

Overview of the Gaming Industry

By: Nathan van Niekerk

Student Number:100906047

General Overview of the Gaming Industry:

Introduction:

The following report will discuss the state of the gaming industry by discussing important trends, challenges and strategies. The report will be organized further by primarily discussing the AAA/AA market and Esports markets respectively. Where concepts would apply to both segments, a general segment of the heading will be given. The report will open with an overview of the current state of the industry, and then discuss how the state of the respective industry informs the appropriate marketing strategies used.

AAA Overview:

The AAA/AA segment currently faces multiple controversies and some notable accomplishments. The AAA industry is largely controlled by even larger companies, who often act as publishers, funding the studios projects. Both *Electronic Arts* (EA Studio, n.d.) and *Microsoft* (*Microsoft, n.d.*) own over 20 studios, some of them being publishing companies such as *Bethesda*. Few AAA studios are fully independent, like Ubisoft. Sales figures for these companies can reach into the billions – Researcher at Zippia Chris Kolmar (2023) states that *Sony Interactive Entertainment* has an annual gaming revenue of 28.2 billion dollars.

Esports Overview:

The field of esports has made dramatic shifts in recent years. Since the Covid-19 outbreak in 2020, live-streaming platforms such as Twitch and YouTube Live have become the go-to location for esports viewership. 34% of live events were cancelled, and another 30% were postponed in 2020. (Bose, 2018) Hosting tournaments in live locations is expensive and if the industry wants to continue its growth, they will need to attract viewers who otherwise would never be able to attend expensive overseas tournaments.

Trends:

AAA Overview:

For a long time, the largest gaming companies have had their own hardware where they maintain full control over distribution, such as the *Xbox*, *PlayStation*, or *Nintendo* consoles. (Liang, 2022) Recently, however, there has been a shift to offering software subscription services. In total, there are over 180 million game subscriptions globally. (Lindzon, 2024)

Journalist Jared Lindzon from the BBC (2024) estimates that Microsoft's subscription service, *Xbox Game Pass*, has over 30 million users. Analyst Karol Severin reasons that "The whole games industry used to be about buying games, or downloads... You're seeing that model shift largely to being engagement-based." (Lindzon, 2024)

Karol Severin explains that this is the result of a broader trend of games being offered as incomplete experiences, where games are not designed as one-off products to be consumed temporarily, but rather as “games as a service”, where players commit themselves to the game and profits are made through micro-transactions. (Lindzon, 2024)

Esports Overview:

To continue funding professional tournaments and to continue growth in the esports industry, they will need to attract large player bases. In response, esports titles have increasingly been adopting a free-to-play model. (Liang, 2022) Making their games free-to-play significantly lowers the economic barrier-to-entry for aspiring players and fans alike, thus growing the esports industry.

Financially, game studios also benefit from the free-to-play model with in-game purchases. This informs the marketing of esports titles, which is discussed under the heading, “Marketing Strategies”. Advertisers will also pay the game publishers more for their advertisements if the more tournament viewers there are (Shalabi, 2023), and fans will pay to watch tournaments live in-person. (Bose, 2018)

Challenges:

AAA Overview:

Releasing games as an unfinished, “games as a service” comes with numerous challenges. As Karol Severin mentioned, people in the past would make a one-time purchase to own a product. (Lindzon, 2024) The games-as-a-service model has received harsh criticism for stifling innovation and quality in the industry. (Liang, 2022) It isn’t uncommon for a live service game to lose players shortly after launch – *Space Punks* was shut down just 2 months after launch. (Carter, 2023)

One of the key reasons that many studios are struggling to produce successful live-service titles is because large companies rush the games to market in the hopes that the initial sales will pull them through until they can fix all the issues afterwards. *Cyberpunk 2077* had released in such a bad state that the studio CD Project Red had lost 2.17 million US dollars in refunded copies of the game. (Nicols et al., 2024)

To make matters worse, to rush the games out to market, developers must contend with “crunch culture”. (Nicols et al., 2024) Crunch culture tends to be the results of contracts and games that switch directions, like *Halo 2*. The second cultural issue with some AAA studios is the toxic work environment. Games studio *Activision Blizzard* has had to pay 35 million US dollars to resolve sexual harassment allegations and was sued for the suicide of one of their employees. (Nicols et al., 2024)

Esports Overview:

Majority of the esports industry relies on pcs, either as pc-exclusive titles, or as necessary equipment to give players an edge. (Liang, 2022) The equipment required is limiting the potential growth of the esports market significantly. Gaming PCs are very expensive, especially in third world-countries where there little the ratio between the average salary and pc components is unbalanced. The prices vary greatly depending on the region, but in South Africa, you can expect to pay over R30 000 for a good-quality gaming pc. (Vermeulen, 2022) Residents in Argentina, Pakistan and Indonesia must pay the most for a gaming pc, when compared to the average salary. (Vermeulen, 2022)

Marketing Strategies:

General Overview:

The video games industry, being digital, favours digital marketing. It also favors social forms of marketing, such as social media and word of mouth, which is likely due to the interactive nature of games. Colin Charles Mathews et al. (2016) conducted a survey consisting of 37 university students who were studying a video game course measuring the trustworthiness of different marketing channels, on a scale of 1 to 10. 83.4% of the respondents gave TV adverts a score of 1 to 5, with 44% of them listing TV as a 1. Friends and family, YouTubers and Gaming Expos were found to be the most reliable, according to the data from the respondents. Another study conducted in 2013 produced similar results. (Mathews et al., 2016)

The GDC State of the Industry Report (Tait, 2024) confirms this trend, saying that 86% of developers use both social media and word of mouth to market their game.

Other common advertising methods include influencer marketing (57% reported by developers), trailers, paid search and display ads (58%), email marketing and in-game advertising. (Tait, 2024) (Hyperise, n.d.)

In-game advertising makes up for a considerable amount of spent advertising. *Emarketer* reports that an estimated 8.53 billion US dollars of ad revenue will be generated from the US gaming industry, and mobile game ads make up for 90.7% of the total ad revenue. (Shalabi, 2024) In-game advertisements come in a variety of forms, including: video, dynamic, sponsored, static, interstitial, interactive, placement, intrinsic, banner and reward-based advertising. (Shalabi, 2024)

AAA Overview:

Recently, AAA game publishers have been adapting their video games into other mediums, to increase brand recognition and expand their potential audience. Films such as *The Super Mario Bros Movie*, *Dungeons and Dragons: Honor among Thieves*, and the TV series *The Last of Us* were all originally AAA titles and adapted by large studios. (Tait, 2024) They've received good reviews from critics – The *GDC State of the Industry Report* (Tait, 2024) states that in an interview/survey, at least 38% of the developers have considered adaptations. (which is large considering that only 29% of the developers considered themselves to be working for/at a AAA or AA studio) Furthermore, only 4% of developers think that video game adaptations will not benefit the industry.

Esports Overview:

The esports industry relies on sponsorships as its primary source of income. An estimated 74% of the market revenue relies on sponsors and advertising, majority of the sponsors being tech companies. (Bose, 2018) Both Intel and HP have agreed to sponsor the Overwatch League. (Bose, 2018) Car company Honda has sponsored the esports team *Team Liquid*. (Honda, n.d.)

Influencers, like sponsors, play a large role in esports. Many professional players also act as influencers with their own channels on Twitch or YouTube. The platforms generate ad revenue, which involves licensed deals between players and esports leagues. (Shalabi, 2024)

Conclusion:

Both the AAA and esports industries share similar financial circumstances, despite producing uniquely different content. Both industries are reliant on either a publisher or a sponsor to produce high-quality experiences, whether it's due to their expensive production costs or to turn a profit. AAA games have been shifting towards a "games as a service model" to release games earlier with the hopes that long-term support from players will keep the game running. Meanwhile, esports titles are trending towards free-to-play models to attract larger audiences in the hopes that the esports industry will see growth.

Many AAA studios are struggling to compete in the "games-as-a-service" market because of quality control and workplace issues. In the esports industry, potential growth is hindered by the overreliance on expensive equipment that excludes players who either don't play on the correct hardware platform or players who cannot realistically afford it due to geo-economic factors.

Both the AAA and Esports industries share similar marketing tactics but remain in unique situations. Recently, AAA studios have experimented with their IPs by successfully adapting them to films/tv shows. Esports teams and leagues rely on sponsorships and influencer marketing to generate revenue and growth for the industry.

Research Methodology:

Research was conducted through secondary sources such as academic papers, online gaming news articles and YouTube channels that discuss the gaming industry.

References:

Liang, Y. (2022). Analysis of the video gaming industry. Proceedings of the 2022 2nd International Conference on Enterprise Management and Economic Development (ICEMED 2022), 219, 1146–1150. <https://doi.org/10.2991/aebmr.k.220603.185>

Tait, D. (2024). GDC 2024 state of the game industry: Game developers on layoffs, Generative AI, and more. Game Developer's Conference. <https://reg.gdconf.com/state-of-game-industry-2024>

Bowen, T. (2023, August 11). Every studio owned by Sony (& what they are working on). Gamerant. <https://gamerant.com/every-first-party-sony-studio-games-currently-in-development/#:~:text=Sony%20now%20has%2021%20major,operate%20more%20under%20the%20radar>.

Carter, J. (2023, September 6). Flying wild hog's space punks to go offline in November. Game Developer. <https://www.gamedeveloper.com/business/flying-wild-hog-s-i-space-punks-i-to-go-offline-in-november>

EA Studio – discover the creators behind EA Games – EA Official. Electronic Arts. (n.d.). <https://www.ea.com/ea-studios>

Francis, B. (2023, November 16). What the heck is happening with live service games?. Game Developer. <https://www.gamedeveloper.com/business/what-the-heck-is-happening-with-live-service-games->

Jabbour, R. (2023, December 8). The growing dangers of live service games. The SMU Journal. <https://www.thesmujournal.ca/video-games/the-growing-dangers-of-live-service-games>

Kolmar, C. (2023, April 11). These are the 10 biggest video game companies in America. Zippia. <https://www.zippia.com/advice/biggest-video-game-companies-in-america/>

Lindzon, J. (2024, January 31). The gaming industry is aiming for subscribers. will gamers play along?. BBC News. <https://www.bbc.com/worklife/article/20240130-the-gaming-industry-is-aiming-for-subscribers-will-gamers-play-along>

Mathews, C. C., & Wearn, N. (2016). How are modern video games marketed? The Computer Games Journal, 5(1–2). <https://doi.org/10.1007/s40869-016-0023-2>

Microsoft. (n.d.). Xbox Game Studios: Xbox. Xbox. <https://www.xbox.com/en-ZA/xbox-game-studios>

The role of digital marketing in the gaming industry, key strategies of promotion. Hyperise. (n.d.). <https://hyperise.com/blog/the-role-of-digital-marketing-in-the-gaming-industry-key-strategies-of-promotion>

Shalabi, C. (2024, March 11). In-game advertising in 2024: US gaming stats, ad types, & video game trends. EMARKETER. <https://www.emarketer.com/insights/us-gaming-industry-ecosystem/>

Vermeulen, J. (2022, December 29). Building the world's most popular gaming PC costs R35,950 in South Africa. My Broadband. <https://mybroadband.co.za/news/gaming/475137-building-the-worlds-most-popular-gaming-pc-costs-r35950-in-south-africa.html>

Shalabi, C. (2023, October 11). Esports: What is it and how it benefits marketers. EMARKETER. <https://www.emarketer.com/insights/esports-ecosystem-market-report/>

Bose, R. (2018). ESports: Business models. Mercer Capital. <https://mercercapital.com/article/esports-business-models-article/#:~:text=There%20are%20numerous%20ways%20for,eSports%20teams%20can%20make%20money.>

Honda commitment to gaming and Esports. Honda Automobiles Newsroom. (n.d.). <https://hondanews.com/en-US/honda-automobiles/releases/release-15977513712baf5c751c20635207965b-honda-commitment-to-gaming-and-esports>

Nicols, Z., Lin, W., Mahmoud, M., & Lor, Y. (2024). The 2023 International Conference on Computational Science and Computational Intelligence (CSCI). In ResearchGate. Las Vegas. Retrieved April 4, 2024, from https://www.researchgate.net/publication/377845776_Six_Sigma_and_The_Video_Game_Industry.