



**INTERACTIVE
DENMARK**

The Finnish Game Industry,

- Takeaways from Interactive Denmark's inspirational trip to Helsinki, Nov. 2016.



Next Game office decoration

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Executive Summary – Key takeaways.

- € 80 million investments from **Tekes** during 2004-2015 has turned out favourable for Finnish taxpayers in the long run, with a game industry that in the same period has generated a cumulative turnover of € 6 billion and has received over € 1,6 billion in private investments.
- **IPR.VC venture capital fund** has managed to raise € 20 million from pension funds, insurance companies and family offices.
- R&D funding from Tekes does not conflict with IRP.VC, rather, the target company can use the Tekes R&D funding as co-financing when they negotiate deals.
- Two decades of strong public - both economic and cultural - commitment towards digital technology and innovation, which has also led to more than ten years of public investments in the game industry, has been crucial for the development of a strong games industry.
- **Nokia** didn't create the success of the Finnish game industry, but it played a significant role as a local driver for mobile technology and innovation
- "Community" is a central keyword to the success of the Finnish game industry.
- **Neogames** and the five regional game clusters are central intermediaries in the Finnish game industry that contribute to maintain the strong community.
- We will see more multi-platform storytelling in the future. The skills and competencies to develop this understanding and translate it into a game design is going to be the crucial competitive factor for the game companies competing for this market in the future.
- Marketing and visibility is crucial for game developers. **Seriously** has shown new ways of marketing with excellent results.

Facts about the organizer:

[Interactive Denmark](#) is a non-profit national cluster organization for the Danish game and interactive industries. Our mission is to accelerate, coordinate and support the development of the industries.

For more information please contact managing director, [Sofie Filt Læntver](#).

Special thanks to Koopee Hiltunen, Neogames for perfect hosting and introductions. And to Seismonaut for organizing everything.

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Why go to Finland?

The Finnish game industry is doing very well. Finnish game companies generate an annual revenue of €2.4 bn. 2015), and 95% of that is exports. The Finnish game industry is generating 10 percent of the *total global revenue* in mobile games. This puts Finland in the top of the international game development league among countries like Japan and USA.

What is even more convincing is that the Finnish game industry is still growing on all important parameters. The statistical figures of 2015 show an impressive development:

- The revenue of the industry increased 33 percent from 2014 to 2015
- In 2015, Finnish game companies attracted foreign investments of €36 m. - in 2014 it was €33 m.
- 29 new games companies were founded in 2015. The industry now counts a total of 290 companies
- The Finnish game companies employ 2.700 people - an increase of 200 employees since 2014.
- 150 new games were published in 2015 on all major platforms (PC, mobile, console). There were also new games launched for platforms such as Apple Watch and Virtual Reality.

This paper summarizes takeaways from Interactive Denmark's inspirational trip to Helsinki on November 29-30. 2016. The participants included 16 stakeholders from and around the Danish game industry including investors, policy makers, intermediaries and game companies (see appendix for list of participants). The purpose of the trip was to get a deeper understanding of how and why the Finnish game industry has performed so well. The aim of this paper is to provide inspiration for policy makers, the Danish game industry and the stakeholders around it. During the trip, we met central policy makers and public stakeholders, intermediaries, investors and game developers. Below is a list of the organisations we met:

- Tekes: Public Funding Agency for Technology and Innovation
- Neogames: Member-based non-profit game industry organization
- Next Games: Game Developer (founded in 2013, 70 employees)
- Seriously: Game Developer (founded in 2013, 57 employees)
- The Ministry of Economic Affairs and Employment
- IPR.VC: Private investor

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The historical factors: Nokia and mobile games

The commercial game industry in Finland arose in the 1980's. From the beginning, the industry was very community driven, which is still the case today. Individual game developers started to group together and created community events already during the 1990s. Two legendary game companies, House Marque and Remedy, were founded in 1995 and are the oldest game studios in Finland still running today.

Takeaway: “Community” is a central keyword to explain the success of the Finnish game industry. The industry is very connected and there are strong links between companies, intermediaries and public stakeholders. Thus, the knowledge-transfer in the industry is very well-functioning; skills, knowhow and networks are flowing across the ecosystem.



Neogames and Tekes visit November 29, 2016

During the 1990s, the mobile phone industry developed rapidly with Nokia being one of the leading global suppliers. The WAP technology originated in Nokia, and while the rest of the world was playing console and PC games, the Finnish game developers were busy developing mobile games even though the mobile devices back then were still somewhat primitive. While the breakthrough for mobile games came a bit later than expected the Finnish game developers remained committed to the mobile platform, which proved worthwhile in the long run. The smartphone revolution came in 2008, and when Apple and Google launched

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their digital distribution channels for smartphones and tablets, it was “a perfect storm” for the Finnish game developers. Suddenly, Rovio’s *Angry Birds* was on everybody’s lips, and the Finnish game adventure had truly taken off.

Takeaway: *Nokia didn’t create the success of Finnish game industry, but it played a significant role as a local driver for mobile technology and innovation. Today, the Finnish game industry provides games for virtually all platforms - not only mobile games. However, it is the mobile adventure that truly enabled the Finnish game industry to grow so rapidly over the past 10 years.*

However, while *Angry Birds* was downloaded billions of times, there was a problem: Fixed pricing meant limited revenues for the game developers. As a response, “Free To Play” became the next big revolution in mobile games, where consumers get free access to a fully functional game, but must pay micro transactions to access additional content or speed up progress. Revenues are driven by in-app-purchases and/or by integrated ads which means they are de facto unlimited. Supercell was the first Finnish game studio to implement free-to-play dynamics in their game designs. In 2016, 85 percent of Supercell was sold for \$8,6 bn.

Investing in games and IPR

Investing in games is notoriously tricky. It takes knowhow and experience to identify the most promising games - and the teams behind - and to conduct a solid risk assessment, valuation and exit strategy. Some investors have specialised in games and IP investment in order to build expertise and track record. One of these investors is IPR.VC in Helsinki.

IPR.VC is a venture capital fund that has specialised in “media content” - ranging from games to films, TV, music, animation, web-content and more. The investors behind are pension funds, insurance companies, family offices, and institutional investors - including Tekes. The Fund was launched in 2015 with a total capacity of €20 m.

The core idea behind IPR.VC is that while tech-based media start-ups are overserved with capital, content-based media start-ups are underserved. This conflicts with the fact that technical platforms, such as Netflix, Amazon, YouTube and more, would not serve any

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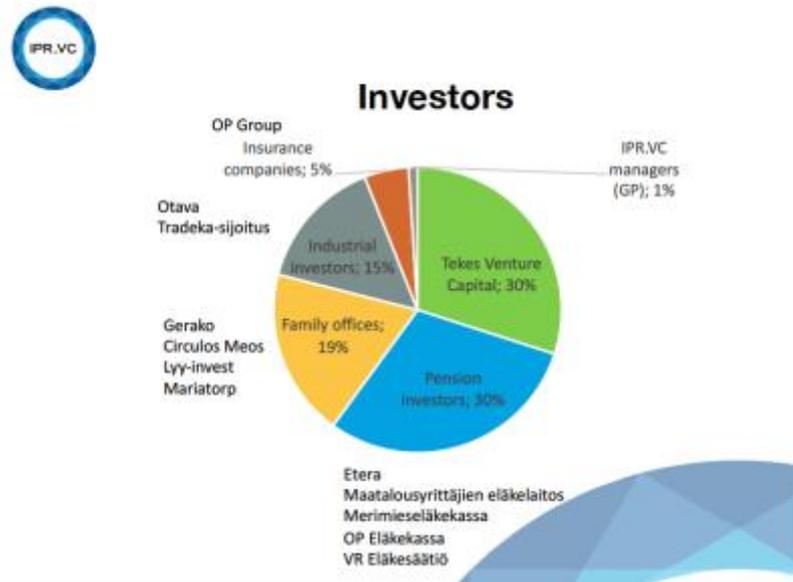


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purpose and would not generate any value without the content. Consumers don't pay for Netflix to access the platform - they pay to access the content.



IPR.VC fund

The mission of IPR.VC is to enable content companies to create international success stories and at the same time prove that IPRs make a good investment. The investment models of IPR.VC are somewhat untraditional for a venture capital fund. IPR.VC offers three financing models:

- Small development loans and option rights for further investments targeted early development of the concept creation. The typical size is €25-50,000. The loan is paid back when the IPR generates value. The loan is free of interests.
- Mezzanine-type financing based on loans and royalty rights. This instrument is serving a gap financing in the production and marketing phase. The size is typically 500,000 EUR to €1 m. The loan is paid back when the IP generates value + through the royalties.
- Classic equity investment where IPR.VC obtain ownership in the target company or a larger share of the product royalties. The exit strategy is trade sale or IPO within 4-5 years.

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- Takeaway:** IPR.VC have managed to raise funds from pension funds, insurance companies and family offices. These investors are usually very risk-reluctant, but given the experience of the management team combined with the public investments from Tekes VC, the private investors understood the business case. Moreover, it is interesting to see how the R&D funding from Tekes does not conflict with IRP.VC. Rather, the different sources of capital fit together in the sense that the target company can use the Tekes R&D funding as co-financing when they negotiate deals with IRP.VC.

Strong public commitment over several years made a difference

A leading institution behind the success of the Finnish game industry is Tekes. Tekes is the Finnish Funding Agency for Technology and Innovation founded in 1983. As a part of Finnish Ministry of Employment and the Economy, it is the most important public funding agency for research funding in Finland. The investment from the Ministry of Employment and the Economy has not caused the cultural investments in the content industry to decline - on the contrary the business and the cultural policies enhance each other, providing a strong foundation for the industry.



Slush 2016 slogan

During the 1990s and 2000s, Tekes discovered that games offered very interesting opportunities for new technologies and innovation. Over the years, games turned into a

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solid commercial business case. Tekes began to invest in the games industry by offering the most promising companies attractive grants and loans. The funding mainly targeted R&D projects and development of competence and skills in the game companies. Hence, the funding did not interfere with private investments; rather, it was considered a suitable supplement.

Takeaway: *The Finnish game adventure did not just happen by itself. A crucial part of the story is two decades of strong public - both economic and cultural - commitment towards digital technology and innovation, which has also led to more than ten years of public investments in the game industry.*

Between 2004 and 2015 Tekes has invested totally around € 80 million to Finnish Game industry - always targeting the most promising projects with funding through loan and grant instruments (e.g. funding to the game industry) but they also have a VC fund. Tekes Venture Capital only invests to funds, not directly to the companies. During 2012-2015, €30 m. were invested through the dedicated program “Skene - Games Refueled”. The rest has been invested through Tekes’ generic programs. Today, an estimated 20-30 % of the entire Finnish game industry has received Tekes funding at some point in time.

Tekes funding has no demand of VC funding, but during the same period, Finnish game industry has received over € 1,6 Billion of investments from VCs all over the world and the cumulative turnover of the industry is over € 6 Billion.

Takeaway: *The investments from Tekes has turned out favourable for Finnish taxpayers in the long run, with a game industry that today generates astronomical turnovers and attracts millions of EUR in private investments every year. Moreover, the Finnish game developers are prone to stay in Finland - even long after becoming hugely successful companies on the global stage.*

A part of Tekes success as a public investor in games is that they have kept a very non-bureaucratic profile, with a minimum of paperwork and legal technicalities. At the same time, Tekes is making sure to leave room for private investors. This is the reason behind Tekes funding always being non-equity. Over time, Tekes has built a strong reputation among international publishers and investors, meaning that investors tend to recognize Tekes-funding as a seal of approval before entering a Finnish game company with their private money.

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Also, a very important learning point is that Tekes has established very close collaboration with the industry itself. Neogames, which is a non-profit member based organisation for the Finnish game industry, has been a central partner for Tekes over the years. Neogames facilitates the dialogue with the companies and manages screening processes, events and networks that direct the most promising companies towards the Tekes funding - in close connection to the five regional game clusters.

Takeaway: *Neogames and the five regional game clusters are central intermediaries in the Finnish game industry that are contributing to maintain the strong community around the industry that has been so important over the years.*

New business trends in the game industry

During our visit in Helsinki, we also visited two game companies: Next Games and Seriously. Each of these companies are recognized as frontrunners of business development in the game industry - however with two different profiles and business strategies.

Next Games specialises in games that integrate with existing content such as films and TV series. Next Games has developed the official mobile game for AMC's TV hit show The Walking Dead. Nearly 15 million players have immersed themselves in the game that offers an opportunity to "stay in the story" and extend the experience while waiting for the next TV episode. The timeline and narrative is closely integrated, so when new elements are presented in the TV show (such as characters, events and places etc.) they also appear in the game.

Takeaway: *According to Next Games, we will see much more multi-platform storytelling in the future. The business opportunities are evident since it expands the interface with the users, enable new interactions, stimulate community-building and lead to more transactions. However, everything depends on a successful integration across the platforms. This requires a very deep understanding of the story and the atmosphere of the original content ("IP"). The skills and competencies to develop this understanding and translate it into a game design is going to be the crucial competitive factor for the game companies competing for this market in the future.*

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Mikkel Weider, Nordics Film Games at Next Games office

Seriously is a game company that stands out in a different way. Seriously is behind a free-to-play mobile puzzle game, *Best Fiends*, and the sequel *Best Fiends Forever*. These games are award-winning and highly addictive mobile games. But the real differentiator for Seriously is their innovative ways to market the games. Seriously has set up a dedicated marketing office in Los Angeles. From this office, the company explore new marketing mechanisms. The company basically spends no money on ads. Instead, they market their games through strategic partnerships with YouTube influencers.

In short, “influencer marketing” is a strategy where Seriously sponsor YouTube videos with famous YouTubers. Seriously says that it is spending 90% of its marketing budget on influencer campaigns and that in 2016 has already sponsored over 700 YouTube videos and counting. Seriously also made their own YouTube video “*Don’t Download Best Fiend*”, a humoristic parody of the “dangerous addictiveness” of the game, featuring US online celebrities such as Kate Walsh, Rosanna Pansino and Joey Graceffa. The video was awarded “Best YouTube Ad” in 2016.

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Takeaway: With approximately 2.9 m. games and apps available on App Store, and 800 new games arriving every day, marketing and visibility becomes crucial for game developers. Seriously has shown new ways of marketing with excellent results. In 2015-2016, Best Fiends has generated over 150 m. total video views, and daily active user growth increased from 9% to 21% over the same period. Best Fiends has been downloaded 40 m. times and have 2 m. daily active users.



Screenshot from "Don't Download Best Fiend" [https://youtu.be/ qCks6ebtgo](https://youtu.be/qCks6ebtgo)

For more information please contact Sofie Filt Læntver, <mailto:sl@interactivedenmark.dk>

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Appendix: List of participants

Name	Organisation
Adonis Flokiou	Arsenalet
Per Chrom	CAPNOVA
Charlotte Enevoldsen	Confederation of Danish Enterprise
Kasper Juel Gregersen	Danish Business Authority
Sine Olsson Heltberg	Danish Ministry of Industry, Business and Financial Affairs
Sofie Filt Læntver	Interactive Denmark
Søren Lass	Interactive Denmark
Kristian Krämer	Interactive Denmark
Kirsten Langgard	Interactive Denmark
Per Rosendal	Kongo Interactive / Danish Producer's Association
Mikkel Weider	Nordisk Film Games
Martin Walfisz	Nordisk Film Games
Jan Neiiendam	Danish Producer's Association
Anna Porse Nielsen	Seismonaut
Kristian Bernth	Seismonaut
Andreas Linnet Jessen	Seismonaut

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