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# The Impact of COVID-19 on Video Gaming and Our Virtual Lives — Matthew Ball

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30-38 minutes



Economic crises, natural disasters, and other long-tail events tend to accelerate underlying trends, exacerbate balances of power, and unravel businesses, business models, and business practices that were sustained by a robust economy. COVID-19's effect on the media and entertainment sector looks like it will be consistent with this history. Note, too, that the longer/worse the pandemic, the stronger the impact.

This essay covers the impacts of the Coronavirus on video gaming and our digital lives. It will address (1) the category's growing dominance in media; (2) the future of cross-platform multiplayer; (3) growth in esports; (4) the shift from physical to digital media; (5) the increasing role of games and virtual worlds in our "real" lives; (6) how today's blockbuster games and their attributes will evolve; and (7) why indie games are likely to thrive.

I've also written on how the [theatrical film business](#) and [Pay-TV/OTT video space](#) will be affected.

## #1: Gaming's Enormous Growth and Ascendancy

### Pre-COVID Trends

As a category, video gaming has been growing its share of consumer time and entertainment spend for years — especially with younger demographics. In 2019, for example, consumers spent \$120B on video games (excluding hardware), up from \$35B fifteen years ago. This makes the category more than three times larger than the global box office (two times if including home video and SVOD revenues) and four times the recorded music industry. It is also growing 2.5–3.5x faster and on a larger base.

Several games, such as *Roblox*, *Minecraft*, *Fortnite*, and *Grand Theft Auto*, now have 70–120MM monthly active players and generate 1–1.5B of hours of playtime per month (plus another 100–400MM viewing hours on YouTube, Twitch, etc.). Not only does the scale of this engagement eclipse every traditional media franchise (including the multi-media Marvel), this time is mostly stolen from TV and film. Furthermore, gaming content is already the most watched category on the most watched streaming platform globally (YouTube).

Despite this, Hollywood still lacks a real meaningful strategy for participating in the video game sector. For the most part, its efforts are limited to simply licensing out its IP rights. Of course, this does have its benefits. Games such as *Star Wars Jedi: Fallen Order* will help sustain Star Wars' relevance with younger and more international audiences, plus increase franchise revenues (and at zero cost) and potentially generate stories/characters that can be adapted to the screen, too. However, no IP company has ever thrived by outsourcing the monetization, creative, and customer relationship of its franchises to a third party — not least of all one experiencing considerably greater rates of growth.



And while Tinseltown has begun to show real interest in adapting gaming IP to TV and film, this is a double-edged sword. On one hand, it allows traditional media to leverage the success of the video game industry for its own benefit. However, the upside here is capped and it also means Hollywood is funding/accelerating the growth in popularity, love, and significance of IP they neither own nor control but [ultimately compete with](#).

#### COVID-19 Impact:

According to Verizon, the Coronavirus has led to a 12% increase in digital video traffic and a 20% increase in web traffic, while Nielsen reports total TV time (digital and linear) is up 20%. Video gaming, meanwhile, is up an astounding 75%, per Verizon.

This outperformance has several drivers. Unlike film/TV there is no real max to how much time you can spend “binging” your favorite game. And during a time in which hundreds of millions are forced into physical isolation, the ability to co-experience content from a safe distance becomes particularly important. And even though we’re now stuck at home with little to do, [TV viewing was already at unsustainable peaks](#) prior to COVID.

Note, too, that as video gaming has surged, most of Hollywood’s core businesses have shut down entirely, such as theme parks, cruises, and theatrical revenues. The consequences here will only grow with time. While Disney has no real video gaming business, it will add another three cruise ships to its four-liner fleet by 2023. Meanwhile, digital theme parks and games continue to become more popular, lucrative, and capable (to say nothing of their imperviousness to biological infections and viruses).

Given this, plus the resiliency of video game publisher stock prices, it is difficult to imagine the Coronavirus won’t force at least partial mindset changes at the major Hollywood conglomerates (most of which are now part of sprawling tech/media/events empires anyhow). While laws around social distancing will eventually subside, fears will linger, new norms will be established, and outbreaks might recur. Regardless, the Coronavirus will further the growth of a media category that was already on its path to the throne.



## #2: Rise of Cross-Platform Gaming and Non-Console Player Networks:

### Pre-COVID Trends:

For years, gamers resented the fact that their friend networks and multiplayer experiences were locked to platforms such as Xbox or PlayStation. This meant two best friends could buy *Call of Duty: Modern Warfare*, but if they didn't have the same console they could never play one another. There were several reasons for such limitation. For example, Microsoft's enormous early lead in centralized server operations and services for online multiplayer offered outstanding reliability, but only worked for Xbox hardware/software/accounts. Later, the primary impediment seemed to be Sony, which had an even greater lead in the "console wars" and thus didn't want to weaken its network effects/player lock-in (if changing to another system meant losing your friend group, you'd be less likely to leave). In 2016, Sony Interactive Entertainment President admitted that "the technical aspect could be the easiest" part of enabling cross-play.

Regardless, the cross-play vision of the future continued to edge closer throughout the 2010s until breaking out in early 2018. In 2015, for example, Microsoft began to invest heavily in cross-play between its Xbox and PC operating systems. And after taking over Microsoft's Xbox division in 2017, for example, Phil Spencer and his team began to publicly advocate for cross-play. That same year, Nintendo, too, began to open up its famously closed ecosystem to cross-play. Many analysts saw these moves as an active effort to deflate PlayStation 4's dominance in the eighth console generation. At the time, PS4 had outsold Xbox One by more than 100%, while the Nintendo Switch had only just launched and was years late after Nintendo pivoted away from the Wii U, its first (and failed) eighth generation release. If your network was weaker, there was more to gain and less to lose from partnering with other ones.

The enormous growth of mobile gaming throughout the 2010s was also important since nearly every mobile title supported cross-play (unlike gaming consoles, one would buy a specific phone to play a specific game, and the major phone makers neither developed their own games nor licensed them exclusively anyway). For similar reasons, PC gaming, too, had always supported cross-play.

As a result, ubiquitous cross-play seemed to be more of a how/why/when rather than an "if". The answer here was *Fortnite*, which was unique in several ways. First, it was the first mainstream AAA game that could be played on *any* major game device, from the PlayStation 4 to the PlayStation 3, Nintendo Switch, Mac, or iPhone. As a result, most players had multiple ways to access the game. In addition, the game was free and online only. This mattered because each of Sony's competitors had embraced *Fortnite* cross-play, meaning PlayStation didn't just have the worst version of *Fortnite*, but PlayStation owners had many alternatives at their fingertips. This meant that while Sony's decision to gatekeep the *Call of Duty* multiplayer experience might have modestly reduced the number of \$60 copies bought by gamers, a failure to participate in *Fortnite*'s online meant missing out on most revenue and driving players to its competitors. Worse still, *Fortnite* had become incredibly popular and was generating more revenue on a monthly basis than any game in Western history. And thus, by the end of 2018, PlayStation had embraced cross-play for *Fortnite*. And shortly thereafter, it enabled cross-play for many more games, too.

2020 was already set to further accelerate this trend. Epic Games, for example, is rolling out "Epic Online Services", a new business that's free to any game developer, on any game engine, sold through any store, and which allows for turn-key cross-platform multiplayer. It will also offer the ability to leverage *Fortnite*'s player graph — which had even eclipsed those of the over 15-year-old Steam, Xbox Live, and PlayStation Network.

### COVID-19 Impact:



Because cross-play, by definition, requires connecting multiple competing platforms, almost all backend services, servers, operations, account management, etc., are managed by a game's publisher. This is distinct from the historical multiplayer services model, which was either centralized by a platform, such as Xbox Live, or at least heavily federated in the case of PlayStation. But for all the advances in cross-play, the major consoles still require users to authenticate via their proprietary networks. You can't access *Fortnite* on Xbox, for example, without going through the Xbox Live network (which requires a user ID and a monthly fee).

There's nothing "wrong" with this gating per se. But during the COVID outbreak, the online services of Nintendo, Sony, and Xbox all crashed due to unprecedented concurrency volumes. While none of the major games went down, this nevertheless meant that players on each of these platforms couldn't play; if PlayStation Plus can't relay you to *Fortnite*'s servers, it doesn't matter if *Fortnite* is up.

This technical reliance helps no one — especially the platforms. An Xbox Live player, for example, won't abandon gaming because Xbox is down. Instead, they'll just play *Fortnite* on their iPad (and using their Xbox controller) or Nintendo Switch or their PC. This should accelerate the reduction in platform control over multiplayer experiences in addition to showing that much of this control is not just unnecessary in 2020, but it's also limiting. To the end, it's likely we'll see some platforms change their policies in the quarters to come. For example, Microsoft might still require Xbox Live authentication but allow it to be bypassed during an outage.

### #3: The Sustained (But Not Fully Realized) Growth of Esports:

#### Pre-COVID Trends:

Despite many false starts, hiccups, and a general sense of over-excessive, unfilled hype, esports has continued to grow annually. In 2019, revenues exceeded \$1B, with 70% coming from advertisers seeking out young, predominantly higher income male audiences. The year's largest tournaments, Dota's International and the Fortnite World Cup, had nearly \$35MM prize pools. The NYC-based Fortnite World Cup also sold 24,000 in-person event tickets and amassed 2.3MM viewers for its finals. In 2018, the NBA and NBA 2K-developer Take Two formed a partnership for an official digital NBA league.

#### COVID-19 Impact:

Esports may end up having its break out during the coronavirus — and not from video games per se. Several sports leagues, from the NBA to America's NASCAR and Europe's F1, have looked to replace their cancelled season with purely digital-events. NASCAR, for example, replaced an entire race with 35 real-life NASCAR drivers strapped into "simulator rigs" playing a NASCAR video game. This event, like several others, was broadcast on live linear TV, where it *averaged* close to a million viewers throughout the race and amassed more than 100MM viewing minutes.

The significance of these "high scores" and "achievement unlocks" are profound. Never before have esports been considered so "cool" or "fun" or "acceptable". The amount of promotion the category is receiving from the likes of Fox Broadcast Company, the Phoenix Suns, Dale Earnhardt Jr. and ESPN is unprecedented. It will permanently legitimize the category in the eyes of tens of millions of "real" sports fans and dozens of the world's largest advertisers — most of whom have resisted esports for years, but have no choice but to embrace it or disengage and be left behind. It took only two weeks of national shut-ins and suspended regular seasons for Nevada to legalize esports betting in the state. This additional funding will produce a virtuous cycle that encourages platforms such as Twitch, YouTube and ESPN+ to further invest in live esports rights, promotions and monetization. It will make it easier for the major teams to raise capital, invest in their brands and talent, and attract fans.

One can be cynical about the fact that it took the cessation of real sports for electronic ones to go mainstream. However, this overlooks just how important broadcaster and advertiser investment is to the success of all sports leagues. NCAA Football, for example, didn't take [off until ESPN secured long-term rights to the league and took over everything](#) from scheduling which team plays which, where, and at what time, to the creation (and drafting) of bowls to fill its schedule.

Although the benefits of the above will lift the entire industry, one should consider whether the rising tide will be evenly distributed. NASCAR iRacing, for example, is virtually indistinguishable from the "real thing", easy to understand, and also doesn't require a NASCAR fan to "learn" how the sport works. *Counter-Strike* and *Call of Duty* are relatively simple, but still require education and are clearly synthetic. *League of Legends* is enormously difficult to follow, fantastical, and obviously non-real. Which is to say that the success of iRacing should not suggest that "real" sports fans are now ready to LoL.

#### #4: The Shift to Digital Game Purchasing Versus Physical Copies:

##### Pre-COVID Trends:

As with all media formats, it's clear that the vast majority of gaming content will eventually shift to digital downloads versus physical copies. This trend began in the late 1990s, was solidified with the launch of Steam in 2003, and continues to this day.

Furthermore, most measures of the split between physical and digital unit sales are misleading. To point, the share of games sold digitally drastically underrepresents digital's share of total game revenues. After all, no one buys a *Fortnite* emote, "downloadable" content (DLC), or loot box via disc. In addition, even when a major game is played via disc and "offline", much of its content or code has been modified or expanded via digital downloads. Mobile gaming revenues, (\$64B in 2019, or 55% of total), too, essentially all digital.

Still, 50% of PlayStation games sold in 2019 were physical discs. This represented more than \$15B in revenue — a sum that excludes the revenue captured by publishers, such as Activision Blizzard, and retailers like GameStop. And while GameStop's \$6.5B in 2019 revenue was down 22% from 2018 and well below its peak of \$9.6B in 2012, it remains considerable. There's a lot still left to shift.

##### COVID-19 Impact:

Although no reliable data exists, with the nationwide shutdowns of major game retailers such as GameStop and Target, as well COVID-related product shortages out of China, and the de-prioritization of non-essential shipments by Amazon, it's obvious that 2020 will accelerate the shift away from physical video games to levels once projected for 2022 or 2023.

The effects here will compound, too. GameStop has been struggling for years; it posted a \$470MM loss in 2019 and \$673MM a year earlier. The loss of at least two months of revenue plus an accelerated path to obsolescence will devastate the company. Only two weeks into America's social distancing programs, the company announced it would shut down at least 21 stores in 2020 (matching 2019's closures). While this may be financially prudent, it will mean the average gamer will need to drive even farther to physically pick up a game they might otherwise download in their homes.

#### #5: Games Becoming Hubs for Our Lives:

##### Pre-COVID Trends:

Historically, most gamers "gamed" to pass idle time, escape to imaginary worlds more immersive than those offered by another medium, or to compete with or alongside their friends. This is still true. However, many now play — or play more — because games are more than just part of the culture, they're a social hangout, digital third place, or modern version of loitering at a shopping mall. The goal of *Fortnite: Battle Royale* might be to kill every competing team, but players log on to spend time with their friends.

Although these social network-like games are unprecedented in their popularity, they reflect just a small part of how games are being used to drive mainstream culture today. In 2018, *Fortnite* hosted a live EDM concert that was enjoyed by millions of simultaneous "players" worldwide, and exclusively premiered an album from the band Weezer. In 2019, the game carried out a live event that allowed gamers to participate inside the blockbuster film *Rise of Skywalker* and enjoy a live Q&A with its director, who was represented by a digital avatar. In addition, games like *Roblox* have been running virtual award shows for years, and in 2019, *Grand Theft Auto* launched an online casino where you can gamble for real money. 2019 also saw game engines such as Unity and Unreal power the second biggest film of the year, *The Lion King*, as well as the biggest show, *The Mandalorian*.

And while Hollywood has always known the power of live communal entertainment, few believed that the most popular live-streamed content on the Internet would be video games. In fact, even the category's leader, Twitch, didn't. The site started as Justin.tv, a general-purpose livestreaming site, before refocusing on its primary user behavior: gaming. By the end of 2019, the site was used by more than 150MM people monthly and delivering more than 2B hours of entertainment per month. At the same time, Twitch was [reportedly struggling to monetize its core business](#), while many of its top streamers were being poached by rival services that promised greater flexibility, income, and upside. In addition, the company announced plans to broaden its brand to focus on a wider category of live events, such as everyday life, concerts, and more.

Beyond the broadcast of a single person's experience to a large audience, 2016–2019 also saw numerous multi-party virtual hangout experiences pick up traction, launch, or receive venture funding. This includes non-professional use of Slack, the rise of Discord (which many used for multi-party video

calling while playing video games), Houseparty (since bought by Epic Games), Rec Room, and Facebook Horizon. There are many, many more.

And at a more macro-level, growth in gaming, online socializing, and virtual hangouts are part of a broader trend towards the Metaverse, which itself is a growing obsession of the major tech companies. Although this concept [requires thousands of words to properly describe and understand](#) (at least for me), it is essentially to be a quasi-successor Internet that spans both the physical world and many virtual ones, while giving all users a digital sense of synchronous presence, the ability to work virtually and produce virtual goods for virtual or physical use, and more. The Metaverse is a bet that not only will our lives be increasingly online, but our existence and jobs will be too.



#### COVID-19 Impact:

Video gaming at large has benefited from the need to socialize despite (physical) isolation. However, social-focused experiences have seen the most significant uptick in usage. Twitch, Mixer, and YouTube gaming have seen their traffic nearly double, with viewers watching nearly twice as many channels, too. In January, Houseparty ranked 400–500 for iOS downloads in the US. It's presently one of the top 10 apps for any kind, including Netflix and Instagram. [Pop.in](#), a "Game Night" app where anyone can play party games on live video with thousands of other players, has seen a 200% increase in active players and a 2,000% increase in daily signups. Although it's difficult to parse business-related traffic growth from consumer usage, it's clear a substantial share of Zoom's usage is coming from Gen Zs and Millennials looking to connect. According to Comcast, video conferencing traffic is up more than 200%.

More important is the enormous increase in experiences *built* for live digital consumption, rather than simply re-broadcast live via digital platforms such as YouTube or Twitch. Many major musicians, for example, are hosting live concerts filmed from their home studios and watched by at-home audiences. In many cases, these events are even sponsored by the world's largest [advertisers](#). There are reports that some [high school graduations will now take place in Roblox](#) or [Minecraft](#), while cancelled weddings are being rescheduled inside the Nintendo game *Animal Crossing*.



These trends have been underway for years. However, COVID has helped clarify both the potential and the need for such virtual experiences. This will lead to significant increases in the number of companies pursuing this opportunity, the availability of funding, and the ability to partner with leading



brands/artists/companies. In theory, this should help Twitch with its shift into “IRL” livestreams. However, it will also exacerbate its competitive threats and intensify the need to improve for monetization.

But ultimately, the most significant impact of COVID-19 is likely to be how it helps de-stigmatize virtual existence. Consider online grocery ordering and delivery as an example. Millions of consumers have known about the service for years, but refused to try it out of the belief that if they didn’t pick their own groceries, they’d arrive spoiled, damaged or unacceptable. To these customers, even if the apples weren’t bruised, they’d just be “wrong”. And crucially, there was no amount of marketing or Net Promoters to overcome this. But the Coronavirus has forced many of these holdouts to use grocery delivery for weeks now. And as a result, these customers have organically discovered that in fact, their groceries are fine and the process not just easy, but nice.

For decades, “gamers” have been making “fake” avatars and spending their free time in digital worlds while carrying out miscellaneous and decidedly un-game-like goals (e.g. designing a room in *Second Life* versus killing a terrorist in *Call of Duty*). Most people considered such efforts to be weird or wasteful (if they didn’t look down on it outright). Millions of these same skeptics are now participating in (and enjoying) these activities via *Animal Crossing*, *Fortnite* or *Roblox* as they seek out things to do or attend events once planned for the real world. Not only will this help de-stigmatize virtual life, it might even mean an extra generation will participate in it.

## #6: The Shift to Online, Living, Free-to-Play Games, and the Biggest Games Growing Their Dominance.

### Pre-COVID Trends:

Over the past twenty years, the focus of non-mobile gaming has continually shifted away from close-ended single player titles such as *Legend of Zelda* and toward online multiplayer games such as *Call of Duty* and *League of Legends*. This latter format is not just more scalable when it comes to playtime, it’s also stickier. You can only replay a linear ten-hour story alone so many times, for example, while online multiplayer games have no real “end”. In addition, *not* playing *Fortnite* means not spending time and sharing interests with your friends.

To this end, the most successful of these online multiplayer titles also tend to be those with frequent (sometimes weekly) content updates that keeps them “fresh” and keeps players engaged. Although many assume all “online” games do this, such a frame oversimplifies the gap between many games and the developer cultures/capabilities behind them. For example, *Overwatch* had less than a half dozen material updates in 2019, while *Fortnite* went through several new seasons, dozens of limited-time models, and countless other changes to the “meta”. And while Epic Games has been work-from-home for several weeks, *Fortnite* continues to make weekly patches, launch limited-time-modes and new items, and create large overhauls to its gameplay. Most recently, this included the introduction of the game’s first helicopter ever. And while this may sound like a single change, it will require the company to continually adjust the game to optimize for its impact (e.g. change its speed, defenses, mobility, availability) and maintain competitive balance.

For similar reasons, the biggest franchises have also been getting bigger throughout the last decade and, in doing so, starved many would-be blockbusters of the oxygen needed to ascend. [This dynamic is not unique to video gaming](#), but it’s particularly powerful. It’s much easier for IP like *Warcraft*, for example, to be re-imagined from its “real-time strategy game” beginnings into a “massively multiplayer online role-playing game” (*World of Warcraft*), “multiplayer online battle arena” (*Heroes of the Storm*, though this title missed the mark), or “online digital collectable card game” (*Hearthstone*) than *James Bond*, *Jurassic Park*, or even the Marvel Cinematic Universe can launch spinoffs into different genres.

In addition, the ability to live update a game with new features, gameplay modes, or stories means that these games can constantly absorb the best ideas, mechanics, and aspects of insurgent competitors. When added to the fact that most games are non-narrative, and thus “never ending”, and draw upon strong player network effects, the results are profound.

Although many believe games to be an unpredictable “hits” business, each year’s sales charts are dominated by the same titles: *Call of Duty*, *Grand Theft Auto*, *Red Dead Redemption*, *Warcraft*, *Battlefield*, *Counter-Strike*, *Pokémon*, etc. In fact, the very same *Grand Theft Auto V* was the bestselling title of both the seventh generation of consoles (Xbox 360 and PS3, 2005–2013) and the eighth (Xbox One and PS4, 2013–2020). This is worth reiteration. A game built for the consumer technology of the early 2000s — years before the iPhone or iPad — remains one of the most popular titles of the world. And although many fans complain that *Call of Duty*’s annual releases aren’t innovative enough to justify \$60, it remains the category leader and continues to rebuff attacks from competing shooters such as *Battlefield* and *PUBG*.

### COVID-19 Impact:

Although all games are up during the Coronavirus pandemic — and some have seen greater percentage growth — the games with the largest increases in total users are category leaders such as *Fortnite*, *League of Legends*, and *Counter-Strike*. Many of these titles are hitting record highs. The eight-year-old *CS:GO*, for example, crossed 1MM concurrent players for the first time in its history only days after American lockdowns began. Note, too, that the games most likely to accumulate new players, especially in times of swelling unemployment, are likely to be free-to-play AAA-grade titles.

Not all of these players will stick around after the crisis. However, there's likely to be an enduring and significant boost to these title's playerbases. There are tens of millions of former *Fortnite* players, for example, some of whom are bored of the game or never really took to it in the first place. The Coronavirus, therefore, offers the game a chance to show off everything that has changed or improved since these players left — and perhaps collect a few bucks along the way to fund further changes. Other players, meanwhile, will be discovering these "old" games for the first time and decide to stay.

In addition, the past month has also seen Activision Blizzard launch a free-to-play, weekly challenge-based battle royale spinoff of Call of Duty, *Warzone*. Although the title was bound for success, the COVID pandemic has doubtlessly aid its launch. In the first 24 hours, 6MM downloaded the title, with 15MM grabbing a copy in four days and 30MM after 10. More broadly, this success has reiterated the franchise's ability to expand new genres - even when late to it and a challenging an enormous incumbent.

### #7: The Market Is Getting Healthier for Smaller Indie Titles (and Thus the Industry Overall):

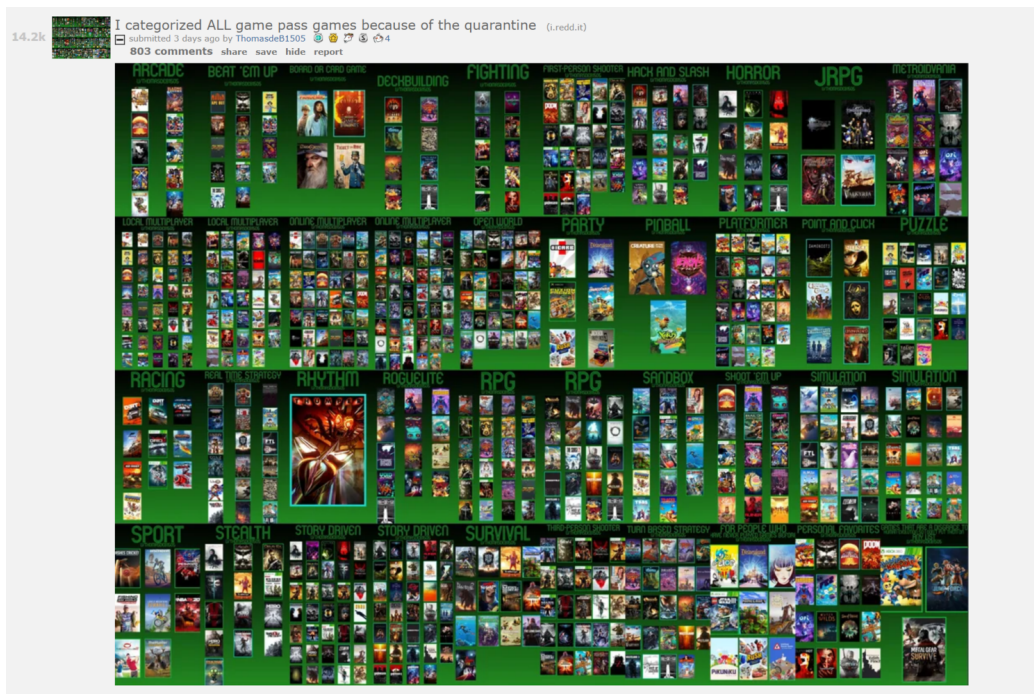
#### Pre-COVID Trends:

This is partly a result of the enormous growth in category revenue and playtime. However, this dynamic is also being powered by new, all-you-can-eat subscriptions such as Microsoft's Game Pass and Apple Arcade. Although these models reduce the total upside for a game developer, it provides a reliable path to monetization for games that couldn't work as \$20–60 titles and didn't fit the micro-transaction model. It's easy to underestimate how important this is. Not only do such models enable greater creative risk-taking, it helps to diversify playtime, too. Microsoft claims Game Pass subscribers increase their overall playtime by 40% — proof that this content bundle doesn't cannibalize engagement among a larger content offering, but it grows it.

#### COVID Impact:

Although no public data exists, it seems likely that COVID has accelerated the adoption of AYCE game subscriptions. Daily search traffic for Microsoft's Xbox Game Pass is up 50–150%, according to Google. App Annie shows that its Android app has also moved from the 1200th most download app to one of the top 750. This is consistent with recession "rules of thumb", which suggest that during times of economic crises, low-cost–high-value entertainment thrives.





In addition, it's likely that game developers who launch games during (or who launched games not long before) this COVID crisis will benefit from larger-than-normal audiences even if they spent nothing on marketing (or no more than originally planned). To point, Comcast reports that while total gaming downloads are up 50%, new games are up 80%. This will mean extra profits upon which additional titles or hires can be financed, as well as an outsized shot at establishing new IP.

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