

Understanding the Digital World

IDATE
Consulting

 **Evolution of video game industry ecosystem(s)**

Business models and trends in the evolving market for video games

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I'm responsible for studies on consumer electronics, digital home, video games, music and related phenomena: changing uses, new uses and devices, technology innovation, piracy, content protection and rights management. I've developed expertise in the field of economic development and investment project engineering. I'm also actually involved in studies conducted by IDATE for local authorities and their expression to define development strategies around ICT (Information and Communication Technologies) and CCI (Cultural and Creative Industries). I carry out techno-economic appraisals for innovation agencies and incubators on the issues of video gaming and multimedia content development. I participate in sector-based, market and strategic studies in the areas of ICT, television, Internet and video. I'm the originator of Game Summit, which takes place during the Digiworld Summit in November each year (www.gamesummit.pro). I hold a Master's degree in Economic and Financial Engineering.

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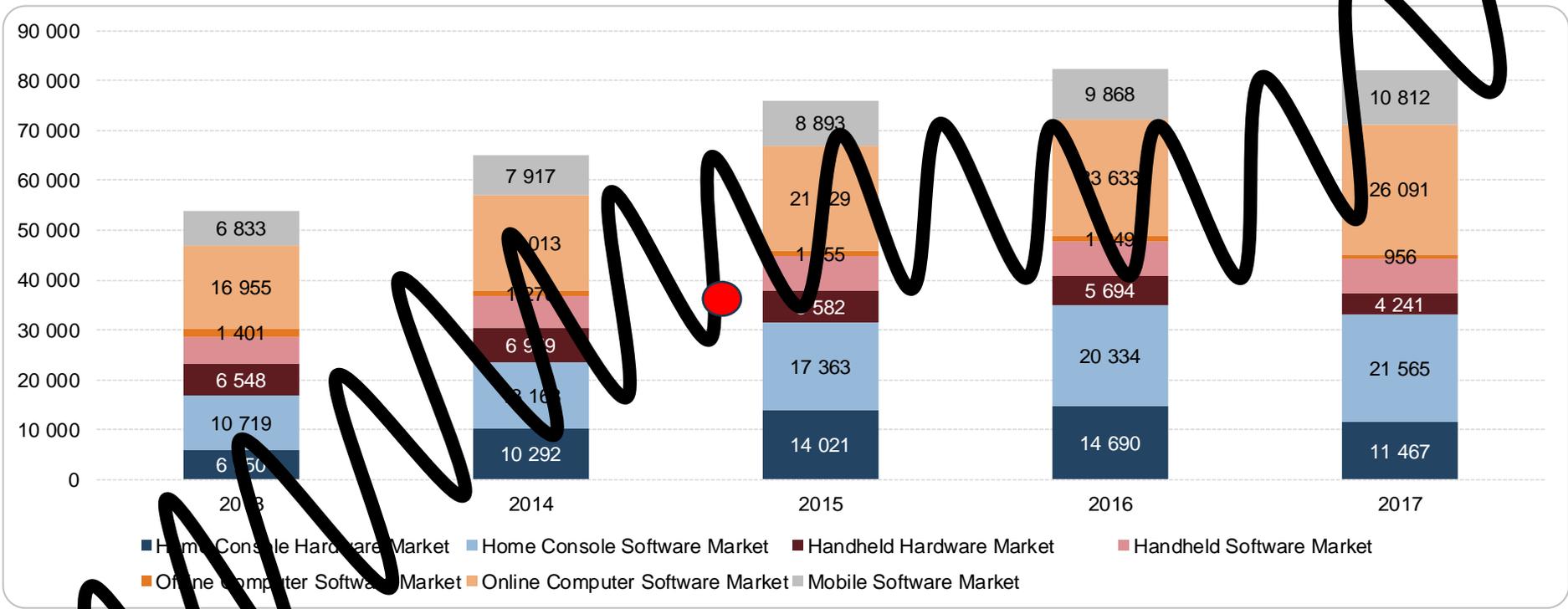
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Introduction: A secular growth

Introduction: A secular growth

World Video Game Market, 2013-2017 (millions EUR)



Source : IDATE – December 2013

Introduction: A secular growth

More than two-thirds of world video game revenue come from digital sales by the end of 2013

World video game market: physical vs. digital game sales, 2013-2017 (Million EUR)

	2013	2014	2015	2016	2017
Digital Home Console	3 242,1	5 505,2	9 212,8	12 883,5	15 533,4
Digital Handheld Console	670,0	1 298,8	2 193,6	3 045,7	3 846,2
Online Computer	16 955,3	19 013,5	21 129,1	23 632,8	26 090,8
Mobile	6 832,9	7 917,1	8 892,6	9 867,7	10 811,9
Total	27 700,3	33 734,7	41 428,1	49 429,8	56 282,3
Growth rate		21,8%	22,8%	19,3%	13,9%
Digital Market / Total Market	67,1%	70,8%	74,9%	79,9%	84,8%

Source: IDATE, December 2013

Video game industry organization

Value Chain : Hardware + Software+ Service

Design &
Creation
Tools
Providers

Middleware
Providers

Developers

Publishers

Distributors

Retailers

Home Consoles

(Microsoft, Nintendo, Sony, and a lot of traditional publishers)

Handheld Consoles

(Nintendo, Sony, and less and less traditional publishers)

Computers and Online Games

(Zynga, King, Wargaming.net, and many indies)

Mobile Phones & Smartphones

(Apple, Samsung, HTC, Nokia, RIM...EA Mobile, Gameloft, SuperCell, King and many indies)

Tablets

(Apple, Samsung, Microsoft...EA Mobile, Gameloft, SuperCell, Kabam, King)

Smart TV

(Onlive, Playcast, Visiware, Tectoy,...)

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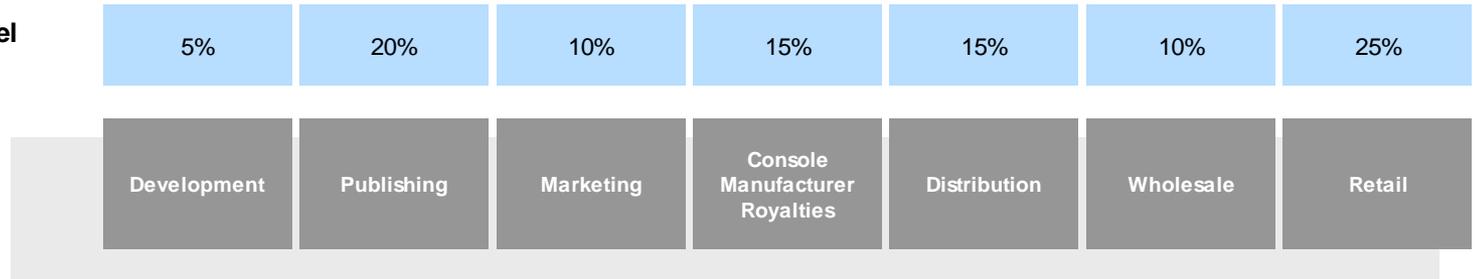
(Onlive, Playcast, Visiware, Tectoy,...)

Video game business models go digital

Video game business models go digital

Home consoles: digitization of distribution on the right path but... gamers are still waiting for downloading AAA beyond DLC

Physical Retail Model



Digital Store Model

(Developer + Console Manufacturer)



Digital Store Model

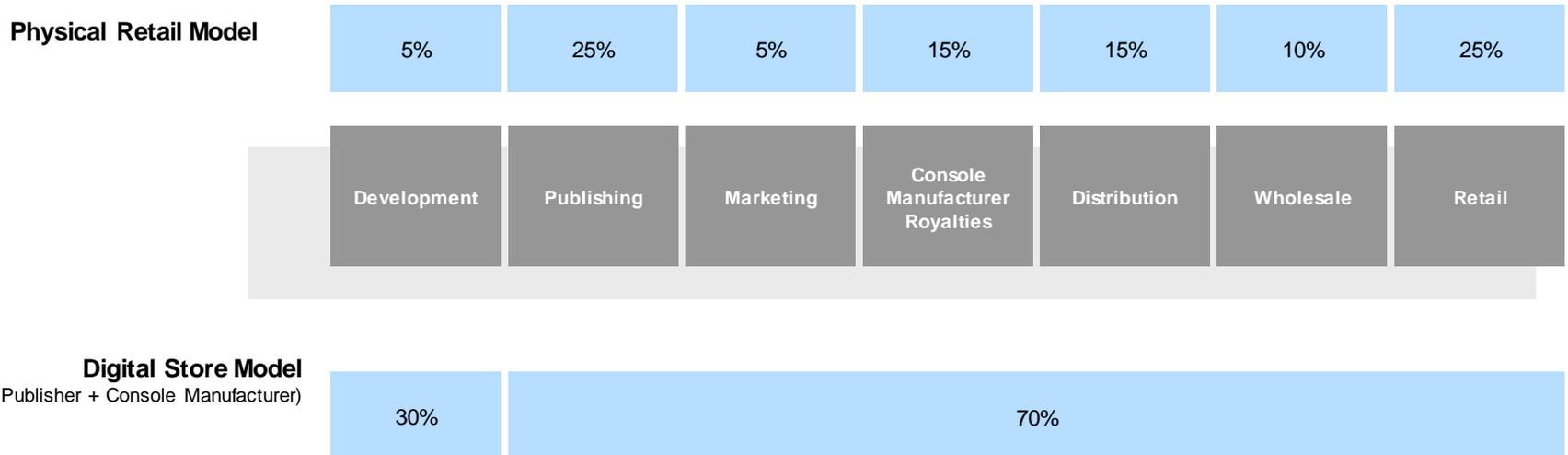
(Developer + Publisher + Console Manufacturer)



Source: IDATE – December 2013

Video game business models go digital

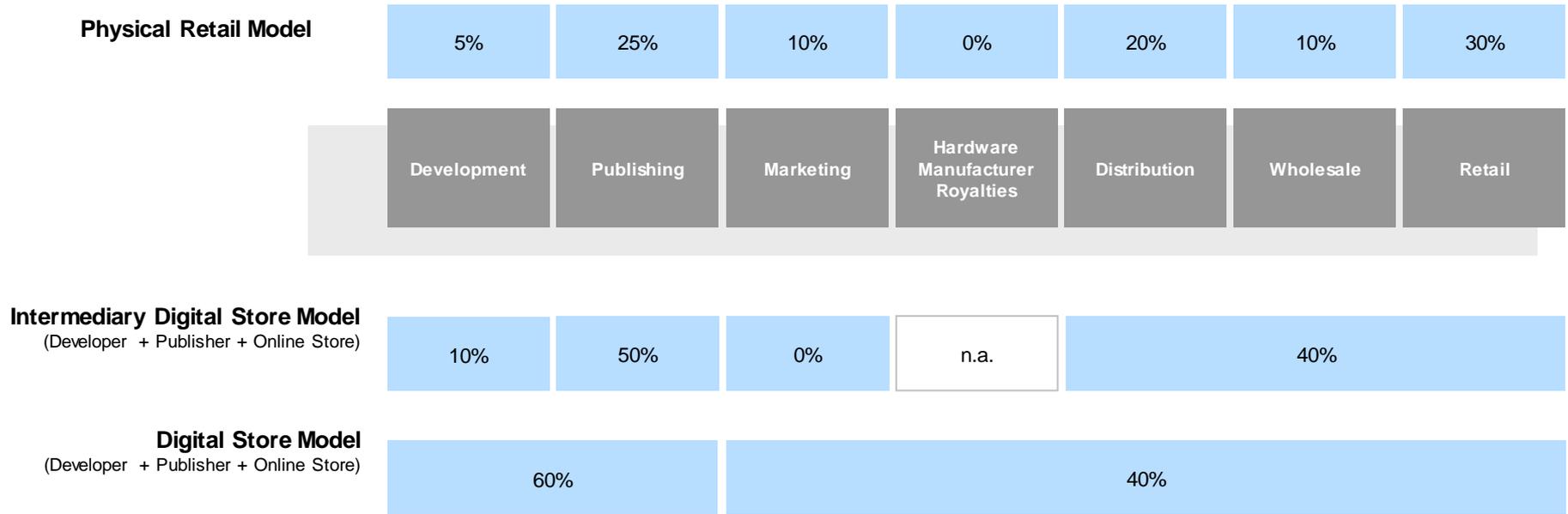
Handheld consoles should have better managed the transition to smartphone business models, so what next?



Source: IDATE – December 2013

Video game business models go digital

Computer game distribution: the Steam model + MMO model + FB model + Browser Game model + Causal game model +

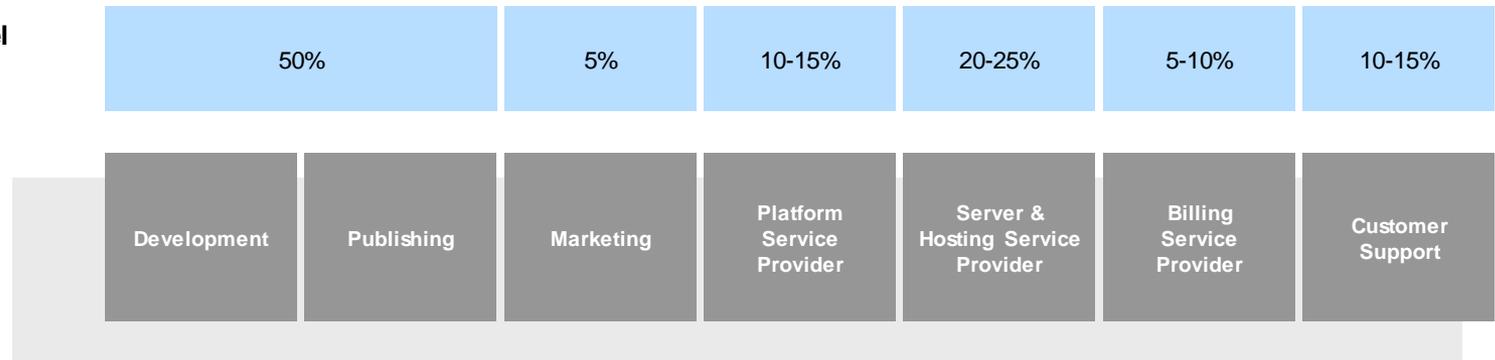


Source: IDATE – December 2013

Video game business models go digital

Online Game: a quite different value added chain based on several technical intermediaries

Developer Based Model



Publisher Based Model

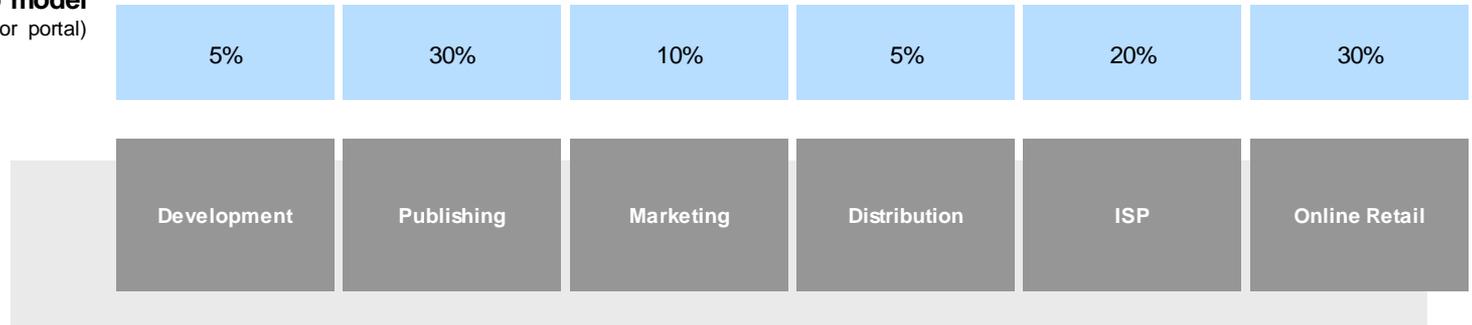


Source: IDATE – December 2013

Video game business models go digital

Mobile game: after the iPhone + Apple Store revolution, this segment is looking for its next stage of spread... how improve marketing?

Telco model
(Downloading via operator portal)



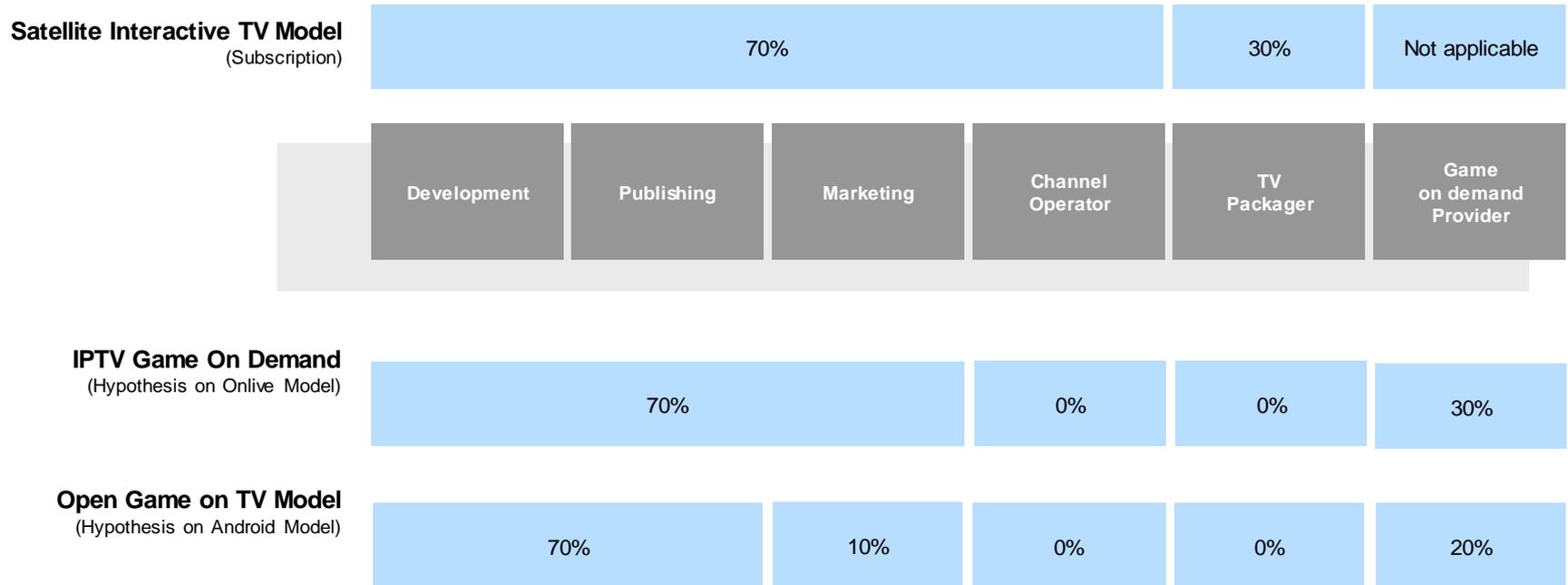
Computer Online Retail Model
(Downloading via Online Store)



Source: IDATE – December 2013

Video game business models go digital

Game on Demand / Game on Smart TV: many expectations



Source: IDATE – December 2013

7 game industry trends

1. The arrival of next-generation home consoles will boost the market from 2013 to 2017 (1/2)

> The place goes to competitive features

- The elements differentiating latest-generation consoles are less the hardware and exclusivities of respective catalogues than **its features and services to gamers, viewers, Internet users, consumers, audiophiles etc.**
- Thus, beyond price considerations which remain fundamental, the features of online services, are more important than ever in a context in which gamers are looking for:
 1. Access to their play environment: simple, fluid, economical
 2. Community character: social ties, sharing content and experience
 3. Content: Visual quality of spectacular and regularly renewed content.

1. The arrival of next-generation home consoles will boost the market from 2013 to 2017 (2/2)

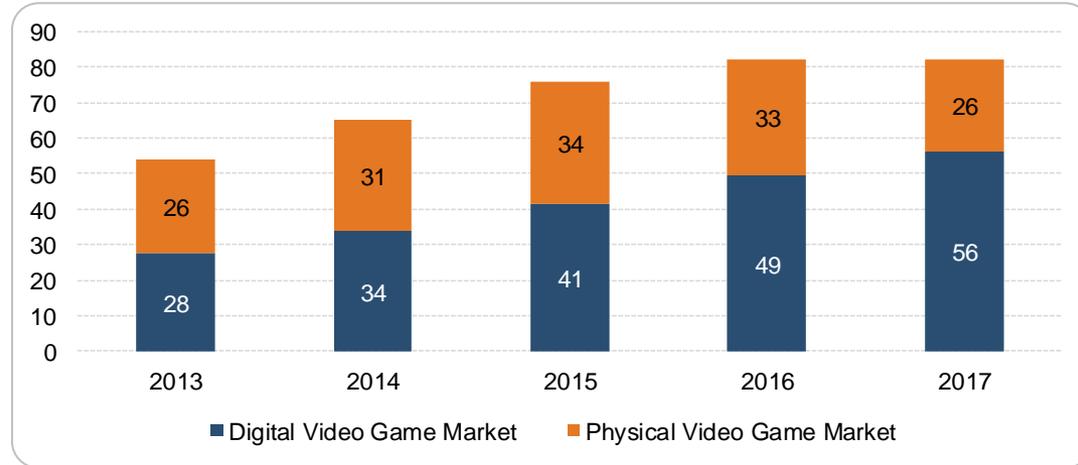
> **Winning features**

- **The cloud** enables the saving of content attached to games or gamers and makes them accessible regardless of platform
- **Flexibility of service:** services put into operation by console manufacturers should henceforth be accessible from different platforms
- **Accessorisation of practices:** New accessories renew the visual and/or recreational experience and encounter massive interest from gamers.
- **Completeness of off-game content:** games distribution services are more and more often bundled with access services to catch-up TV, VOD services, web browsing, messaging services, video capture...
- **"Socialisation"** of services: the success of social networks and the social character of games on mobiles and tablets leads console manufacturers to better integrate this component into their services.
- **Console manufacturers must also include practices valued by gamers** such as massively multi-player games in Free2Play mode.

2. Close to two thirds of video game market revenue generated by online software sales and paid gaming

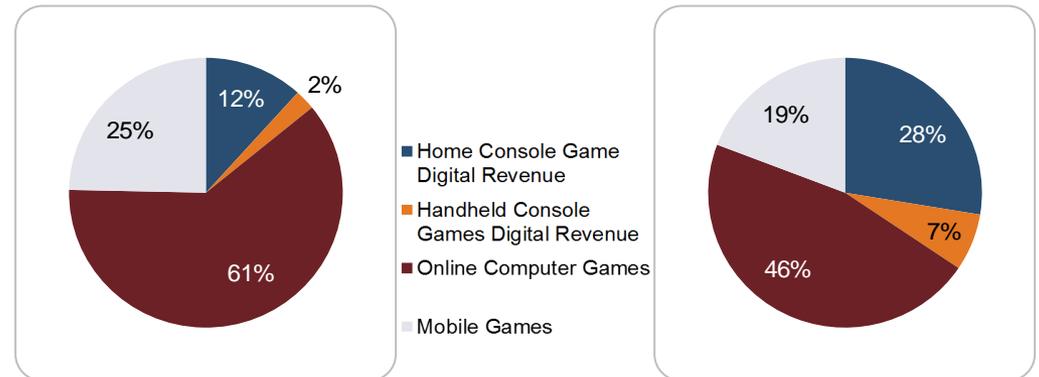
- In 2013, 63% of the income of the video gaming market is expected to come from dematerialised sales and online payment practices.
- An average annual growth of 18.1% of the dematerialised gaming software market and -8% of the physical gaming software market, 2013-2017
- The segments of home and handheld consoles irretrievably committed to the route of dematerialisation:
 - **Home consoles:** EUR 3.6 billion EUR from dematerialised sales in 2013 (i.e. 20.4% of all revenues from the sale of home games consoles) and 11.3 billion EUR in 2017 (60.5 %).

Physical software market vs. digital software market, 2013-2017 (billion EUR)



Source: IDATE, November 2013

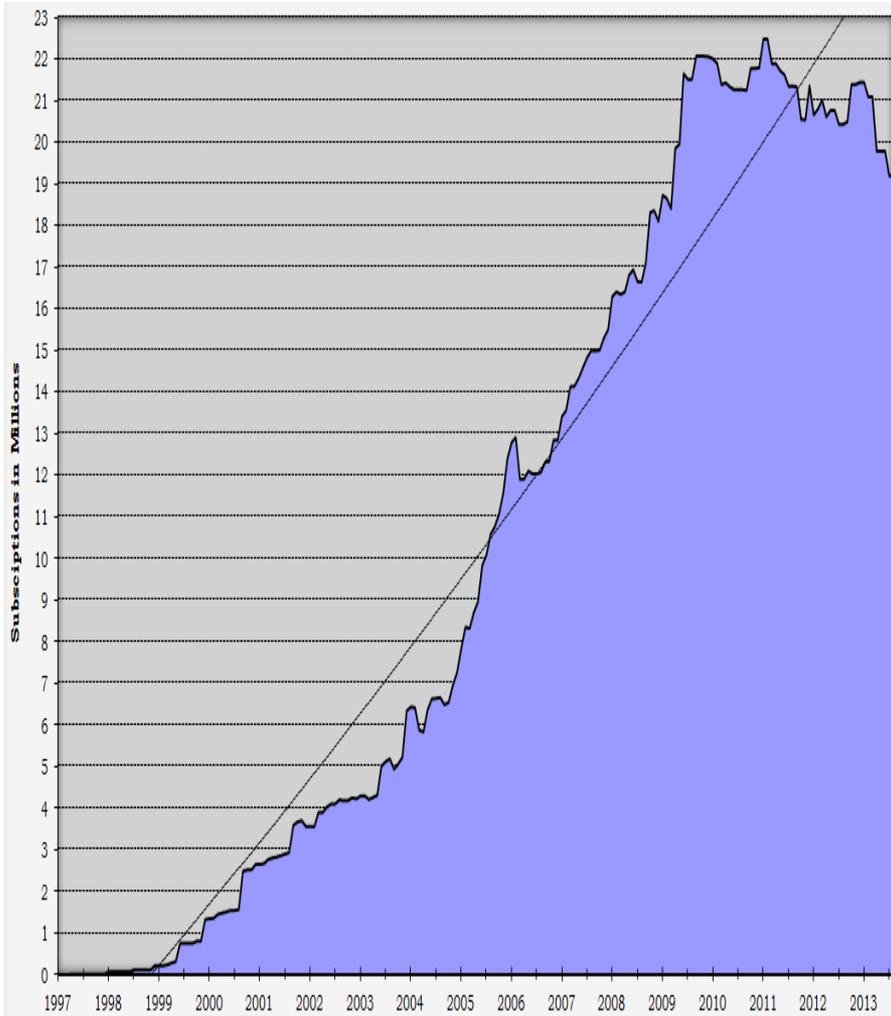
Breakdown of the digital software market by gaming device
2013 2017



Source: IDATE, November 2013

3. Transition to Free2Play (1/2)

Total MMORPG subscriptions and active accounts listed in mmodata.net



Source : mmodata.net, September 2013

> Transition to Free2Play

- In recent months, an unprecedented wave of MMO games have gone from a paid subscription model to the Free2Play:
- The economic model referred to as 'premium' from now on only registers one title, *World of Warcraft*.

> A phenomenon of market concentration

- A phenomenon of concentration that has accelerated in recent months:
- Of the total 4 billion USD in transactions registered in 2012 in the video game sector, 38% relate to the MMORPG segment (source: Digi-Capital).

3. Transition to Free2Play (2/2)

> The undeniable success of Free2Play...

- Two eloquent illustrations of the success of Free2Play in 2013:
 - *Clash of Clans* and *Hay Day* (Supercell) : 8.5 million gamers per day, a daily turnover of 2.4 million USD. At this rate, by the end of 2013, the Finnish company could have revenues higher than EA Mobile (source income: Forbes).
 - *Candy Crush Saga* (King.com): more than 700 million game sessions per day, a daily turnover of 630 million USD.
- Traditional player of video game industry have to react...

Confirmed Free2Play games on next generation consoles



- PlanetSide 2 (Sony Online Entertainment)
- Blacklight: Retribution (Perfect World Entertainment)
- Warframe (Digital Extremes)
- DC Universe Online (Sony Online Entertainment)
- War Thunder (Gaijin Entertainment)
- DriveClub (Sony Computer Entertainment)
- Don't Starve (Klei Entertainment)
- Outlast (Red Barrels)
- Secret Ponchos (Switchblade Monkeys)
- Deep Down (Capcom)
- Mercenary Kings (Tribute Games)

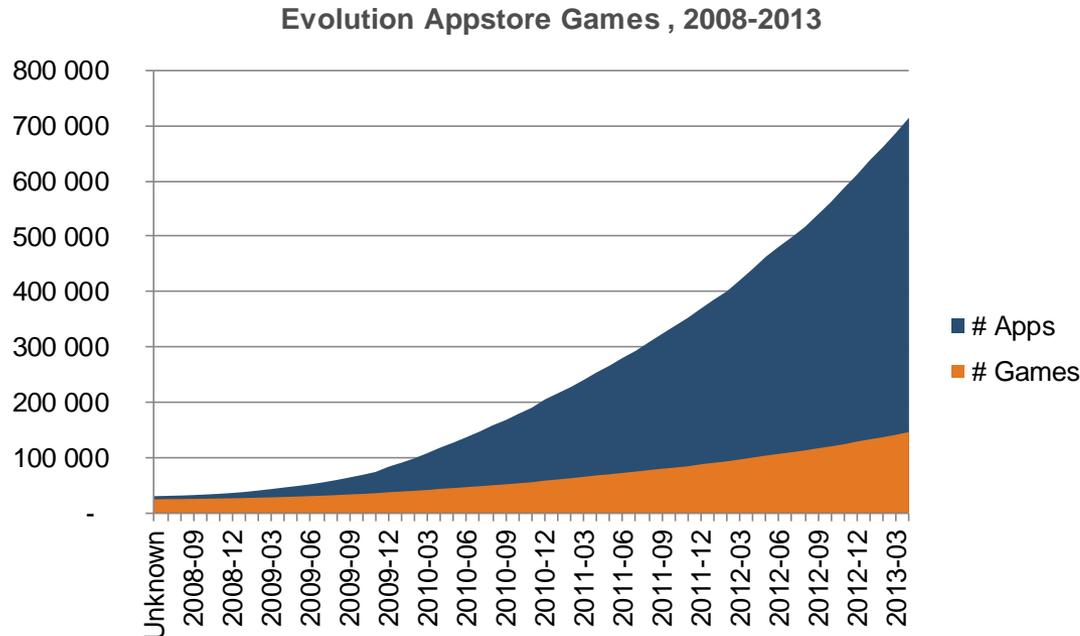


- *Killer Instinct* (Microsoft)
- *Project Spark* (Microsoft Studios)

Source: IDATE, November 2013

4. Mobile game market: the weight of the catalog

> Intense competition in the segment of mobile games. Even if the game experience is quite different, Smartphones are getting to compete with handheld consoles... and home consoles



Source: IDATE d'après 148apps.biz, mai 2013

Games and Application within Stores

Platform	# Apps	# Games	% of Games
Apple Store	880 090	148 614	17%
Android Market	696 527	95 935	14%

Source: IDATE d'après 148apps.biz, mai 2013

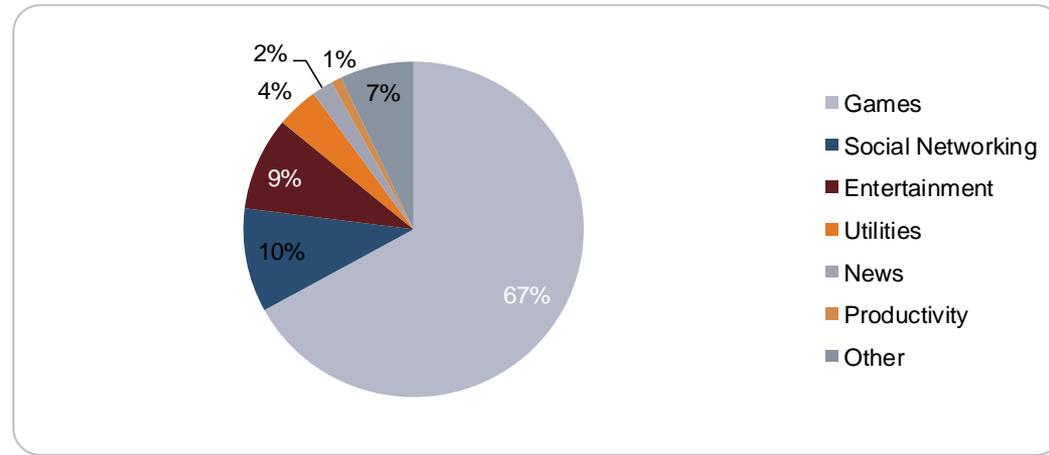
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5. The tablet explosion

> Confirmation of the attraction tablets for gamers

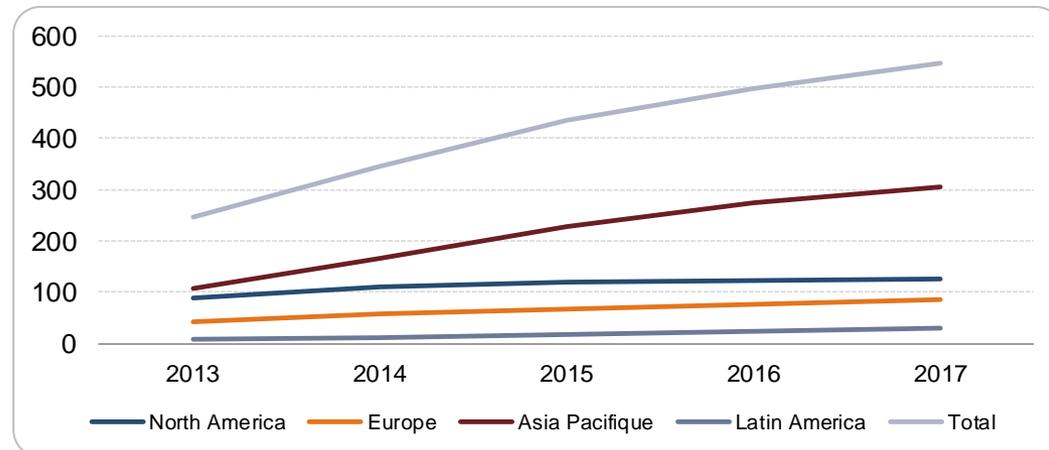
- Tablets offer a unique and varied game experience, similar to that on smartphone but more enriched due to of their larger screen. New forms of gameplay make their appearance, often gameplay improvements of forms that appeared on smartphone.
- The video game is by far the top tablet activity, as it accounts for 67% of the time spent on that terminal.

Tablet screen time in September 2012



Source: Flurry Analytics

Domestic tablet shipments by geographic area, 2013-2017 (million units)



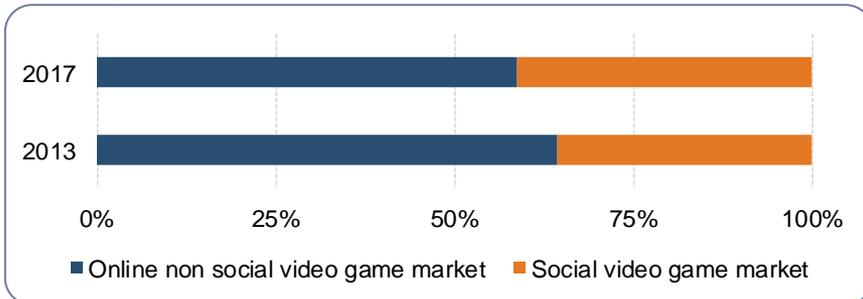
Source: IDATE, November 2013

6. Close-up on social gaming (1/2)

The economics of social gaming

- Free2Play business model
 - 85% of revenues from social gaming publishers are derived from the sale of virtual goods
 - 15% are derived from advertising
- The good health of a game rests on a very small number of gamers:
 - most paying gamers spend between 1 and 5 USD per month
 - the "whales" are the big players, who can spend more than 25 USD per month. They represent less than 15% of all gamers but generate over 50% of publishers' revenues.

Social gamers' share of the online games market, 2013 and 2017

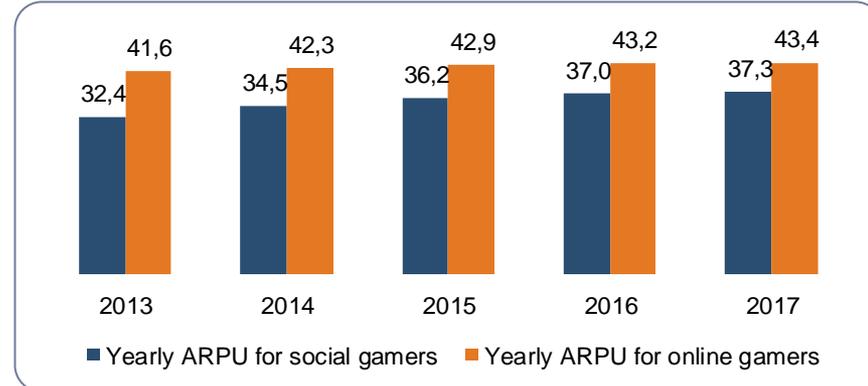


Source: IDATE, November 2013

> From now on a fully fledged segment of the market

- 45.7% of gamers play online games on social networks according to IDATE.
- A double-digit growth in the number of gamers on social networks: 186.7 million in 2013 and 288.3 million in 2017 (CAGR of 11.5%).
- The average annual ARPU is lower than that of online gaming in general, even if it approaches it over the years: 32.4 EUR in 2013 and 37.3 EUR in 2017.
- The social gaming market amounted to EUR 6.0 billion in 2013, representing 55.3% of the total online gaming market and EUR 10.8 billion in 2017 (70.1 % of total online gaming market).

Social gamers' annual ARPU vs. online gamers' annual ARPU, 2013-2017 (EUR)



Source: IDATE, November 2013

6. Close-up on social gaming (2/2)

> Facebook experiencing difficulties in monetising mobile gaming

• More and more mobile users:

- In the second quarter of 2013, Facebook accounted for 819 million active users per month on mobile, on a total of 1.15 billion monthly active users.
- The second quarter of 2013 is the third consecutive quarter in which the number of mobile users exceeds the number of Web users.

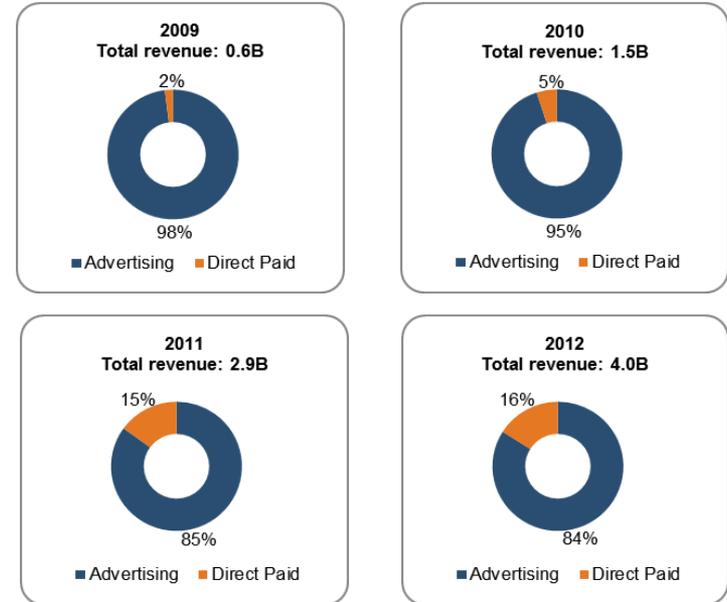
• Facebook face to face with Apple and Google

- In 2012, 16% of Facebook's revenue was generated by direct payments: Facebook gets in effect a 30% commission on in-app purchases made in games on the Internet.
- In native mode on the other hand, mobile gaming applications use Apple or Google payment platforms. It is thus these latter that pick up the 30% commission.

• "Mobile Game Publishing": a new way to monetise mobile gaming

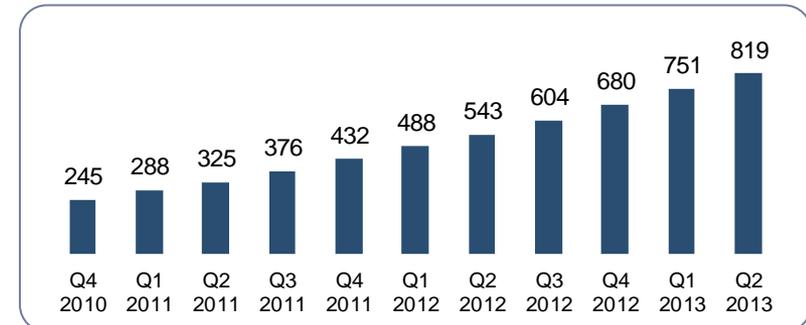
Breakdown of Facebook revenue, 2009-2012

(billion EUR)



Source: IDATE, according to operators

Number of active Facebook Mobile users per month, 2010-2013 (millions)



Source: IDATE, according to operators

7. Irreversible ubiquity

> Ubiquity is carried by the players in handheld and online gaming

- Most of the games ranked in the top 20 of the titles sold on the Apple Store are ubiquitous and accessible either on iPad and iPhone.
- Some of them are also available on personal computer in the form of client software (Minecraft) or on Facebook (Zynga Poker) and/or on the publisher's website (Zynga Poker).

> Traditional players are still little involved in ubiquitous gaming

The 3 types of ubiquity in video games

- **Ubiquity of service:** the ranking, challenges, friends' games lists... are ubiquitous. We find this feature on the Game Center service on Facebook. This type of service is now recognised as necessary for all online gaming offers.
- **Ubiquity attached to games:** BoostR, developer and publisher of the *Urban Rivals* game (25 million gamers), sets its strategy on ubiquity. This game is available on social networks, tablets, smartphones and on its website. The gamer has one single access which offers the possibility of playing a single game indiscriminately on those four platforms and resuming on one or other terminal. Thus, the continuity of the gaming experience is not broken.
- **Ubiquity carried by connected objects:** This ubiquity took shape in October 2011 under the game name *Skylanders* from Activision. This game is based on action figures equipped with NFC technology that interact with the home console and the game.

**Thank you for your
attention**