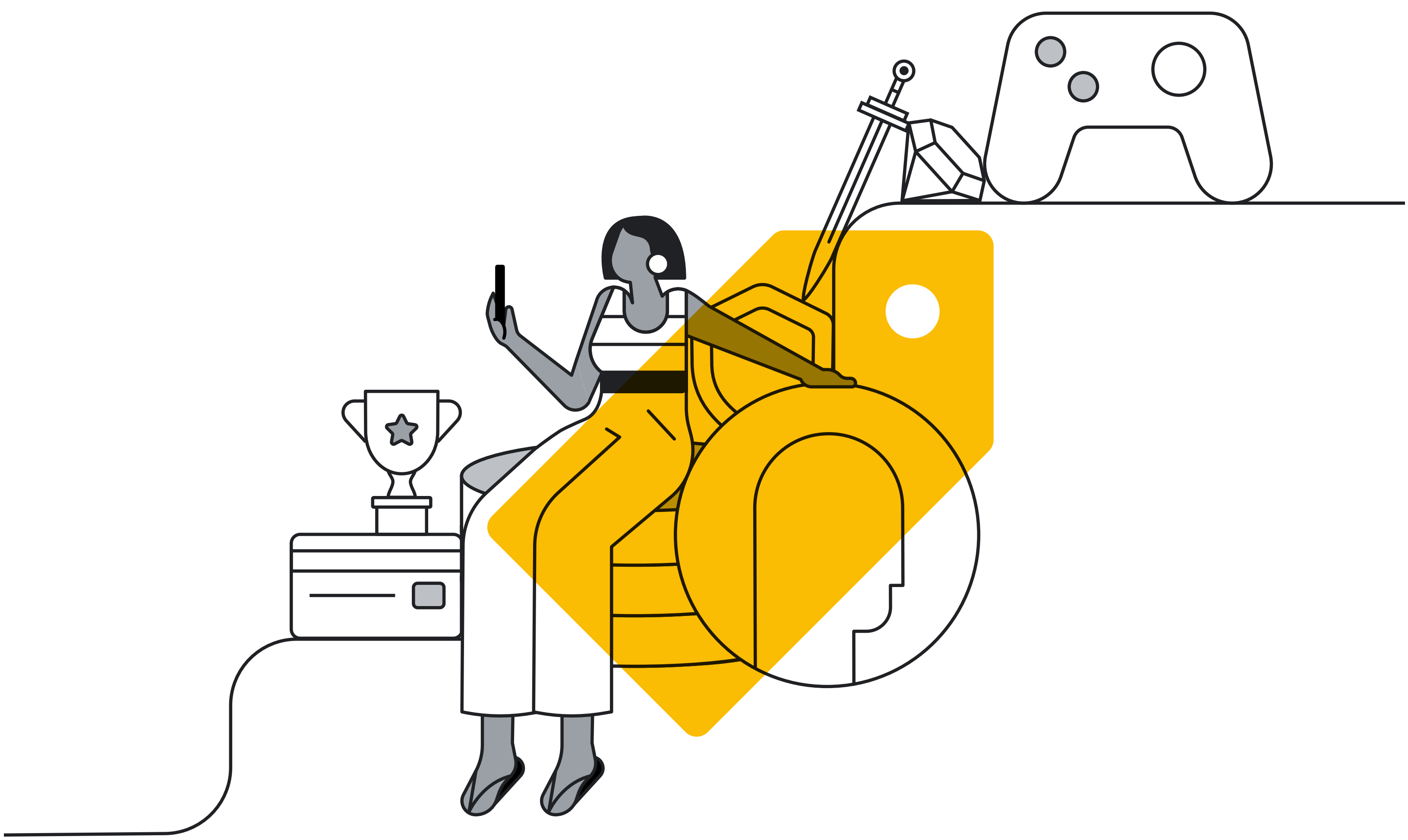
From playing to paying: The art of monetizing games in Asia



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As Asia's gaming market evolves and matures, developers are continually being challenged to upgrade the overall experience. Gamers on every platform are demanding more from their favorite titles, from unique and immersive storylines to complex, skill-based gameplay. And as gamers' purchasing power rises across the region, they've shown they are willing to invest more time and money to quench their thirst for competition, completion, challenge, and community — especially in the wake of COVID-19.

While early PC and console games required access to high-end hardware, the mobile gaming boom transformed the way game developers drive revenue. Mobile technology made the gaming universe more accessible than ever, and developers were empowered to start experimenting with a variety of monetization models.

With so many different gamers to reach, market nuances to consider, and ways to drive revenue, choosing the right monetization model to succeed in Asia is a challenging but crucial exercise. In the third installment of our four-part series on Asia's gaming market, we explore how monetization models are evolving to serve Asia's diverse and growing user bases, which models have been most successful in Asia, and what developers can do to keep gamers loyal and engaged.

Asia's most commonly used monetization models

The primary models used by game developers and publishers in Asia fall under three categories: **free-to-play (F2P), premium**, and **subscription**.

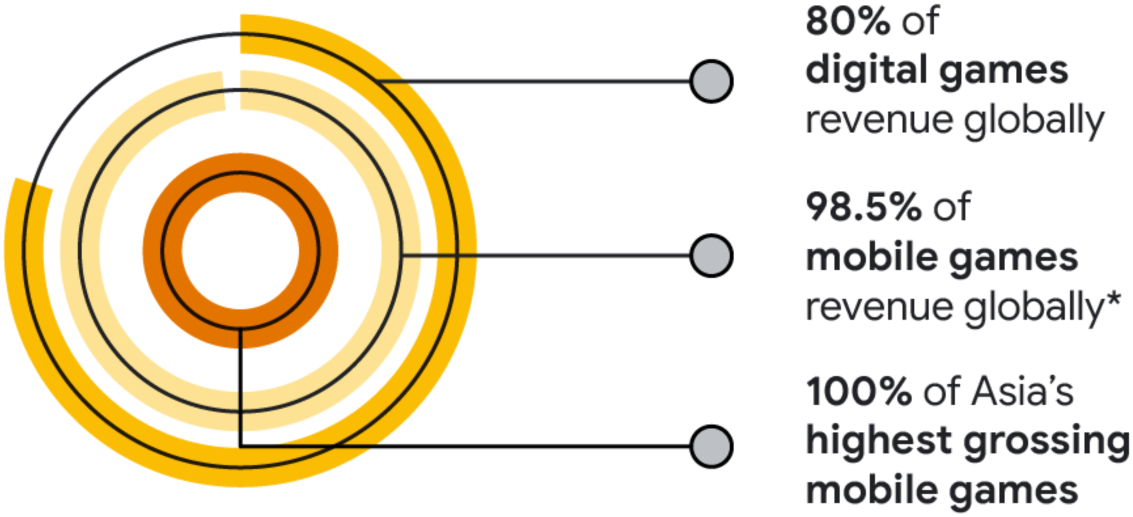
F2P — Asia's most popular model for mobile games

F2P games give players free access to a significant portion of the game, and revenue comes from advertisers or from users paying for additional in-game items and content. As gamers' buying power varies across Asia, regional pricing of in-game content plays a key role in the success of F2P games.

In 2019, F2P games accounted for 80% of all digital games revenue.[1] While console games drove just 10% of that revenue,[2] popular titles such as "Fortnite," "Apex Legends," and "Call of Duty: Warzone" are helping expand F2P's appeal on the platform.[3]

When it comes to mobile games, however, the appeal of free gameplay combined with its widespread accessibility has made F2P far and away the most successful model. In 2019, F2P generated 98.5% of all mobile games revenue,[4] and every one of the top 100 highest grossing mobile games in Asia was F2P.[5]

F2P games in 2019

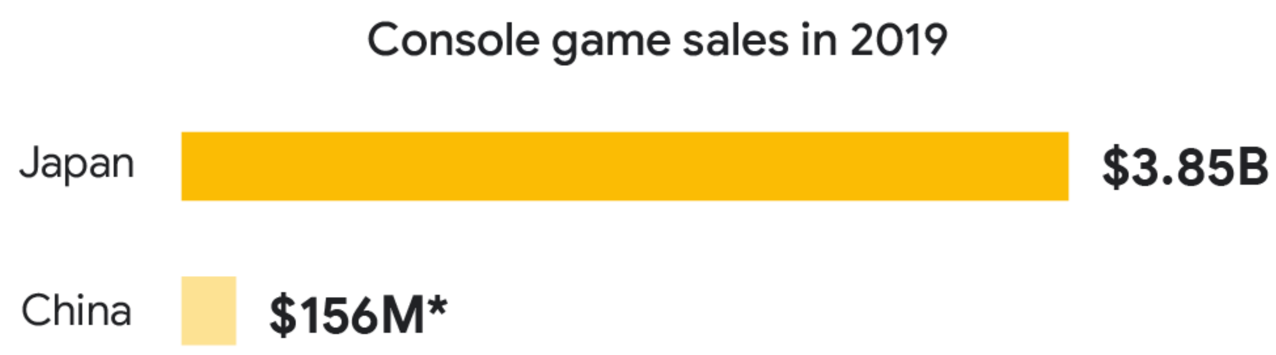


Excluding third-party Android app store sales in China

Premium — Historically geared toward PC and console

After paying a one-time fee to access the game, players can purchase additional downloadable content (DLC) or expansion content that continues the base game with new storylines and gameplay updates.

While premium games are becoming more popular across Asia, they're most widely embraced in console-heavy markets like Japan where gamers are familiar and comfortable with paying higher prices. For instance, in 2019, console game sales in Japan totaled $3.85 billion, whereas gamers in China drove just $156 million in legal console game sales.[6]



*Sales of domestically licensed games

In countries with lower average disposable incomes, regional pricing is crucial to the success of premium games. Take, for example, the popular title "PlayerUnknown's Battlegrounds (PUBG)," which costs around $30 in Japan but only $15 in China where gamers are typically less inclined to purchase games upfront due to the popularity of F2P titles.

Subscription — Evolving from one game to multiple

Players pay a monthly fee to access an individual game or selection of games with DLC and expansion content. Subscriptions are currently more popular on PC than mobile or console, accounting for more than one-tenth of all digital PC game revenue.[7]

Single-game subscription revenue has been declining in recent years as more players gravitate toward F2P and premium games. In China, subscription game revenue is predicted to drop from $1.05 billion in 2019 to $600 million in 2024.[8] On the other hand, multi-game subscription services that offer access to several games for one fee, such as Apple Arcade, Google Play Pass, PlayStation Now, and Xbox GamePass, can potentially bring in new players or inspire lapsed gamers to return.

F2P unpacked: How developers drive revenue behind the scenes

Asia's huge and fast-growing audience of mobile gamers has been fertile ground for F2P games. As the region's most popular and prevalent monetization model, F2P will be central to the growth and evolution of Asia's games market. And as F2P titles become more challenging and competitive, developers have an opportunity to drive revenue in more ways without disrupting the experience.

Here are a few of the most common tactics used in F2P games:

In-app purchases (IAP) — "Pay-to-win"/"play-to-win," gacha, and battle pass

IAP is the most popular model among F2P games in Asia and the most significant driver for overall games revenue.[9] In 2019, Asia's 1.2 billion mobile gamers generated $39.4 billion in revenue,[10] and the top 10 grossing games utilized a F2P model with IAP.[11] That same year, 40% of mobile gamers in China spent money on IAP at least once.[12] IAP are most commonly implemented in a few ways:

Pay-to-win

Items that give players a competitive advantage (e.g., boosted stats, faster rewards, player enhancements)

As massively multiplayer online role-playing games (MMORPGs) became more popular, some developers created IAP that gave players an advantage — gameplay commonly known as "pay-to-win."

24%

of mobile gamers in China, Japan, South Korea, and India have **paid for special equipment** to gain a **competitive advantage.**

Pay-to-win games are widely accepted by players motivated by competition or completion, but they have a reputation for enabling less-skilled players to level up simply by paying more money. Still, one in four mobile gamers surveyed in China, Japan, South Korea, and India in 2020 said they've paid for special equipment to gain a competitive advantage.[13]

Play-to-win

Items to share or show off with no boosted gameplay (e.g., messages and announcements, player skins, gifts for other players)

On the other hand, competition on multiplayer online battle arena games (MOBAs) and battle royale titles is more geared toward "play-to-win" experiences that remain the same for everyone regardless of spend. Paying for cosmetic upgrades or shareable items is much more accepted by gamers in Asia because it doesn't falsely give an advantage to those who choose to spend more to level up.

Gacha

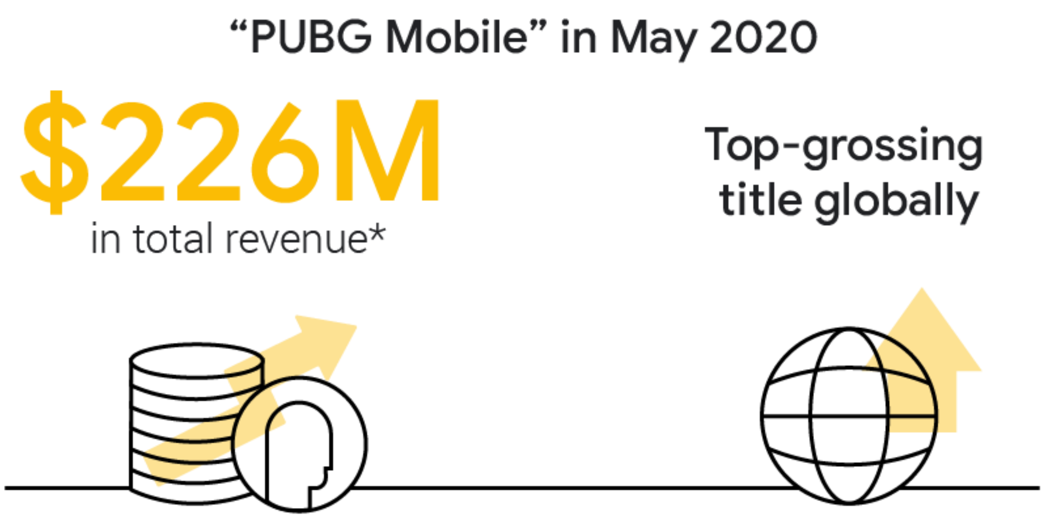
The gacha model, based on Japanese *gachapon* vending machines that dispense capsuled toys, appeals to collectors who want to complete character or item sets by purchasing "rolls" (e.g., pulling a lever or spinning a wheel). Nearly all of the top 200 grossing games in Japan have some form of gacha mechanics,[14] but it's less effective in casual games where players are more averse to aggressive monetization. Each country in Asia also has various laws on reward items and gacha mechanics that developers need to understand and comply with.

Nearly all of the **top 200 grossing games in Japan** have some form of **gacha** mechanics.

Battle pass

Battle passes, used in both F2P and premium games, require players to pay a fixed cost for a set period of time to earn extra benefits, boosts, and rewards. Popularized by “Fortnite” in 2018, a battle pass typically costs anywhere between $5 to $15 for a month or season, during which time gamers are guaranteed an ad-free experience where they can compete and progress to acquire new content.

More than 50 of the top 200 grossing mobile games in China use a battle pass or in-game subscription,[15] and some of the world’s top titles have tapped into the model to drive additional revenue. For instance, after launching its Royale Pass, “PUBG Mobile” saw a global spending increase of 365% for the first week since its introduction compared to the prior three weeks.[16] And in May 2020, “PUBG Mobile” was the top-grossing title worldwide, driving more than $226 million in total revenue.[17]



*Excluding iOS revenue in China

In-game ads

In-game ads are most commonly used in casual titles like puzzle and strategy games. While IAPs as a whole typically drive more revenue, in-game ads open the doors for everyone to play, whether they’re interested in buying items or not.

A snapshot of in-game ad formats

Banner	Native	Interstitial	Playable	Rewarded
Placed at the top or bottom of the screen	Built into the game environment	Occupies the entire screen	Offers a short taste of real gameplay with a link to download	Gives players items for performing an action

Unlike IAP, rewarded ads are unique in that they only require players to spend time, not money, to acquire a rare item or power-up. By bridging the gap between spenders and non-spenders, rewarded video ads have become one of the biggest sources of revenue for game publishers in India and Southeast Asia,[18] where the average gamer typically spends less money on games than other countries but far more time playing.

Hybrid monetization — A flexible mix of in-game ads and purchases

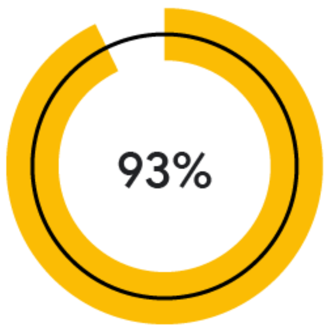
Relying solely on IAP can alienate gamers who don't want or can't afford to pay. On the other hand, developers and publishers risk limiting their revenue from ad clicks and views. A hybrid model gives developers the opportunity to engage a broader player base based on the experience they prefer, whether it's playing for free with occasional ads or paying for an upgraded in-game experience.

COVID-19 shined a spotlight on hybrid monetization as one way game developers can offset the impact and risk created by the current mobile ads market. With brands having to constantly review their levels of ad spend during COVID-19 and other economic downturns, combining in-game ads with IAP creates new avenues to reach more users without relying on a single revenue stream.

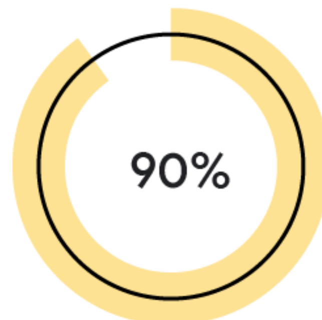
Monetizing in Asia's biggest gaming markets

Succeeding with gamers in Asia isn't a one-size-fits-all solution — gaming habits, genre preferences, and purchasing power vary from country to country. Here's a closer look at some notable insights from across the region:

China — F2P with a side of premium



of gamers in China **(637M)** are mobile gamers.



of China's games revenue across all platforms in 2019 was **driven by F2P titles**.

China's massive mobile user base of 637 million has helped F2P models thrive,[19] while the popularity of traditional PC massively multiplayer online games has dwindled due to the closure of internet cafes (icafes) during COVID-19. More than half (57%) of Chinese gamers surveyed in April said they don't plan to return once icafes reopen.[20] However, lockdowns during the pandemic have led to an influx of players who normally would've waited for promotional events purchasing premium games, downloadable content, and in-game items.[21]

Compared to the rest of Asia, Chinese gamers are more likely to spend on limited availability items, such as apparel and special weapons — especially during holidays or special events.[22] For example, Invictus Gaming added new World Champion skins and items to "League of Legends" after its team victory at the 2018 World Championship and increased the size of its PC player base by 9%.[23]

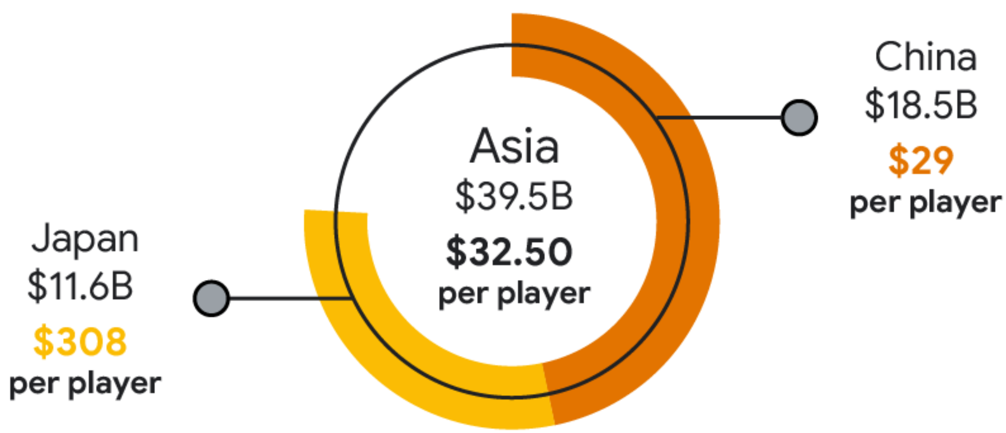
While F2P games are likely to remain the most popular among Chinese gamers, core genres such as battle royale and MOBA open the doors for premium games to succeed through advanced monetization techniques, such as battle passes and gacha mechanics.

Japan — The most valuable mobile gamers in Asia

Premium models are popular in Japan's well-developed console market, home to an installed user base of nearly 23.5 million people between PS4 and Nintendo Switch.[24] However, mobile gamers are by far Japan's largest and most valuable audience, generating around 10 times more annual revenue than the average gamer in Asia.[25]

Revenue per mobile game download in Japan was also the highest throughout Asia at $12.84 compared to a regional average of $1.53,[26] which shows how many more Japanese gamers are willing to spend on their favorite games than other markets.

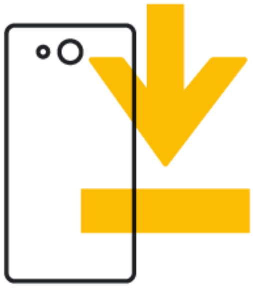
Japan's mobile gamers are 10X more valuable, on average



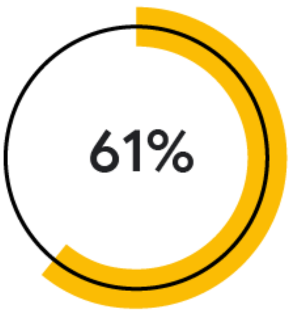
Annual revenue in 2019

Southeast Asia — A sandbox for F2P experimentation

F2P games lead most Southeast Asian countries in total downloads and annual revenue.[27] Countries with shared socioeconomic characteristics such as Malaysia, Thailand, Indonesia, and Vietnam typically use similar models and strategies,[28] but gamers' preferences for a wide variety of genres, including esports games, MOBAs, MMORPGs, and strategy titles,[29] allow developers more room to experiment.



In **Indonesia, Malaysia, Singapore, Philippines, Thailand, and Vietnam**, all of the top 10 mobile games with the **most downloads** and **highest revenue** in 2019 were F2P.



of "Mobile Legends" total revenue in 2019 **($307M)** was **generated in Southeast Asia alone**, with **Malaysia** and **Indonesia** as the lead drivers.[30]

South Korea — A diverse range of F2P tactics

Similar to Southeast Asia, the top 10 games with the most downloads and highest revenue in South Korea in 2019 were F2P.[31] Popular mid-core F2P games such as "Kart Rider Rush +" and "Arknights" have shown how different monetization tactics can appeal to South Korean gamers at various skills levels. For example, Nexon's "Kart Rider Rush +" is popular for its social elements and other gaming modes aside from competitive racing, and monetizes through newer techniques such as gacha and battle pass elements. After it launched in May 2020, "Kart Rider Rush +" quickly rose to the top 10 in downloads and revenue.[32]

Meanwhile, Yostar's "Arknights" has been a top-50 grossing game since it launched in January 2020,[33] despite driving fewer downloads than "Kart Rider Rush +".[34] The strategy RPG game keeps players engaged with a steady stream of in-game events featuring IAP and gacha mechanics — and it regularly cracks the top 20 revenue-driving titles as a result.[35]

In 2019, the **top 10 games** with the **most downloads** and **highest revenue** in South Korea were **F2P**.

It's also worth keeping an eye on the growing opportunity for F2P console games in South Korea. In 2019, the country's installed base of PS4 and Nintendo Switch users surpassed 1 million units each, making it the third-largest console market in Asia behind Japan and China.[36]

India — A savvy F2P audience beyond its years

A prime example of a mobile-first country, India's gamers quickly embraced core genres and advanced monetization models, but always on F2P titles.[37] Given the country's large player base but low overall spend, hybrid models are the best bet for boosting average revenue per user by tapping into Indian gamers' clear desire to play — especially on mobile — and turning players' attention and engagement into long-term growth.

The most popular games in India show how monetization models tend to leapfrog in emerging areas; developers in India have adopted advanced mechanics more quickly than other countries. For example, five of the top 10 grossing games in the first half of 2020 featured a battle pass[38] — a relatively advanced monetization technique for one of Asia's newest mobile markets.

In the first half of 2020, **5 of the top 10** grossing games in India featured a **battle pass.**

Tips to score with the right monetization model

As Asia's gaming market continues to develop and players' preferences and behaviors evolve in different countries, developers should focus on monetizing in a way that enhances, not interrupts, the experience.

Consider these three steps when choosing the right model for your game:

1. **Start with your core audience and platform**

   While F2P is clearly the most common and widely accepted model in Asia, premium titles can thrive in console and PC-heavy countries where gamers are familiar with paying a higher cost. Casual gamers are more averse to aggressive monetization in F2P games, but it can potentially appeal to mobile gamers looking to exchange gifts with other players, level up quickly, or show off by buying new items and player skins.

2. **Experiment with a hybrid approach**

   As COVID-19 impacts the number of brands investing in mobile game ads, developers can help fill the revenue gap by testing new mixes of IAP and in-game ads. Many IAP-heavy games are starting to roll out in-game ads in order to reach a larger audience and offset the potential risk of gamers buying fewer IAP in the near future.

3. **Create more dynamic experiences**

   Innovation in monetization opens the doors to innovation in development. Casual and core genres that solely used ads now benefit from hybrid models, while core games that relied on IAP are tapping into subscriptions and battle passes. An effective model empowers developers to create more engaging titles that players can enjoy in short, casual sessions or longer, in-depth experiences.

Methodology

Niko Partners combines data from game developers and publishers, publicly available data from other sources such as retailers and Chinese app markets, and our own assumptions and qualitative gamer survey results to calculate market estimates and generate lists of leading games. We also regularly interview executives at games and hardware companies as well as government officials. We leverage our own proprietary primary data combined with direct access to a panel of more than four million consumers in China, and millions more throughout Asia, to create deep qualitative and quantitative analysis, market models, and five-year forecasts. Our analysts regularly conduct gamer surveys, interviews, and focus groups throughout China as well as Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Chinese Taipei, Japan, South Korea, and India.

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