**The Virtual Reality Arcade in Asia:**

**A Case Study**

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**Abstract**: Decades ago when consoles and computers were too expensive for the general public (not to mention the cost of the games themselves), the arcade was the go-to place for playing electronic games. The advent of Virtual Reality (VR) technology has led to deja-vu: an arcade market explosion reminiscent of the 70’s, especially in Asia, and, particularly, China, where arcades never really went away. Is the VR Arcade a profitable solution to bring VR closer to the public, or will it fall into oblivion once the price of technology plummets?

[Excerpt from [[1]](#footnote-0)] Arcade gaming was an instant success when it first launched in the market. By 1981, it was already worth $8 billion, with Pac-Man selling more than 400,000 units[[2]](#footnote-1).

For many years, arcades ruled the gaming industry, only to reach a point where it was at risk of becoming obsolete. Hence, game developers had to innovate extensively before it became a thing of the past.

Today, we are seeing a resurgence. Developing countries are currently in a phase of technological transformation and thereby present lucrative growth opportunities. In addition, market players are now planning further expansion in emerging countries such as China and India where there is a large youth population. Rampant infrastructural improvements in developing countries are also anticipated to favour the growth of the global arcade gaming machine market during the following years.

The arcade game machines market in Asia Pacific is expected to grow at relatively twice as high of a rate compared to Latin America or Eastern Europe. [[3]](#footnote-2) The Asia Pacific's market, in terms of arcade gaming centres and machines, is highly diverse. In countries such as China and Japan - where arcade centres have historically been popular - the market is moving towards more advanced arcade gaming machines.

Meanwhile, in countries such as India, increasing disposable income, growth in the target population, development of malls and shopping complexes, dedicated arcade and entertainment centres, and increasing arcade game awareness among customers is supporting strong market growth. Outside of Asia, Europe and North America are the second and third largest market for arcade game machines. [End of excerpt]

Today, a new wave of products focused on Virtual Reality is bringing a resurgence to the arcade market - just as consoles did decades ago.

Market Research Future (MRF) asserts that the global Virtual Reality market will grow to US$45 Billion by 2027, registering a massive ~57 % of a CAGR (compound annual growth rate) during 2017 – 2027. [[4]](#footnote-3)

[Excerpt from [[5]](#footnote-4)]Buoyed by Chinese demand and a surge in virtual (VR) and augmented reality (AR) gaming, the amount spent on the two technologies in Asia Pacific (excluding Japan) is set to balloon from US$4.6 billion in 2017 to US$11.1 billion this year, according to IDC.

The research firm sees China accounting for 91.3% of overall AR and VR expenditure in the region. It predicts this figure to rise further, with a mean annual growth of 70.5% from 2017 to 2022.

Overall, AR and VR investment in Asia Pacific is slated to grow 68.5% yearly from 2017 to 2022.

Consumer demand will propel 51.3% of total spending in Asia Pacific in 2018. This is helped by strong demand for VR gaming, which accounts for almost 40% of total expenditure.

Hardware innovation is driving demand for VR, as new headsets support VR by themselves and remove the need for consumers to spend more on additional hardware.

New standalone VR headsets, such as Oculus Go from Facebook and Mirage Solo from Lenovo, are expected to drive adoption as well as content spending in 2018 and beyond.

These headsets eradicate the need for pairing with PCs or consoles that used to drive costs higher for AR/VR experiences.

When it comes to AR, consumers are spending more on services in 2018, as new software development kit platforms by Google and Apple continue to spur the new games and applications specifically made for their ecosystems.

Overall, AR games are projected to register a mean annual growth of 90.9% between 2017 and 2022. VR games will see 54.7% growth in the same time period.

On the other hand, enterprise spending accounts for about 48% of total spending in 2018 but it is predicted to surpass consumer expenditure and rise to 58% by 2022.[End of excerpt]

While headlines say that virtual reality is the next big thing in China, with a US$820 million industry in 2016 growing to a projected US$8 billion by 2020, a number of people are saying the very opposite – that the supposed boom is actually a big bust.[[6]](#footnote-5) The boom in China's VR industry has declined following Facebook's 2014 US$2-billion buyout of Oculus, a U.S. producer of VR gadgets and computer games, with about 90 percent of start-ups in the domestic market declaring bankruptcy.[[7]](#footnote-6)

With VR, we have a fascinating technology that has an extremely high early-adopter cost and people interested in the medium, but very few who’ve actually experienced it. So what’s the solution?

The VR arcade could serve the exact same purpose in 2018 that traditional arcades served in the 1980s: giving people affordable access to high-end gaming/entertainment hardware. This could work especially well in Asia, where existing internet cafes can easily pivot towards VR to regain some of the customers they have lost over the past five years as the continent went mobile.

As with the original arcades, some people will be excited enough by what they find to take the plunge into VR at home. And as home VR costs come down and more people become comfortable with the medium, the VR arcade will probably die out in the same way that traditional arcades have. But right now, the VR arcade seems to be the perfect solution to one of virtual reality’s biggest problems: the tech is ready for consumers, but the cost is not.

Or is that not the case?

[Excerpt from 4]Of an estimated 35,000 VR arcades that popped up around China last year, less than half (approximately 12,000) are still in operation, according to iHeima, a well-established Chinese business news site.

In addition, only around 20% of those arcades are making any money.

Enterprising store owners leaping into VR are finding it impossible to charge fees comparable to cinemas or bowling alleys for a VR experience. One VR arcade owner told iHeima, a local reporting company, that he saw eager queues when charging US$1.50 for a 30-minute session, but everyone vanished when it rose to US$5. With that kind of revenue, it’s impossible to pay the rent.

People are not buying VR hardware either.

90% of Chinese startups producing VR headsets have gone bankrupt, according to data cited by state-owned news outlet China.org. And manufacturers that turned to VR are now going out of business or changing their assembly lines to make something else.

China’s lukewarm reception to VR mirrors that of the western markets.

Demand for VR headsets has been disappointing, with estimated sales figures below both analysts’ and brands’ expectations.

Even at the most accessible end of the VR spectrum, such as using your phone with a low costing Google Cardboard, there has yet to be a break-out game or movie in virtual reality.[End of excerpt]

As with many new technologies, Virtual Reality could possibly experience the rise and fall (and rise again) pattern of the original arcades driven by high interest in a new, expensive technology until the cost of the product drops to a consumer-affordable level.

The current VR wave, however, appears to attract a low level of interest from consumers and is mostly targeted towards enterprise or government use.

Nearly four-and-a-half years after Oculus made a splash on Kickstarter, consumers are not yet convinced that VR is worthy of their money or even their attention.4

1. https://www.prnewswire.com/news-releases/asia-pacific-to-remain-most-attractive-market-for-arcade-game-machines-over-2025---persistence-market-research-631500823.html [↑](#footnote-ref-0)
2. https://en.wikipedia.org/wiki/Arcade\_game [↑](#footnote-ref-1)
3. https://cdn2.hubspot.net/hubfs/700740/Reports/Newzoo\_Casual\_Connect\_South\_East\_Asia\_Games\_Market\_Report.pdf [↑](#footnote-ref-2)
4. https://www.reuters.com/brandfeatures/venture-capital/article?id=32702 [↑](#footnote-ref-3)
5. https://www.techgoondu.com/2018/05/25/ar-vr-spending-in-asia-pacific-to-soar-141-per-cent-to-us11-billion-in-2018-idc/ [↑](#footnote-ref-4)
6. https://www.techinasia.com/china-vr-flop [↑](#footnote-ref-5)
7. http://www.china.org.cn/business/2016-12/28/content\_39999412.htm [↑](#footnote-ref-6)