange for recurring fees. This model usually adopts a tiered pricing structure and is generally divided into a standard version and an advanced version. Among them, the standard version offers access to some game libraries of decent quality, while the advanced version includes additional benefits such as discounts on more games or exclusive games. Moreover, developers will also launch long-term subscription plans. The price of long-term subscriptions is usually lower than that of the same monthly subscription, thereby stimulating customers to choose long-term subscriptions through cost savings and also achieving customer binding. For instance, PlayStation Plus is an exclusive subscription service launched by SONY for PS players. It can only be subscribed on the PS gaming platform. According to the commercial data provided by SONY, choosing the PlayStation Plus annual plan saves 50% compared to the monthly payment and 40% compared to the three-month plan. At the same time, by subscribing to PlayStation Plus, people can also enjoy exclusive skins for members, 100GB cloud storage, and services such as sharing games with friends [5].

4. The controversies faced and optimization suggestions

With the main application of the Pay-to-Play business model in the market, some disputes related to pricing are bound to arise, which affect consumers' views and income performance. One major controversy related to the paid model is the excessively high frequency and extent of promotional

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discounts. When discounts occur too frequently or reach historical low prices shortly after release, players may adopt a "wait for discounts" purchasing strategy, thereby reducing the urgency of early adoption. This not only disrupts the crucial initial sales period but also causes dissatisfaction among early buyers. When the perceived value of the game they purchased at full price rapidly depreciates, they may feel at a disadvantage. Such a negative experience is bound to undermine consumers' trust. This leads to long-term revenue losses for publishers and developers. Another controversy is that regional pricing differences are also highly controversial. Although such differences are usually implemented to reflect the variations in purchasing power among different markets, some participants consider them unfair, especially when the price differences seem disproportionate to the local economic conditions. Just as Shell observed, many consumers do not consider the cost behind what they purchase. They linked prices to profits and seriously overestimated profit margins [6]. This further amplifies people's perception that the pricing strategy is unfair. To alleviate these issues, game companies should adopt a more rational approach to arranging discounts and limit the frequency and depth of price cuts during the critical period after release. The purchasing confidence of early consumers can be maintained by offering exclusive benefits, such as rewarding in-game exclusive appearance upgrades or loyalty rewards, rather than immediately reducing prices. In addition, regional pricing should be reviewed regularly using transparent and data-driven standards consistent with local economic indicators. Publicly communicating the reasons for price differences may help reduce perceptions of unfairness and enhance consumer trust, ultimately contributing to sustainable long-term income.

Although the Free-to-Play (F2P) model has achieved commercial success, it has always faced criticism in terms of fairness and player well-being. A prominent controversy lies in the view of the "pay-to-win" mechanism, where monetary spending can offer a tangible gaming advantage but may disrupt the competitive balance. Furthermore, inducing consumption, especially that of minors, has always been a recurring issue. There are frequent reports that minors make high-value in-game purchases without sufficient parental supervision. Limited-time outfits, seasonal or holiday skins, and gacha-based reward systems can also put psychological pressure on players, fueling the fear of missing out and the sunk cost effect. In the field of digital consumption, FOMO has been proven to be significantly associated with a higher propensity to purchase. When users are worried about missing out on scarce or one-off opportunities, they often take immediate purchasing actions to avoid regret. This "regret avoidance" mentality will be further magnified by time-limited promotions or exclusive content [7]. This emotion not only affects the rationality of decision-making, but also prompts individuals to engage in impulse consumption, especially when it comes to game items with social attributes or community identity [8]. Therefore, in order to address these challenges, developers should clearly distinguish purely decorative content to maintain the fairness of competition. At the same time, implementing more powerful spending reminders and a strong parental control system can help prevent excessive or unauthorized payments, especially from underage players. In addition, improving the acquisition mechanism for rare or time-limited items, such as announcing the probability of lotteries, introducing a guaranteed drop system, or offering alternative redemption schemes based on points, can reduce the frustration associated with opportunistic rewards while maintaining player engagement. By striking a balance between profitability and moral responsibility, the F2P model can maintain long-term consumer trust and market viability.

Although the subscription model offers favorable prices for players and creates a stable source of income for publishers, it is not without criticism. One major issue is that once players complete the most attractive game, they may feel "saturated" with the other game content in their subscription, especially when the update frequency of new games decreases or their quality is insufficient. They may think that frequently charging fees is not reasonable, which may lead to subscription cancellations. This is consistent with the observations of Yang and Kwon, that is, content saturation and the slowdown of content refresh rate will reduce perceived value and decrease users' willingness to maintain subscriptions [9]. Another point is that for some players, paying at a fixed period is economic and psychological pressure, especially when the subscribed content fails to continuously attract them. The sense of being binding to long-term payment may lead to a negative feeling of "forced consumption". To address the challenges of content saturation and the decline in perceived value, subscription service providers should prioritize regular, high-quality, and diverse content updates. As Yang and Kwon suggested, the platform must enhance the perceived added value of paid subscriptions, such as offering an ad-free experience, exclusive content, and an outstanding user interface, to maintain the loyalty of long-term subscribers [9]. To alleviate the economic and psychological burden associated with regular payments, the platform can implement flexible subscription options, such as pause and resume functions, seasonal passes, or billing based on usage. Yang and Kwon further emphasized that digital content platforms should avoid overly long free trials, as this would hinder the conversion of users to paying subscribers [9]. Therefore, service providers should enable users to experience the advantages of subscriptions as early as possible while avoiding practices that devalue subscriptions. Loyalty programs that offer exclusive member rewards, early access to new games, and regular discounts can further enhance the fairness and value of maintaining subscriptions [10].

5. Conclusion

This study examines the mainstream business models in the video game industry, namely P2P, F2P and subscription, as well as the related pricing strategies, controversies and optimization measures. Analysis shows that each model has its unique advantages and challenges. Paid games offer a complete and immersive gaming experience, but they may undermine the trust of early adopters due to excessive discounts and opaque regional pricing. Free games have successfully driven large-scale adoption and sustained revenue through in-game purchases, but they have also raised concerns about fairness, especially under the psychological influence of "pay to win" and limited items. The subscription model offers publishers a cost-effective and stable source of income, but it is vulnerable to content saturation, a decline in perceived value, and the psychological burden of long-term payment commitments.

By integrating insights from previous studies, this paper proposes targeted solutions to address these issues, limiting the frequency of excessive discounts, enhancing the transparency of regional pricing, clearly distinguishing between in-game decorations and functional items, strengthening awareness of consumption control, diversifying content updates, and increasing the perceived value of subscriptions through exclusive benefits and flexible payment options. Ultimately, the sustainable success of the video game industry requires striking a balance between commercial profitability and consumer trust. Developers and publishers that combine fair, transparent and consistent content quality are more likely to promote long-term player engagement and maintain a competitive edge in the constantly evolving digital entertainment environment.

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