



Research Brief
Video Game
Market Overview

April 2016

Video Game Market Overview

April 2016
Presented by:

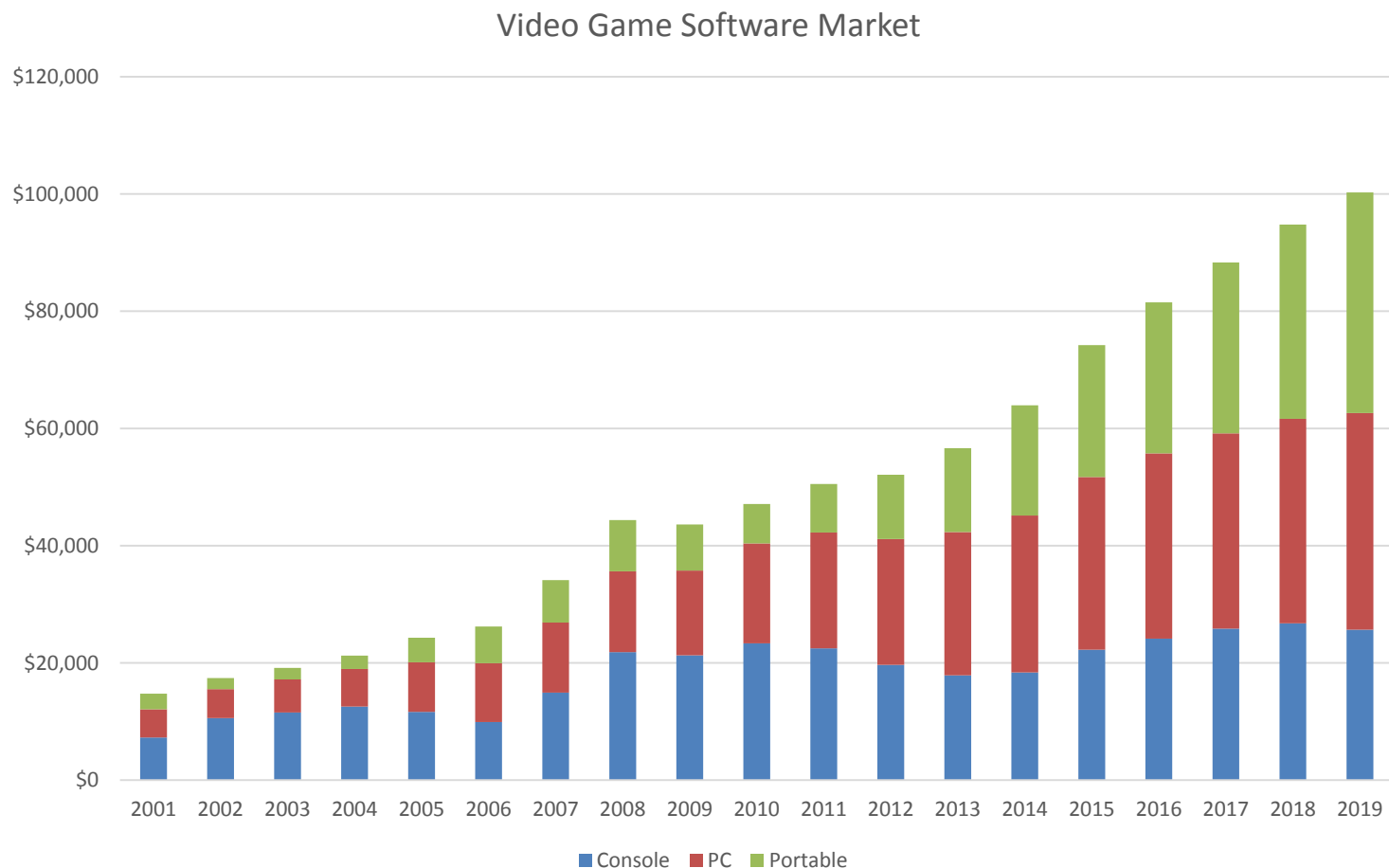


Agenda

- How big is the global market for video games and where are the major growth areas
- We will look at three broad platforms
 - Games on PC
 - Games on mobile devices
 - Games in the living room
- Who is DFC Intelligence (www.dfcint.com)
 - 1994 to 1997- major focus on digital distribution & online games
 - 1998 to 2002 - DFC's primary focus on U.S. retail via NPD partnership
 - 2001: DFC started looking at the Korean game market and online business models
 - Today: Tracking all major global markets and all major platforms
 - DFC uses advance data mining tools and partnerships with multiple data partners to accurately size the true global market
- DFC Intelligence uses a triangulation methodology where we collect data from multiple sources and work with specialized data partners
- LAI Global Game Services
 - Introducing the Global Game Market Analyzer iPad app
 - Free to OGA members at <http://www.lai.com/getgma>

Video Game Software Market Size

- The worldwide video game software market is expected to grow at 9% CAGR 2014-2019 to \$100 billion

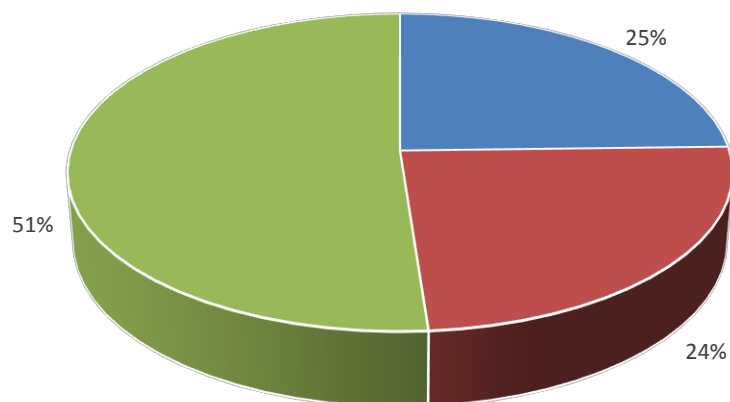


Source: DFC Intelligence Worldwide Video Game Market Forecasts 2015

Technology is Driving a Global Market

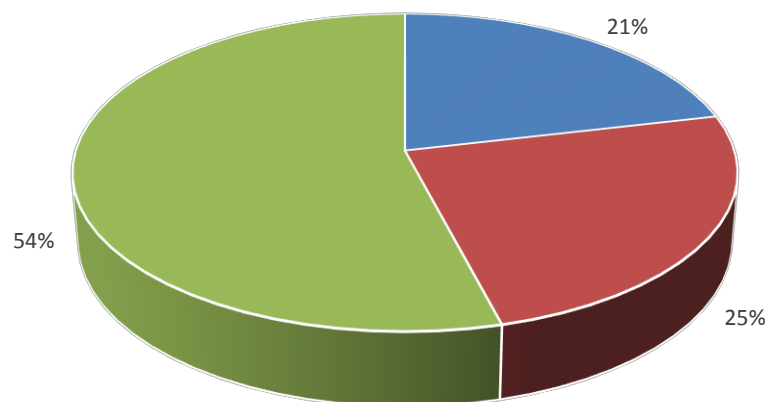
- Emerging markets like China are growing fastest but all markets are growing as games become a global business

Video Game Software Market Share by Region 2015



■ N America ■ Europe ■ Asia and ROW

Video Game Software Market Share by Region 2019



■ N America ■ Europe ■ Asia and ROW

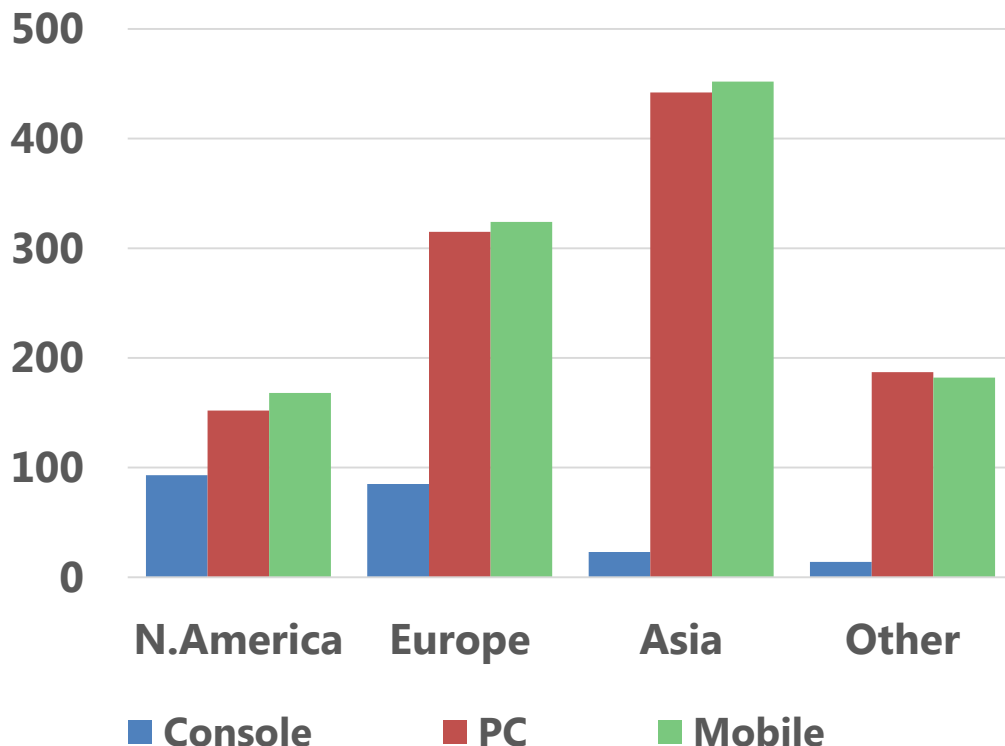
Source: DFC Intelligence Worldwide Video Game Market Forecasts 2015

Game Consumer

PLATFORM	USERS (in millions)
Console Users	215
PC Users	1,096
Mobile	1,126
Total Unique Users (not a sum)	1,506

- DFC estimates 1.5 billion gamers worldwide with a great deal of platform overlap
- Most users play games for free or very little money
- Core audience of about 300 million generates the bulk of revenue

WORLDWIDE GAME USERS
BY REGION AND PLATFORM (IN MILLIONS)

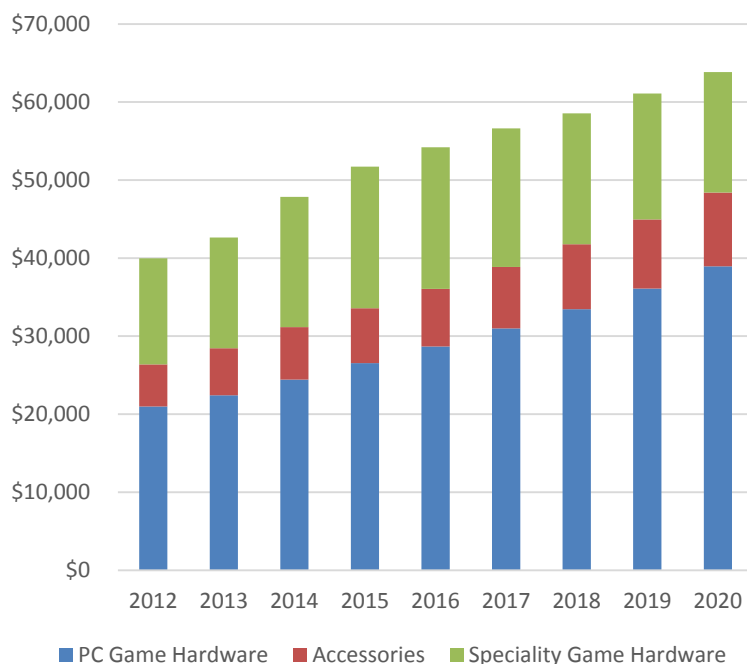


Source: DFC Intelligence Consumer Segmentation Service 2015

Games Drive Spending in Other Areas

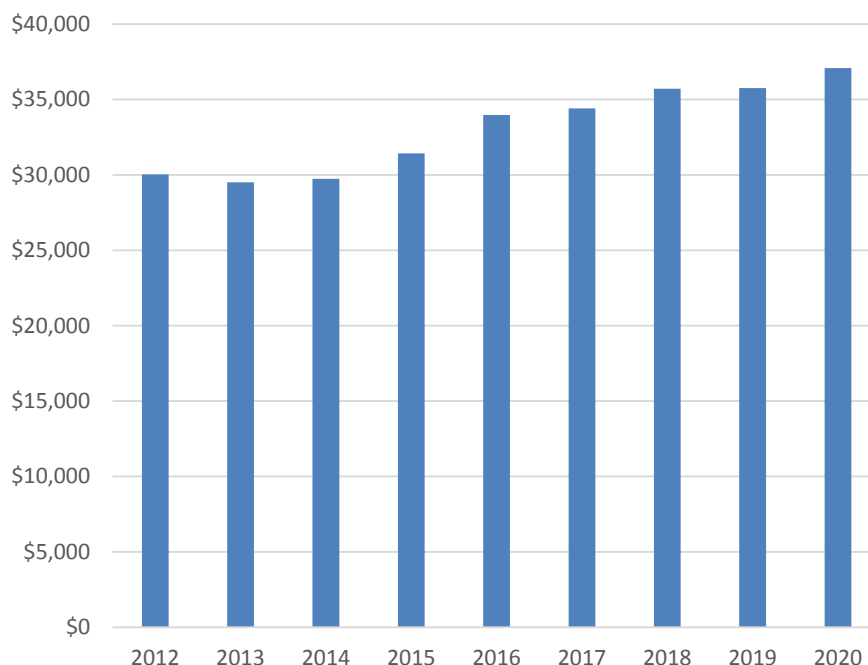
- Consumers spend almost as much on hardware to play games as they do on the actual games
- This does not include spending on tablets, smartphones and non-performance PC that play games
- There is a separate market to provide services to game providers

Video Game Hardware Spending



Source: DFC Intelligence Worldwide Video Game Hardware Forecasts 2016

Game Services Market



Source: General Estimate from Analysis of Spending Patterns of Game with Outside Service Vendors; DFC Business of Video Games report

DFC Game Industry Segmentation

- The industry can be segmented many ways including by platform, region, genre and business model
- We have segmented the industry into 3 major platforms: PC, mobile and console and further sub-segment based on business model pay-to-play (P2P), games as a service (GAS) and primary distribution (physical or online)

Segment	Subsegment	Notes/Trends
PC	PC P2P Online	Has been driven by online distribution trends
PC	PC Low-End GAS	Has been hurt by growth of mobile
PC	PC Premium GAS	Has done well in Asia
PC/Console	Console/PC Premium P2P	Biggest hits where physical distribution is essential
Console	Console GAS	Not yet a proven market
Console	Console P2P Online	Is starting to see growth with online distribution
Mobile	Mobile P2P	Pay-to-play has not done well in mobile
Mobile	Mobile GAS	Giving away mobile games for free and upselling has driven substantial growth

Key Trends in the Game Industry

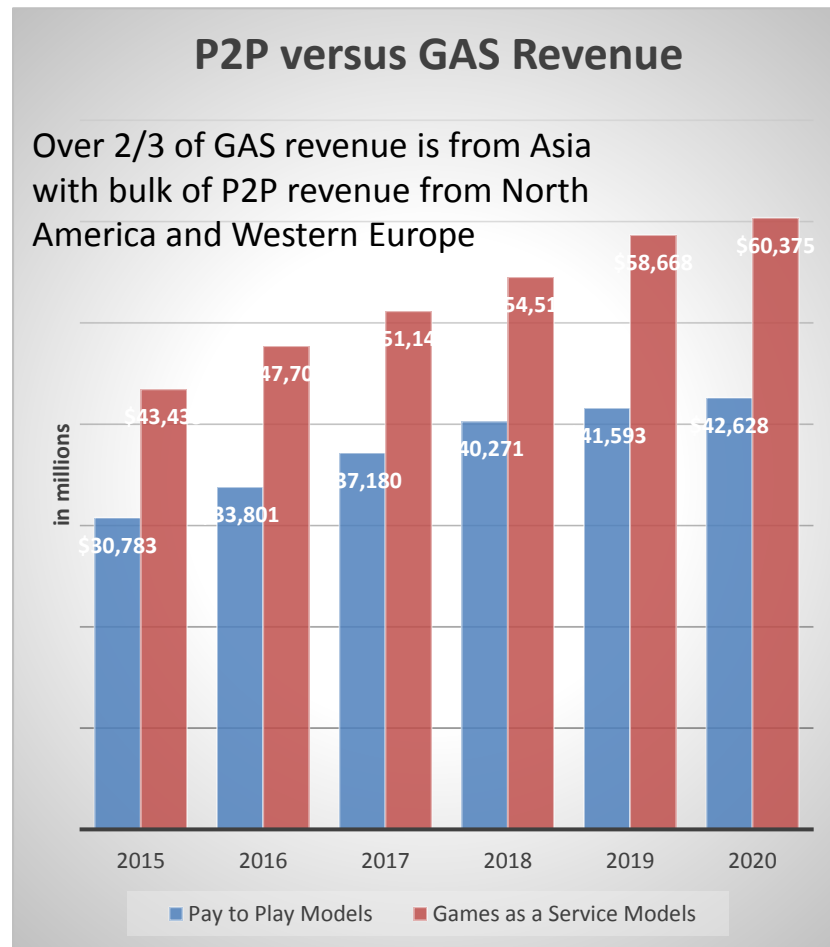
- Growing growth fueled by more access to hardware and digital distribution
- A gap between large products with budgets in the \$50-100 million+ range and small products with limited budget
- Aging consumers demanding more sophisticated types of games
 - Generation X and Generation Y are growing up and having children
 - Consumer tastes change with age
- An over supply of products
 - This has always been an industry issue
 - Digital distribution has lowered barriers to entry, especially on mobile
- A fragmented distribution infrastructure
 - Console games have grown by focusing on controlled distribution
 - PC and mobile distribution has limited control/curation
- Established players struggling with market changes
 - Large public companies struggle to compete in smaller markets
 - Startups tend to take advantage of new opportunities
- A business obsessed with the latest trend and next big thing
 - New markets quickly become oversaturated
 - Virtual Reality and eSports are the current “overrated” trends

Game are a Premium Pay-to-Play Product

- Consumers are willing to spend \$50 to \$100 or more on a single game
 - In the 1990s high-end games could cost over \$70 because of high media costs
 - Media costs have driven prices down to \$50 to \$60 range for top games and created a market for games in the \$20-40 range
- Lower cost in digital distribution and media combined with greater audience reach has meant lower price points
 - Top games still command premium price points
 - There has emerged a lower tier of games focused on a lower price point of under \$25
- All games are forced to compete with the movement to give products away for free
 - Many consumers can play games and never have to pay for the product
 - Mobile products have proven unable to charge a premium
- Advertising has not been successful in the game space
 - Many advertising models have been experimented with
 - Core consumers will pay to avoid advertising
 - Advertising prices and business models in general have struggled as game audience has expanded
 - Advertising works best for simple, quick access games, especially in the mobile space

Games as a Service Revolution

- The idea of games as a service has been around for years
 - AOL, AT&T, Time Warner and many others have major investments since the 1980s
 - The area has been a significant disappointment
 - Significant growth has occurred over past decade in Asia and areas like mobile and social games
- GAS works best for reaching a broad audience that is not willing to pay for games
 - Give game away for free and try and upsell consumer
 - In Asia it was a way to avoid piracy
- GAS became defacto model in mobile
 - \$1.00 proved to be too high a price point
 - With nearly a million games giving away product was only way to get noticed
- A handful of products become major hits
- The business model is challenging because consumers must be serviced before they are monetized



Major Hardware Platforms

Platform	Active WW Game Users (in millions)	Revenue	Notes
Nintendo systems	42	\$4 billion	Closed Console
Microsoft Xbox Systems	42	\$7 billion	Closed Console
Sony PlayStation Systems	50	\$9 billion	Closed Console
Apple iOS	300	\$15 billion	Semi-Closed Mobile
Google Android	750	\$10 billion	Mostly Open Mobile
PC	1,100	\$25 billion	Open

- Closed platforms versus open platforms
- Open platforms tend to attract more users but generate less revenue per user
- Closed platforms generally require paying a royalty to the hardware manufacturer who will also control what can be released for the system
- This can be broken down into further sub-segments

Digital Distribution is Key

- Effectively Using Digital Distribution Reduces Risk and Expands Audience
 - Lower production and distribution costs
 - Broader reach
 - Lower manufacturing costs
 - Lower inventory costs
 - Enables a niche strategy
- Digital Distribution expands what content can be delivered
 - Limited retail shelf space meant only top products were carried
 - Similar to growth of cable TV where went from 3 networks to many niche cable channels
- Digital distribution is key to low risk publishing strategy
- Large players don't have a lock on distribution

The New Reality of Publishing

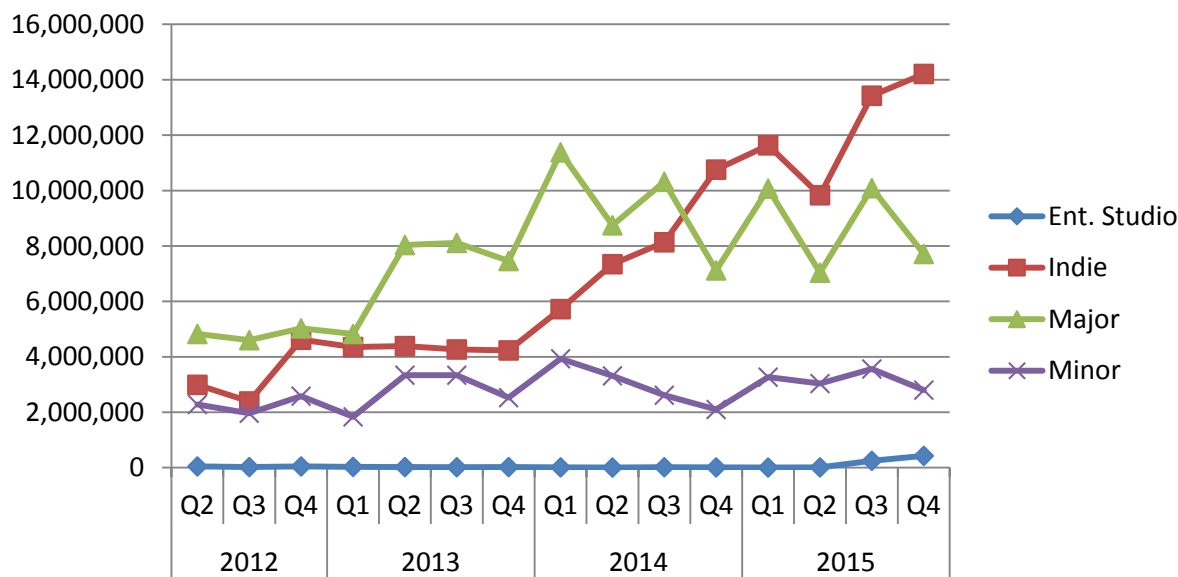
- The line between developer, publisher and distributor is often blurred
 - There is a major trend towards developers looking to self-publish (indie developers)
 - Publishers come in all different types
- Developer/Publisher
 - large publishers have in-house development AND work with 3rd party developers
 - larger developers can co-publish with a publishing partner where developer funds title development and publisher funds marketing/distribution
 - indie developers publish their own developed titles
- Publisher/Distributor
 - Larger publishers will often publish/distribute titles from other publishers
 - Publishing/distribution is often limited to a specific region and/or platform where a publisher does not have distribution reach
 - Large publishers like Valve (Steam) and Electronic Arts (Origin/Affiliated Label Program) have their own distribution services and often distribute products that compete with their own published products

The Indie Developer Movement

- An indie developer is a developer that is not funded by a publisher and uses online distribution to self-publish titles
- Indie Developers are growing significantly
 - Barriers to entry are low because of online distribution
 - Game development is becoming a career and number of trained developers is soaring
 - There is a wide range in type of indie developers
- Reaching Consumers is a Challenge
 - Indie developers often lack critical consumer interaction skills
 - An crowded market means it is harder than ever to get noticed
 - Distribution has become dominated by one major service, Steam from Valve
- Indie development is coming to consoles

Digital Publishing on Console

XBLA PSN "Primarily Digital Games" Units by Publisher Type, NA+EU (excl. Minecraft and Rocket League)



- **Above:** the cumulative # of SKUs released by publisher type on XBLA/PSN (excludes digital releases of AAA retail games)
- **Major** and **Minor** publishers continue to publish XBLA/PSN games at consistent pace
- **Indie** publishing has grown significantly now that Microsoft and Sony have allowed greater access to XBLA and PSN (respectively) to smaller developers and fledgling digital publishers

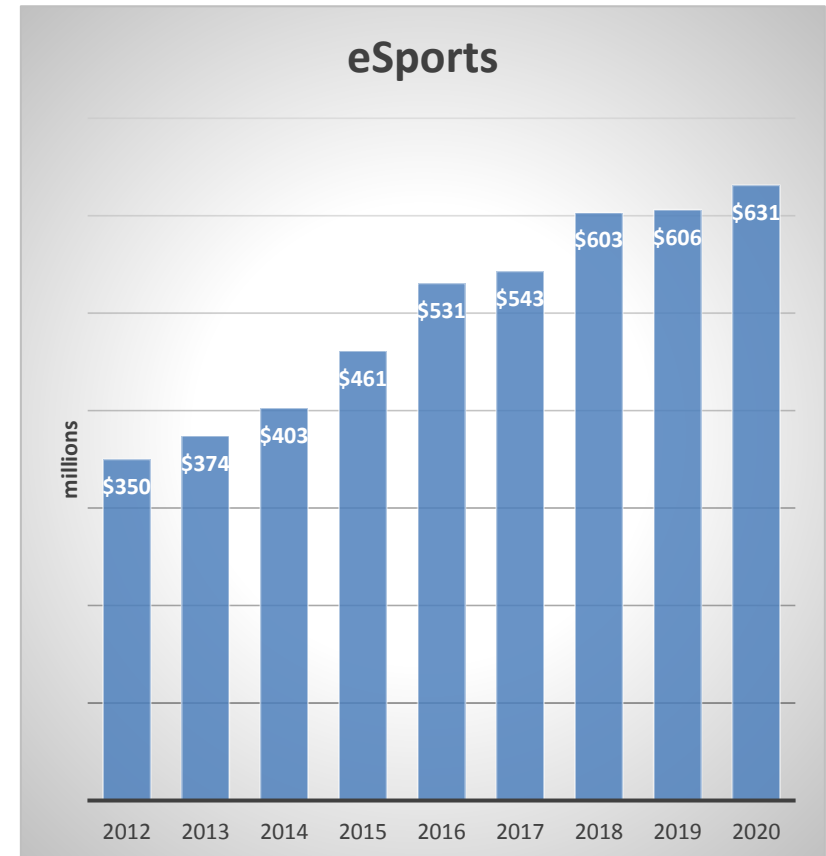
- Examples of **major** publishers in XBLA /PSN space include: Activision, EA, Sony, Microsoft, Ubisoft etc.
- **Majors** also publish large selling, high cost AAA retail games
- Examples of **minor** publishers include 505 Games, Sega, Bandai, Konami etc.
- **Minors** also publish smaller games at retail
- **Indie** publishers are often developers that self publish their own content
- Examples of **Indies** include Telltale Games, Team 17, Curve, Devolver, Ripstone, etc.
- Source: DFC Digital Console service

Lessons Learned from History

- Growth in the game industry has been largely driven by hardware manufacturers that provide a closed ecosystem that allow them to create a game to a set system standard. This is the console side of the business where hardware manufacturers control who can release products for their system.
- The game industry has been very cyclical much of it driven by the console side of the business and the need to launch new hardware to keep consumers active.
- The large publishers grew by focusing on building retail distribution networks in North America and Europe. The challenge these publishers face is understanding the movement to online distribution and the movement to “games as a service.”
- Media companies have struggled with success in the game industry. The two largest media companies currently in the game space are Disney and Time Warner. Both companies have had many failures and changes in strategy over the years.
- The PC game space has not been as subject to the cyclical nature of the business but has suffered from lack of standards and the absence of a core company to help solidify the space. The PC is an open system which allows anyone to launch games. This means the segment has too many products and it is hard for a product to get noticed. Steam has been a major service to help organize PC game distribution.
- Apple helped create a more closed system for mobile games that has grown that segment. However, the mobile game business has seen a great deal of investment activity but there is concern that very few new products are rising to the top. The mobile game business is extremely over-crowded.

eSports

- **Definition**
 - This involves players competing in live or online events often for real money and a large number of viewers
- **Buyer**
 - Advertisers
- **Funding**
 - Private and venture funded
- **Dynamics**
 - eSports is well established but is currently a hot area
 - Growth first occurred in Asia
 - It is a way to promote usage of certain games (marketing loss leader)
 - It is a way to attract large numbers of users (potential to sell products and services to those users)
 - Trend is to bring eSports in-house (Electronic Arts and Activision Blizzard)
- **Main Players**
 - Activision Blizzard, Electronic Arts, Tencent, Twitch, Valve
- **Challenges and Opportunities**
 - Large products are being brought in-house limiting third party opportunities
 - New multiplayer games are exploring eSports support for their products. Individual game monetization potential depends on audience critical mass. The more games in eSports the more chance of a shakeout
 - Amazon beat out Google to buy Twitch.tv in 2014 for \$1 billion
 - At time Twitch was generating about \$75 million with 55 million users
 - Compare to multiple game magazines 15 years ago which generated \$40 million with only about 1 million users
 - Where is the play at this late stage?
 - Savvy investors were looking at eSports 5 years ago
 - The recent media attention has resulted in an unsupportable gold rush mentality



Virtual Reality and Augmented Reality

- Virtual reality uses some form of headset display to take the user visually out of the real world
- Augmented reality uses some form of display to create additional images in the real world
- This is a potential growth category attracting a great deal of media attention
 - There have been multiple hype cycles around this technology for years
 - Google Glass was a high profile form of AR
 - Major products are launching starting in 2016
- Major players include Facebook, Microsoft and Sony
 - Facebook is launching Oculus Rift at \$599 in 3/16
 - Oculus Rift will require a high end PC device
 - Looks like a long term Facebook investment
 - Likely to attract some high-end development talent
 - Sony will launch PlayStation VR October 2016 at \$399 W
 - Will work with PlayStation 4 game system (hardware sales of 36 million end of 2015)
 - Mainly to drive hardware sales and brand name of Sony
 - Microsoft is developing HoloLens AR system for release in 2017 or beyond
- Game developers are uncertain about the future potential
 - Hardware companies are helping fund many high-end developers
 - The installed base and high cost of development mean that the risk is too high for most developers
 - A likely successful system will be exclusive to Sony
- It is unclear if VR/AR will be a game sales driver or a general media play
 - Shopping, communication, healthcare, education, tourism are all potential areas for VR/AR
- Major investments are being done in expensive hardware
 - VR hardware may eventually be a standard in hardware devices
 - Google Cardboard shows how a simple smartphone can become a VR device
- This is an area to watch but is not expected to have major growth for games
 - VR is more an experience versus an actual game
 - It is hard to imagine how successful games that provide hours of gameplay convert to the VR experience

Tracking the Game Industry

- LAI Global Game Services(LAI) has worked with DFC Intelligence to develop a free app for iPad the Game Market Analyzer <http://www.lai.com/getgma>
- Contact DFC Intelligence at info@dfcint.com for more information
- Make sure to signup for the DFC Dossier at <https://www.dfcint.com/wp/my-account/>

Game Market Analyzer

dave@lai.com


LAI Global Game Services



iPad 1:40 PM LAI Game Market Analyzer

GMA

Enter Word Count

0  24.3% \$0.00

Contact Us

Tell Us About Your Game

Market Analysis Parameters

Platform

PC ▼

Genre

Racing ▼

Additional Parameters for Matchmaking

Age

0 - 9

10 - 20

21 - 35

36 - 50

51 - 65

65+

Gender


Male


Female

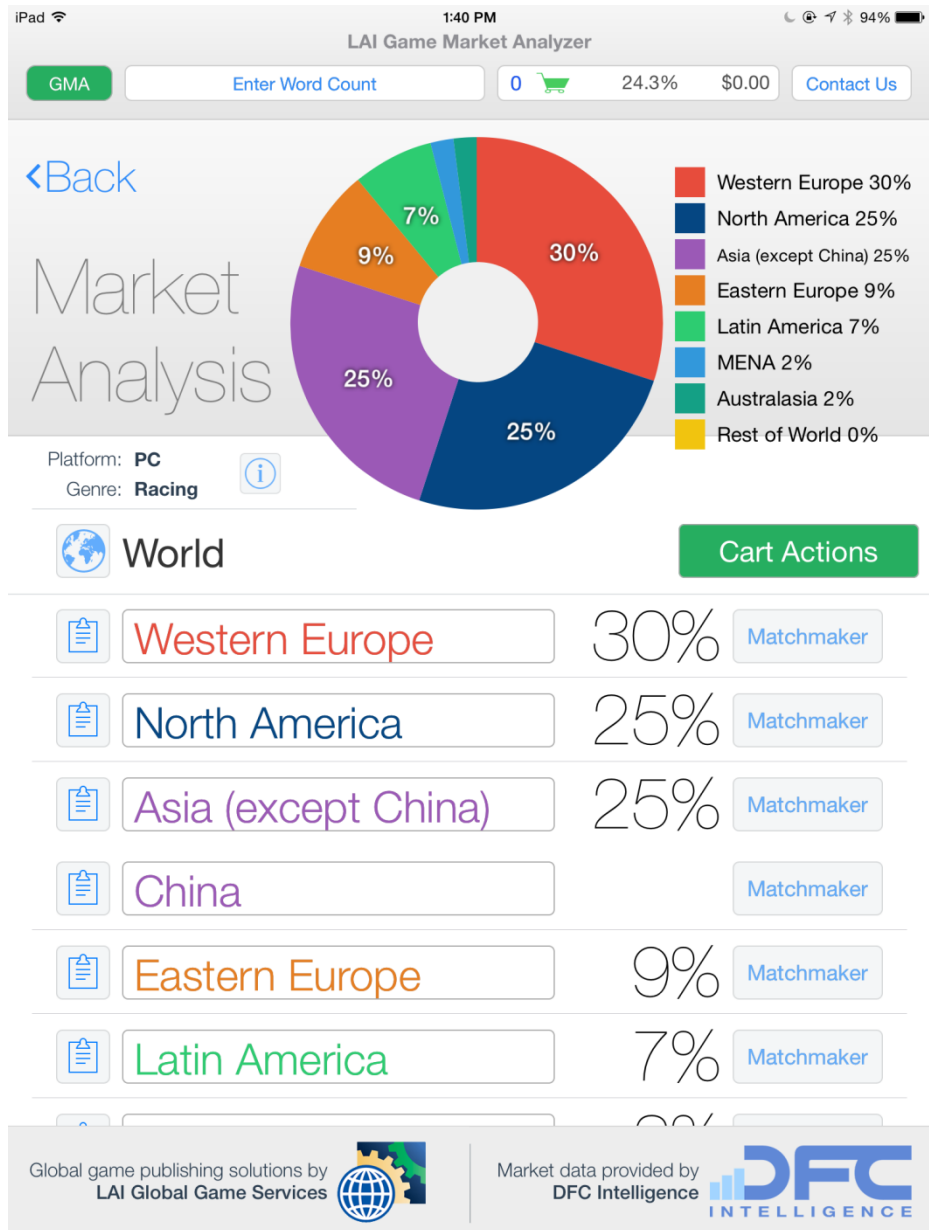
Monetization Model

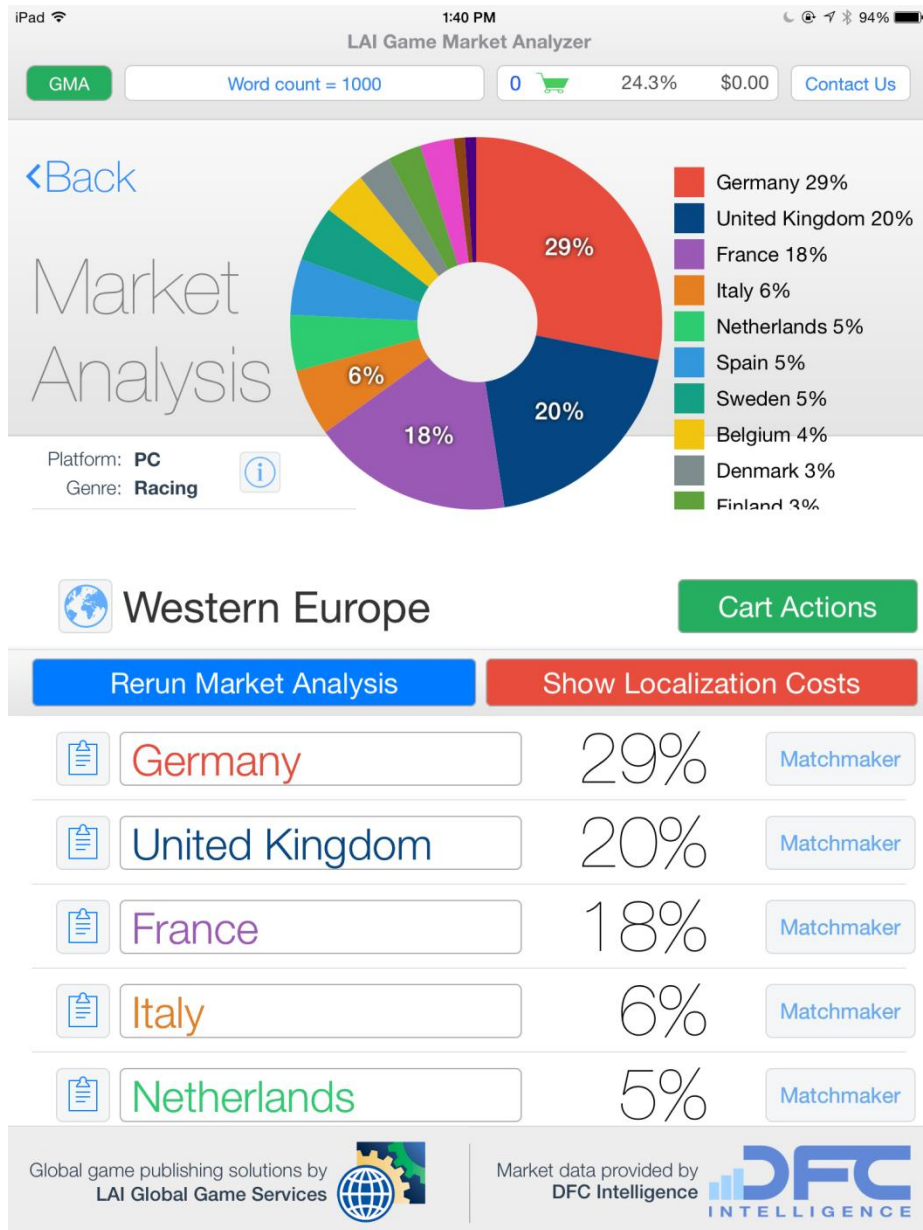
Free to Play / In-App ▼

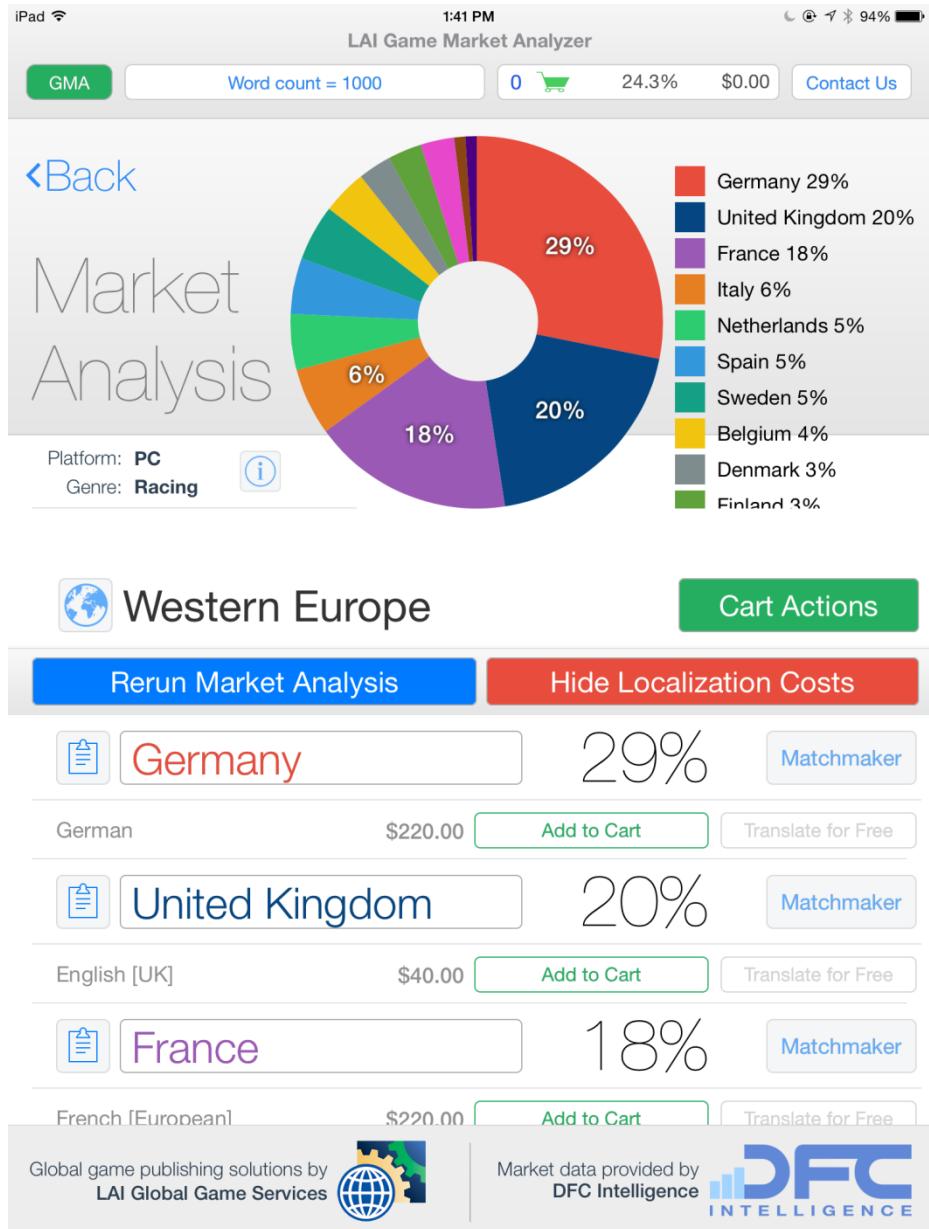
Run Market Analysis

Global game publishing solutions by
LAI Global Game Services 

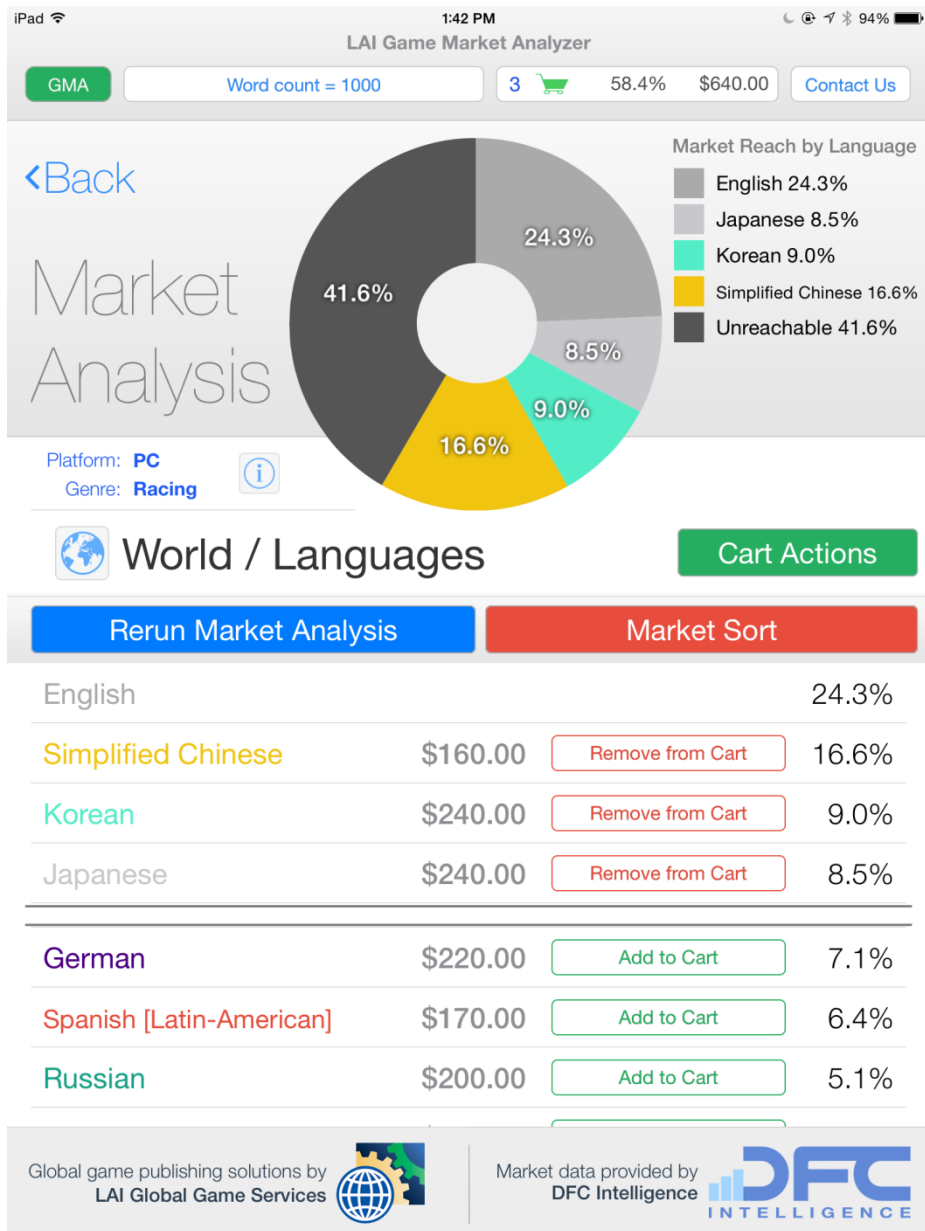
Market data provided by
DFC Intelligence 











Free download and signup for other free briefs

<http://www.lai.com/getgma>

<https://www.dfcint.com/wp/my-account/>

David Cole, CEO, DFC Intelligence, dcole@dfcint.com
David Lakritz, President and CEO, LAI Global Game Services,
dave@lai.com