Growth in the Video Gaming Market:
the changing state of play

The accelerating macro trends affecting the
video gaming industry

In partnership with

Google

OC&C
Strategy consultants

uncommon sense

Glossary
Definitions

AAA (TRIPLE-A) GAMES
Video games with large development and marketing budgets, typically produced and distributed by larger publishers.

CLOUD GAMING PLATFORMS
Services where games are stored and run on remote servers which **gamers** can then access and play on any device through a network connection.

E-SPORTS
Gaming competitions and events involving **professional players and teams**.

FTP
'Free-to-play' games, with no upfront purchase cost for the player. Typically monetised through advertising or in-game purchases.

GAMERS/PLAYERS
Individuals that play video games.

VIDEO GAMING CONTENT
Online video content primarily focused on footage of gameplay from video games. Can be broadcast live on **streaming platforms** or uploaded to **video-sharing platforms**. They may be accompanied by commentary from the player. Video gaming content can be produced for reviews, to teach others how to play or simply for entertainment.

VIDEO GAME STREAMS/LIVE STREAMS
Gaming videos which are simultaneously recorded and broadcast in real-time on **streaming platforms** – includes **e-Sports** and individual gaming content.

MMO/MMORPG
"Massively Multiplayer Online" games, or **"Massively Multiplayer Online Role-Playing Games"**.

STREAMERS/CREATORS
Individuals producing **video game streams and on-demand content**, often playing and featuring in the videos themselves.

STREAMING
The act of broadcasting video game gameplay online through a **streaming platform**.

STREAMING PLATFORMS
Online platforms such as Twitch, YouTube Gaming and Mixer which allow users to broadcast or watch live **video game streams**.

VIDEO-SHARING PLATFORMS
Online platforms such as YouTube which allow users to upload pre-recorded videos which are available on-demand to **watchers**.

WATCHERS
Individuals who watch **gaming videos**, whether live streams or pre-recorded videos.

Video games are big business, and total global content sales now exceed both music and video combined, while also experiencing faster growth.

Until recently, the industry has lagged behind other media categories in embracing the structural, behavioural and economic shifts that have transformed entertainment. But this is changing fast, and for games publishers and other advertisers who quickly embrace these changes, the opportunities are huge.

This report, produced by OC&C Strategy Consultants in partnership with Google, examines the emerging trends that we observe in video gaming, the speed at which the market is changing, and the subsequent questions that are raised for games publishers.

The current state of play

Historically viewed as a niche category, and the preserve of adolescents and hardcore enthusiasts, gaming participation is now at mainstream levels, with over half of the UK population playing games last year.

Players are playing for longer, with the average gamer playing for over 10 hours per week (versus less than 8 hours a decade ago).

Monetisation has also increased in line with this trend – the video games industry now represents more revenue than the music and movie industries combined.

Meanwhile, the nature of games, and the way that players engage with them, also continues to evolve – creating new consumers, new segments of gamer and new gaming behaviours.

In parallel, over the past decade, a series of structural shifts have been transforming the media and entertainment industries as a whole, from the transition to digital content distribution through to the growth in prominence of subscription-based business models, creating a stronger link between revenues and lifetime customer engagement.

In gaming, many of these trends were initially seen in the mobile gaming segment; PC and console gaming have to date been slower in moving in this direction.

While digital sales of video game content (in the form of downloads) represent a large proportion of the total, a combination of structural, behavioural and economic factors mean that the industry has been slow to move away from a content business model based on large upfront purchases. Mobile was at the forefront of the latter trend in gaming, with publishers having to adapt their business model to an emergent app ecosystem where consumers were, on the whole, not conditioned to pay large sums to download mobile apps.

Similarly, in terms of cloud migration, while players such as Spotify and Netflix have achieved dramatic growth over the past decade in music and video content, latency issues have so far prevented cloud-based streaming platforms achieving the same prominence in gaming. Only now has the widespread adoption of high-speed broadband and the imminent rollout of 5G started to give rise to a new wave of entrants into cloud-based gaming services, most notably Google Stadia and Apple Arcade, as well as services from gaming incumbents including Microsoft and EA.

Global gaming content sales exceed both music and video combined, while experiencing faster growth
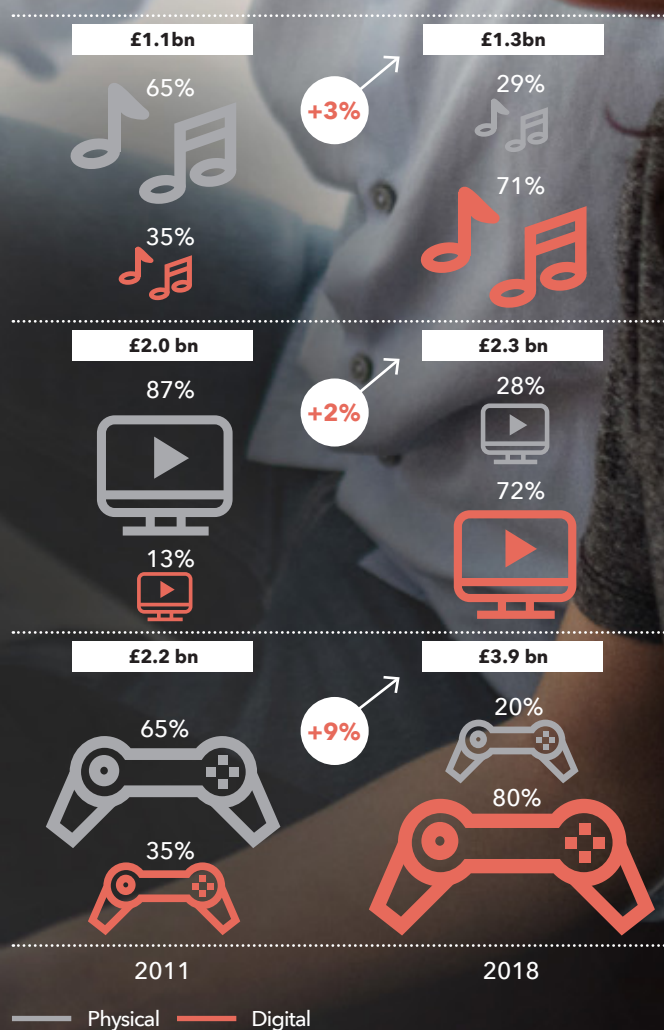
REVENUE PER PLAYER HAS BEEN SUPPORTED BY A STEADY INCREASE IN THE NUMBER OF HOURS SPENT GAMING AMONGST UK ADULTS
Average weekly hours per gamer, aged 11-64 years, UK, 2011 Q4 – 2018 Q1 (hours per week)

WHILE DIGITAL SALES IN GAMING EXCEED THOSE IN MUSIC AND VIDEO, THE SHIFT TO STREAMING (RATHER THAN DOWNLOADS) IS NASCENT
UK digital content sales and share (£bn, %, 2011 – 2018)

2018 | 10.3 hrs

+4%

2017 | 9.2 hrs
2016 | 8.9 hrs
2015 | 8.9 hrs
2014 | 8.3 hrs
2013 | 8.6 hrs
2012 | 8.4 hrs
2011 | 8.0 hrs

£1.1bn
65%
35%

+3%

£1.3bn
29%
71%

£2.0 bn
87%
13%

+2%

£2.3 bn
28%
72%

£2.2 bn
65%
35%

+9%

£3.9 bn
20%
80%

2011

2018

Physical   Digital

Source: ISFE, UKIE, Ofcom

We've captured six structural, behavioural and economic pillars that have transformed the traditional media and entertainment industries, and the video games industry's position against each:

- Adopting a macro view to assess core structural changes to the video gaming industry isn't the norm. Much future value will be derived by businesses who take a more joined-up approach across development, data, customer insights and marketing (forming a more closed loop)

- The fast pace of change within the video gaming industry may well have left some knowledge gaps for many parties. Both incumbents and new entrants may be left struggling to catch up and identify the biggest future opportunities

- Successful businesses will grow by increasing their marketing sophistication, better using their data, and better connecting their fans with entertainment that excites them, both for new and older titles

1. **Digitisation** of content and consumers

2. **Business models** shift to "always on" revenues

3. Role of **social** in engagement and acquisition

Gaming progress versus other verticals

Parity

- Digital sales in gaming exceed those in music and video – in 2018, digital accounted for 80% of total UK gaming content sales versus 71% for music and 72% for video

- However, gaming is still dominated by content downloads, rather than streaming

Lagging

- Streaming services such as Spotify, Apple Music and other music streaming services represent over 60% of UK music revenues; in console gaming, revenues attached to 'free-to-play' games account for only 15% of sales, and "games-as-a-service" models (e.g. Xbox Game Pass and PS Now) have not been widely adopted as yet

Parity

- Social and MMO games have been gaining prominence while the prevalence of chat features, both in-game and on streaming platforms, have allowed these platforms to act as social hubs

We compete with (and lose to) Fortnite more than HBO

Netflix earnings report, 2018

4. User-generated content as a new mode of engagement

5. Importance of **data** and personalisation

6. Cloud delivery changing consumption

Ahead

- Game content platforms and e-Sports are becoming as important as gameplay itself – 75% of gamers between 18-25 watch video gaming content at least weekly

Lagging

- Netflix uses sophisticated analytics to track a huge amount of user data and produce personalised recommendations and trailers to promote to customers

- PC and console gaming is less sophisticated in this area, despite significant opportunity

Lagging

- The shift to streaming (rather than downloads) is currently very nascent in gaming (in music, streaming accounts for 60% of the market), though cloud gaming solutions are beginning to gain traction

How the shifts observed in the media and entertainment industries are impacting the video game market:

Digitisation

1 More players, playing more

Business models

2 Gaming-as-a-Service

Social

3 The changing nature of video games

User-generated

4 Watching as a new mode of engagement

Data

5 Data-driven recommendations and development

Cloud delivery

6 Emerging cloud gaming platforms

|	
Changing business and distribution models	Adoption of new digital-only games and new content distribution lowers physical copy sales; increasing hardware capabilities and faster download speeds including 5G mean less reliance on gaming discs even for the most time consuming and engaging games
Explosive mobile growth	Mobile gamers have exploded the gamer player base while mobile technology including streaming blur the line between console, PC and mobile games; the promise of 4K games streamed on any screen blur the line further, as more AAA titles are released on mobile and cross play becomes the standard
Deeper measurement of LTV	Browsing, play and purchases all happening in a connected environment allow publishers and developers to build up richer segmentation of players, behaviours, and the value that they generate
Always-on revenue models	Time spent in games will increase as gamers simply download or stream games on any device, anywhere. Cadence of new gaming content will also increase. Game cycles will extend as studios move towards more significant DLC led strategies, pulling insights from the traditional app gaming development approach
Growth of streaming	Consumers want to experience more live gaming events and to share deeper and more meaningful social gaming experiences which will lower the barrier to entry for streaming, driving the growth in gaming streaming overall. Massive opportunities exist for streaming and gaming content consumption across PC, console and app IPs
Rise of social	Social media has increasingly blurred the lines between social experiences and gaming, especially on mobile. Consumers want to experience more live gaming events and to share deeper and more meaningful social gaming experiences with others, leading to more games enabling social platform features, whether that be through matchmaking or connecting accounts to social media platforms
Launch strategy shifts	Marketing strategies will evolve from big 'tent pole' single day global launches to 'always-on', with influencer strategies and live ops and events strategies being integrated
New audience engagement	New opportunities to engage core audiences, acquire new audiences, and increase player engagement will emerge including sponsorship, media rights, merchandising, licensing, and streaming
LTV based marketing	Closed loop attribution and measurement will be the standard as publishers push for growth by maximising player engagement and lifetime value of players with effective and efficient first-party targeting for new content, updates and live ops
Feedback loops	Developers are increasingly becoming reliant on data from their players to determine how to increase engagement, average number of sessions, session length and average revenue per user. Understanding which elements are unpopular, where and at what level players lapse, and what features players prefer the most are core to increasing player engagement and therefore revenue
Sophisticated revenue streams and marketing strategies	Focusing on access, experience and high performance, players can play anywhere due to new and existing games being accessed anytime from any device. Streaming games from any device with an internet connection (including smart watches and mixed reality glasses) will also be possible, while leveraging the best computing and storage resources for the best visuals and most powerful gaming experiences. The barrier of console and PC lifecycles will be removed
Player-centric benefits	Cloud means massive scale and technology benefits as cloud streaming removes some player challenges such as the initial cost of games/hardware/platforms and the need to upgrade them every few years. Reaching players on different devices and scaling up supporting infrastructure will reset the limits of player base and reach
Developer-centric benefits	Game-streaming services remove the need to download games locally, install updates or worry about game file sizes allowing for a huge library of games to be instantly playable. This opens up new opportunities for subscription models either direct to consumer or through a cloud gaming platform service. Games can also be bought and played immediately allowing for more sophisticated, closed loop marketing strategies incorporating best practices in martech and data
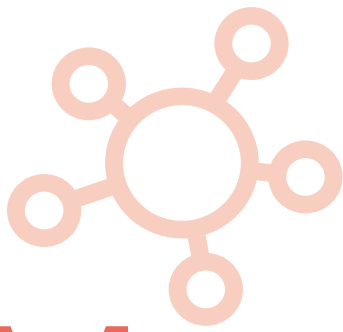
1. More players, playing more

In the UK, spend on gaming content in 2018 (£3.9bn) exceeded sales of music and video content combined. Gaming is less ubiquitous than listening to music or watching TV, but has especially high (and growing) penetration amongst younger consumers – and those who do engage with the category do so for longer, and spend more on average.

Indeed, to find digital categories of similar revenues to gaming, one has to look outside of media – gaming represents the third largest online category in the UK, behind shopping and search.

While mobile gaming (historically characterised by more casual play amongst a much broader set of player demographics) has been key to this growth, PC and console gaming still represents c.75% of industry content sales and has also continued to grow strongly (5.5% pa 2015-2018). Going forward, at the AAA-end of the market, the nature of gaming on these devices will start to converge, with increasing mobile computing power making this an increasingly viable end-point for AAA-gaming. The boundaries also continue to be pushed at the other end of the scale, with mini games (a major phenomenon in China) and Western analogues like Facebook's Instant Games (where all games are built in HTML5) removing the friction of app download in allowing users to play short quick games with friends.

This growth in time-spent on gaming comes in parallel with falling engagement in traditional media channels – a phenomenon that is particularly pronounced in younger demographics. Consequently, the relevance of gaming as a channel for brands and advertisers to access consumers is increasing as reach and engagement grows, and the medium itself presents increasingly rich possibilities.

The snacking brand Fridge Raiders used gaming influencers on YouTube to great effect in a series of campaigns. The company reported that these campaigns delivered greater ROI than any of its other marketing investments.
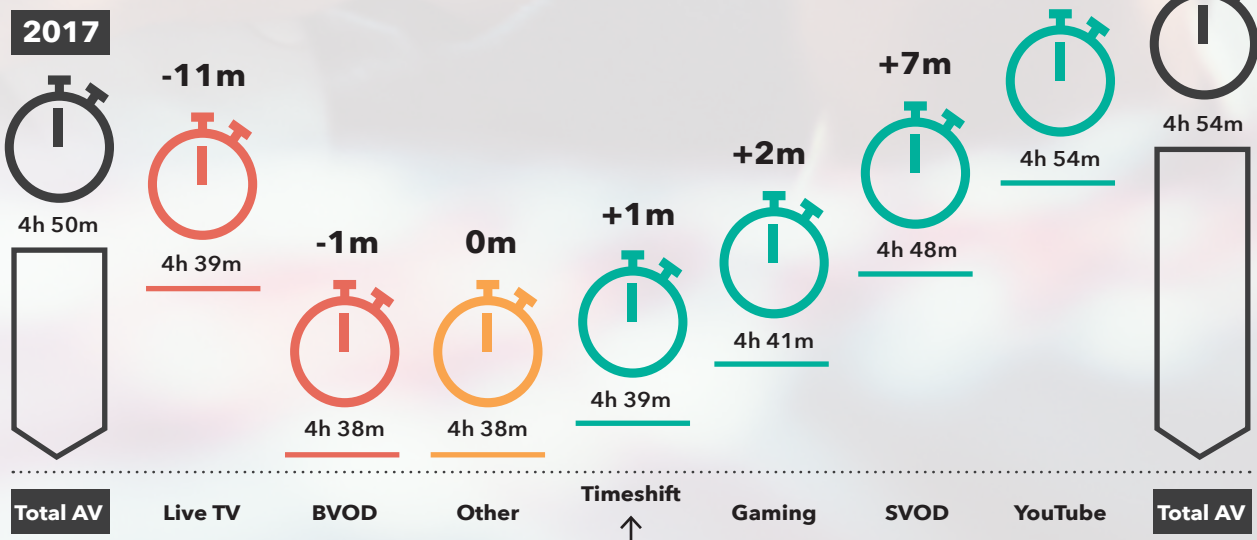
The past few years have seen leading brands (from apparel, automotive and fast food in particular) continuing to experiment with new ways of using gaming as a means of engaging with these audiences – although we see this trend as being in its nascency, with significant underexploited potential to be explored.

The video games market is entering a war for share of attention

IDENTIFYING THE GAP
Total AV is up, linear TV is down

Change in average minutes per day 2017-2018: All individuals, all devices

Total AV	Live TV	BVOD	Other	Timeshift	Gaming	SVOD	YouTube	Total AV
2017	-11m	-1m	0m	+1m	+2m	+7m	+6m	**2018**
4h 50m	4h 39m	4h 38m	4h 38m	4h 39m	4h 41m	4h 48m	4h 54m	4h 54m

2. Gaming as-a-Service

In the main, the PC and console gaming segment has mostly remained attached to a revenue model characterised by significant upfront investment in hardware and sizeable periodic upfront purchases of new games. Within this paradigm, publishers have built businesses around game refresh and release cycles of a year or more.

This model caused challenges with the introduction of smartphones and app stores, where consumers were trained by developers and platform owners to expect new apps to come at a very low price point (typically a few pounds), or even free. Consequently, a new way of monetising games within a freemium construct emerged – with revenues attached to free-to-play games representing over 90% of mobile gaming revenues.

PC games followed suit before consoles, particularly in multiplayer online role-playing games. Today, nearly 50% of PC gaming revenues come from free-to-play games.

In console gaming, the mechanism has primarily been used as a trade-up mechanism, with upfront game purchase costs remaining in place, and supplemented with in-game purchases. These purchases represent 16% of console game sales.

The freemium model has significant revenue potential for publishers, as larger audiences are traded off against lower revenue per player (for the bulk of players) – the top 10 grossing free-to-play games last year dwarfed the top 10 paid games in revenue terms.

New revenue streams are also emerging within this construct – with in-game events looking like the next frontier (for example, Grand Theft Auto V presents interesting examples of holiday events with a host of new game features and discounts on in-game purchases for a limited time).

These avenues will become increasingly important for console game publishers in coming years as traditional upfront payment revenue models become less prominent.

Gaming-as-a-Service model

Gaming as a service refers to using a continuous revenue model where monetisation can be continued after the initial purchase or download. Example revenue models include:

1) Subscriptions
- Subscription models are common, especially in MMO games, where players are required to pay an ongoing fee to play
  - For example, World of Warcraft introduced a subscription option in 2018, where players can pay $14.99 a month for all available content instead of buying the whole game upfront

2) Microtransactions
- Microtransactions can be used to purchase additional features such as weapons, clothing, loot boxes etc.
  - These can be both cosmetic items (which do not directly affect the competition of the game itself) or be more functional (such as extra lives and weapons that improve your game chances)

3) Season passes
- Some games offer season passes which give players access to new content and updates

- Fortnite released a season pass called a battle pass which allows users to earn in-game rewards as they progress

The "pay upfront" model will continue to erode, driving publishers to find new 'always-on' revenue models

Freeplay;

rapid revenue

FORTNITE

Fortnite has experienced unprecedented success, reportedly earning the most annual revenue of any game in history in 2018. Its success in part has been achieved by encapsulating the latest innovation on many key gaming trends

Gaming-as-a-Service

Fortnite is free-to-play, but has experienced rapid revenue growth through micropayments for purely cosmetic items, such as dance moves

The game has regular content iterations (3x changes to the map each week) and the use of 'seasons' to provide an ongoing narrative that help to maintain user engagement

The changing nature of video games

Core game type is a social MMO battle royale game in which 100 players compete against each other in 15-minute games

Watching as a new mode of engagement

Fortnite has achieved huge traction in game watching sites, such as Twitch and YouTube, reaching over 150k average concurrent viewers on Twitch in 2018 – the most of any game

e-Sports

The Fortnite World Cup took place in the Arthur Ashe Stadium in New York in July 2019, with the final achieving a peak of 2.3 million live viewers; players were competing for a $30m prize pool

FORTNITE KEY REVENUE METRICS

2018 revenue, $M	**$2.4 billion**
# global registered players, Mar 2019	**250 million**
Average annual spend per user	**$85**
Hours watched on Twitch in 2019	**1.0 billion hours**
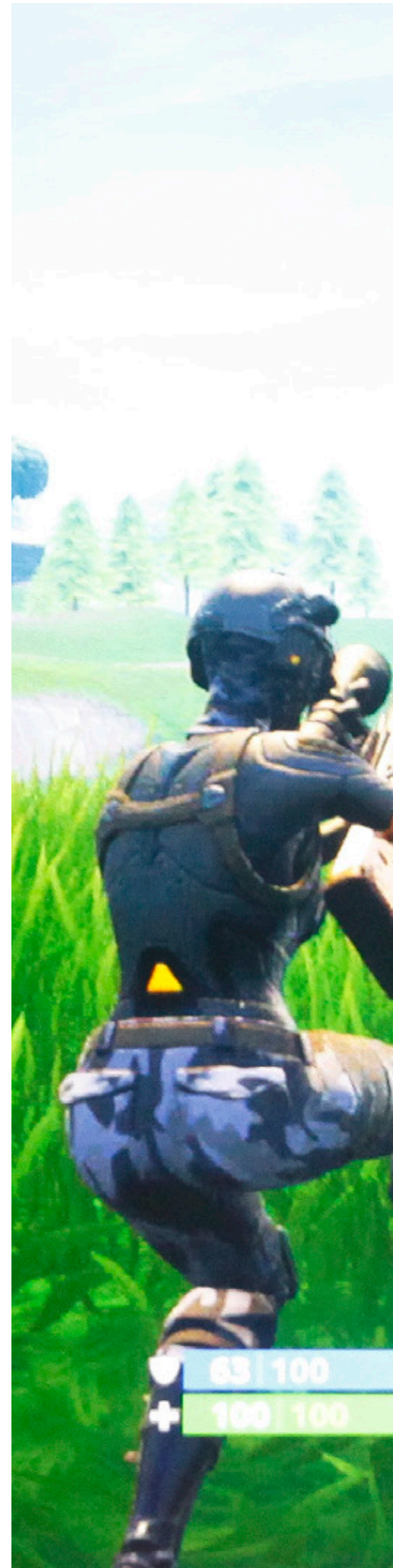
Publishers are now developing games to be never-ending

Marketing Director, Major Publisher

Live screen from DreamHack event Atlanta, Georgia, USA

3. The changing
nature of video games

As devices and delivery modes have evolved, so too does the nature of games themselves, as developers experiment with the possibilities presented by new platforms.

Kids used to go and hang out in the malls. Increasingly you're seeing game environments provide stimulating places for them to do this

COO, Major Publisher

Games like Pokemon GO adapted real-time location data from smartphones and the ability to augment images from cameras with game content to create a compelling and hugely popular augmented reality gaming experience.

More recently, the advent of high-speed networked gaming has seen the growth of rich massively multiplayer experiences (such as League of Legends), with 'play' increasingly taking a more open-form mode – and groups of players using the game space as much as an area to socialise with friends as to complete the missions themselves. As this trend develops, the line between video games and social networks continues to blur.

As live TV viewing continues to decline, video games are also starting to create 'appointment to view' moments. Again, Fortnite leads the way here, with new season launch events, concerts, and exclusive trailers for the Star Wars movie "The Rise of Skywalker" delivering scale audiences in a hard-to-reach demographic.

As streaming and watching of gameplay content grows (see pillar 4: "Watching as a new mode of engagement"), many industry commentators see a likely genre development where those watching the game start to have more influence and impact on events taking place in the game world itself.

Historically, new platforms and new genres have led to the emergence of new native publishers, with incumbent publishers from existing platforms taking an acquisitive approach in response to this threat. We see no reason why this trend will not continue going forward.

Cloud gaming platforms should also act as an accelerant to innovation, with the promise of lowering some of the barriers to developing, launching and running a new game opening new types of innovation – making it easier for smaller developers. As cloud platforms are device-agnostic, there is no need for developers to make bespoke versions for every device type, reducing the costs of game development. Consequently, we would expect to see continued growth in the number of games developers that can viably operate at a smaller scale.

4. Watching

as a new mode of engagement

The most engaged gamer segments today are also increasingly watching video gaming content online, with this trend having growing implications for the ways in which publishers acquire new players and engage with their audiences.

The appeal of online gaming videos and streams also extends beyond active gamers, with proprietary OC&C/Google consumer research showing that almost a third of game watchers are former players who have substituted playing games for watching them – typically as a result of lifestage and competing time pressures.

Live video game streaming is responsible for much of the growth that this form of entertainment has experienced, with two-thirds of video gaming watchers also or exclusively tuning in to live content. YouTube Gaming saw live video game streaming watch time grow at an average of 71% year-on-year between 2016 and 2018.

The growing popularity of live streaming has been aided by the shift of e-Sports into the mainstream (with almost half a billion fans globally) as well as the social and interactive experience that streaming offers over and above watching pre-recorded content. Streaming has turned watching into a shared experience, where watchers chat with one another over streaming platforms, and streamers respond to watchers during their broadcast.
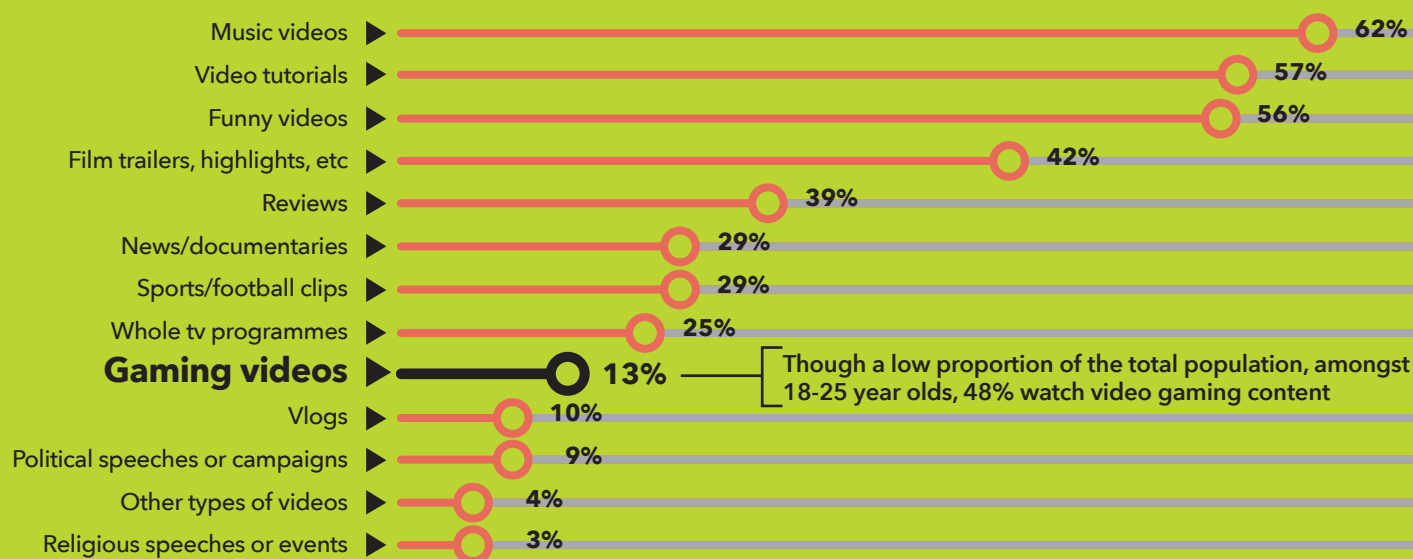
Amazon, Google, Microsoft and Facebook have all made moves into the video game streaming space, recognising the importance these platforms play as channels to access younger and engaged consumers, and betting on their broadening appeal into the future.

The growth in watching video gaming content has implications for games publishers, developers, and brands more broadly.

These behaviours and their implications are explored in more detail in OC&C, Revealing Reality and Google's report "Growth in the Video Gaming Ecosystem: the new role of games as media".

IN TERMS OF GENERAL ONLINE VIDEO CONTENT CONSUMPTION, GAMING VIDEOS ARE STILL A NICHE AREA WITH ONLY C. 13% OF THE RESPONDENTS WATCHING IT...

Types of video content consumed online in the UK, 2018, (%)

Category	%
Music videos	62%
Video tutorials	57%
Funny videos	56%
Film trailers, highlights, etc	42%
Reviews	39%
News/documentaries	29%
Sports/football clips	29%
Whole tv programmes	25%
Gaming videos	**13%**
Vlogs	10%
Political speeches or campaigns	9%
Other types of videos	4%
Religious speeches or events	3%

Though a low proportion of the total population, amongst 18-25 year olds, 48% watch video gaming content

Source: Ofcom, Limelight

The single largest shift in the last decade is the relevance of streaming and its effect

Former Senior Marketing Manager, Major Publisher

Watching

video gaming content is no longer a niche activity

50% of gamers watch gaming streams, reaching 75% in younger age groups

25 Gamers under 25 watch significantly more gaming content than traditional sports

HIGH PENETRATION AMONGST YOUNGER GAMING DEMOGRAPHICS
Weekly frequency of gamers watching gaming streams by age group[1], 2018 (%)

Age group	%
All	52%
18-25	74%
26-35	67%
36-45	54%
46-60	38%
60+	18%
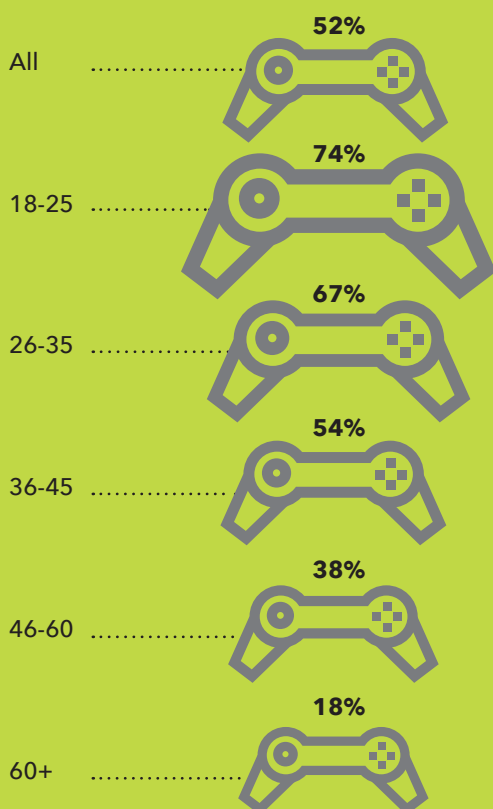
…WITH VERY HIGH ENGAGEMENT – OUTPACING TRADITIONAL SPORTS
Weekly frequency of gamers consuming various media by age group, 2018 (hours)

It is expected that the penetration of **13-18 gamers** is even higher, however there is no data available on this

Age group	Online gaming videos	Traditional sports on TV
18-25	3.42	2.55
26-35	2.41	2.49
36-45	1.76	2.50
46-60	0.90	2.36
60+	0.48	2.40

━━ Online gaming videos ── Traditional sports on TV

The rise of e-Sports

Linked to the growth in game-watching is the growth in popularity of games involving professional gamers and teams, or e-Sports. Pioneered in Asian markets, most notably South Korea, e-Sports is now a mainstream phenomenon in Western markets – for example, it is a varsity sport at over 130 US colleges (offering a total of $15m in e-Sports scholarships), and is forecast to have more viewers than every US professional league except the NFL by 2021.

The global e-Sports market is worth over $1bn globally, and forecast to double in size in the next 2 years. Prize money, tournament numbers and viewership are concentrated in a handful of multiplayer online battle arena (MOBA) games – most notably Fortnite, CS:GO, Dota 2, and League of Legends – although there is a long tail of hundreds of other titles and publishers that have a meaningful e-Sports presence.

For publishers, the category presents a potentially meaningful new revenue stream in the form of licence fees, media rights, sponsorship, advertising and merchandising.

However, to access and grow these revenues requires active thought around format development, and the degree to which a proprietary or partnership/third-party approach is taken.

The recent deal between Activision Blizzard and Google presents interesting precedent here, with Google Cloud serving as the preferred provider for Activision Blizzard's game hosting infrastructure and YouTube as its exclusive streaming partner worldwide (excluding China).
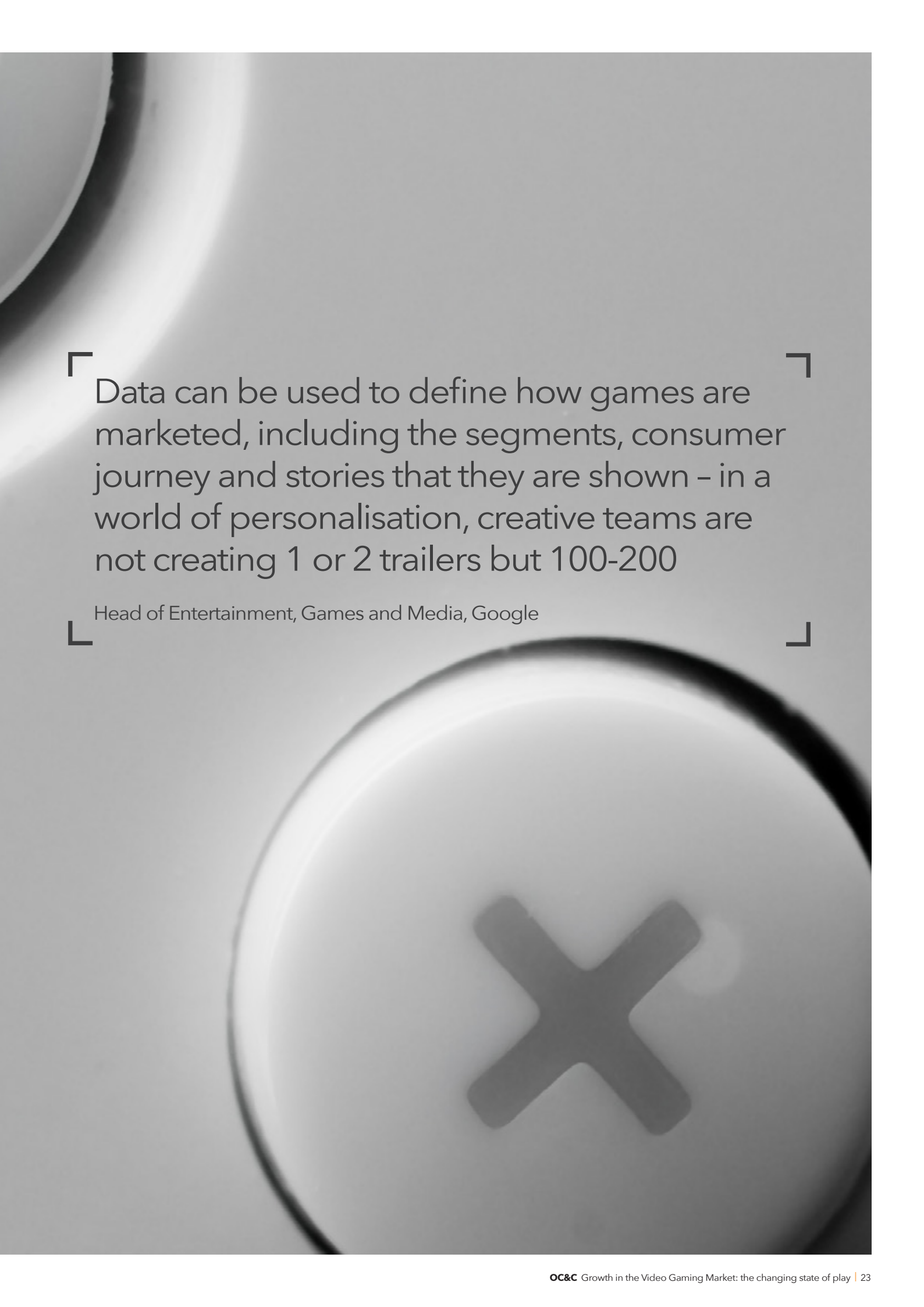
Girl Gamer Sao Paulo Festival

5. Data-driven

recommendations and development

The capture and sophisticated analysis of user-level behavioural data has been a common feature of many of the most successful digital disruptors in the music and video content streaming categories, and in many industries beyond media.

The most common applications have been around front-end curation (for example, recommended titles in video, and custom playlists in music), as well as in understanding demand and therefore finding gaps in supply – as a means of informing the content development pipeline.

Gaming has historically had less frequent 'seeking' of new content, given the longer 'lifespan' for a typical video game than, for example, an album or playlist in music, or a TV boxset or movie. However, the rise of subscription-based models will likely see faster switching between games, driving a growing need for new game discovery. Hence, we expect recommendations based on preferences and past behaviour to be a growing feature in this space.

Similarly, as gaming revenues become more linked to in-game purchases and lifetime value, we will likely see growing sophistication in the use of data to segment audiences and present different options or features in games on this basis. Mobile gaming is already ahead in this space, with personalised offers and sophisticated LTV modelling and analysis being deployed by leading publishers.

Data can be used to define how games are marketed, including the segments, consumer journey and stories that they are shown – in a world of personalisation, creative teams are not creating 1 or 2 trailers but 100-200

Head of Entertainment, Games and Media, Google

6. Emerging cloud gaming platforms

To play AAA video games, consumers have historically needed to spend money upfront on hardware and software, be in a specific location, and wait for content to load/download. Cloud gaming removes a number of these frictions by offering consumers a way to play games which requires no up-front investment in hardware, the ability to play on any device and play anywhere with instant access to a catalogue of games, so long as they have an internet connection.

This is achieved by storing and hosting games on remote servers, which consumers then access through cloud gaming platforms. This same infrastructure impacts publishers, with lower development costs thanks to device-agnostic platforms, and the ability to distribute and update games instantly.

Some industry commentators have predicted that these advances will open up 'the next 2 billion gamers', but we believe this is far from given for a number of reasons.
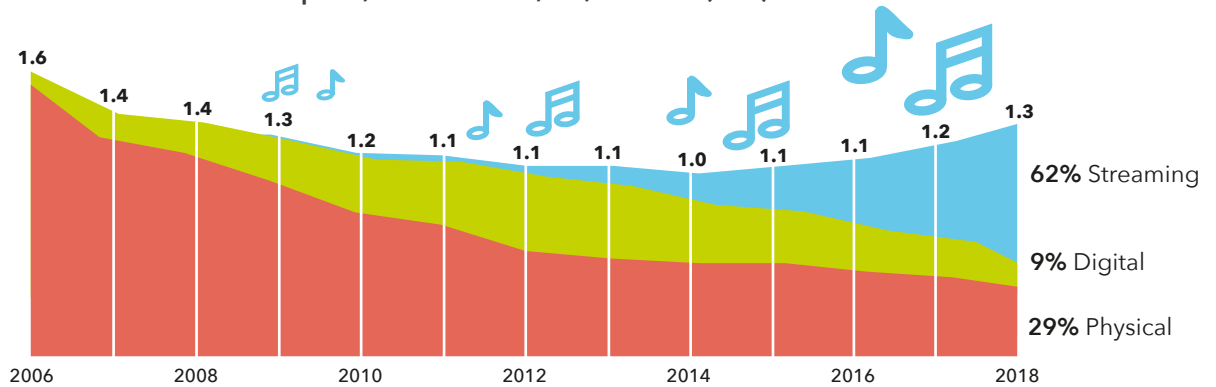
Mobile gaming has already broadened gaming accessibility significantly, especially amongst older and more female demographics. While these gamers could increasingly access AAA gaming experiences through cloud gaming services, they would not be 'new to market' players. Further, AAA games typically have fairly steep learning curves, and take longer to play than mobile games – this is not a barrier that cloud gaming will address per se. Most cloud gaming services will also continue to carry a significant cost, in an increasingly crowded consumer pay-monthly media & entertainment landscape, meaning that cost friction will not be removed altogether.

The video and music streaming industries demonstrate that the extent to which cloud streaming will have an incremental effect on gaming will depend on the extent to which it removes barriers to adoption and improves the economics of frequent gameplay. In video, given the prevalence of free and low-cost TV prior to the advent of streaming, the pace and severity of change from streaming services has been muted. Overall, in Western markets, which already have high household penetration of games consoles (40% in the UK in 2019), we do not expect cloud gaming to accelerate market growth rates significantly beyond their existing levels. However, this story may be different in some developing countries, where consumers largely skipped the console gaming stage in favour of mobile gaming. Cloud gaming services that lower the costs of playing AAA games are likely to expand the consumer base for traditionally PC/console games – with Newzoo consequently forecasting Latin America to see the fastest growth in coming years.
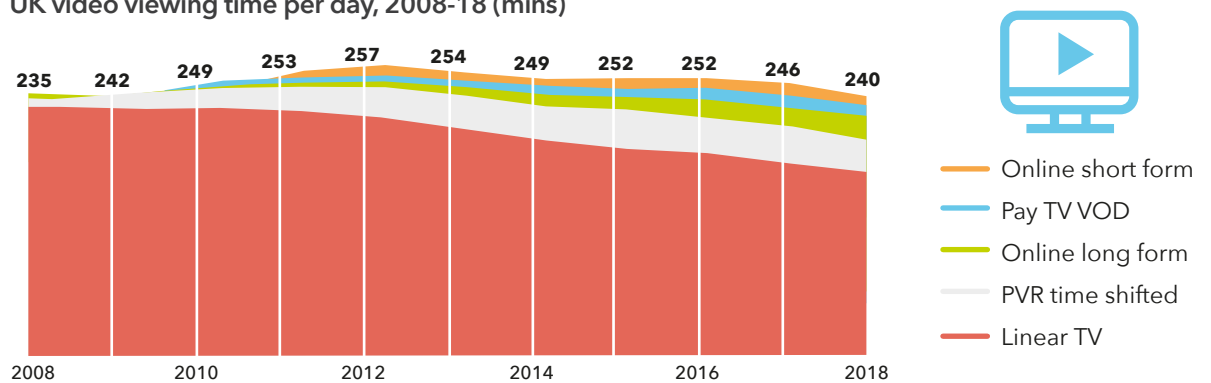
Music: growing the pie

IMPACT OF STREAMING SERVICES ON THE UK MUSIC AND VIDEO MARKETS
Recorded music consumption, retail revenue, UK, 2005-18 (£bn)

1.6 **1.4** **1.4** **1.3** **1.2** **1.1** **1.1** **1.1** **1.0** **1.1** **1.1** **1.2** **1.3**

62% Streaming

9% Digital

29% Physical

2006   2008   2010   2012   2014   2016   2018

Video: substitution

UK video viewing time per day, 2008-18 (mins)

235 **242** **249** **253** **257** **254** **249** **252** **252** **246** **240**

—— Online short form
—— Pay TV VOD
—— Online long form
—— PVR time shifted
—— Linear TV

2008   2010   2012   2014   2016   2018

Source: IHS, IFPI , Ofcom

> It is more likely that cloud gaming will act as an accelerant to trends that are already in motion than revolutionising the industry as a whole

Rather than acting as a revolution to the gaming industry, we expect cloud migration to be an evolution of trends currently in progress. The main effect will be to speed up many of these existing trends.

Cloud gaming will also likely shift the platform wars from a battle of devices (in the Microsoft, Nintendo, Sony paradigm) to a battle around which cloud gaming services players subscribe to. While it will likely be possible (exclusivity permitting) for gamers to play a given title on many cloud gaming services, it currently looks much more challenging to play in the same 'world' of a massively-multiplayer game as friends who are playing the same game through different services (given that the hosting and processing of the game will typically be executed on each cloud gaming service's own infrastructure) – creating a potentially strong network effect that points toward a necessary shake-out in the number of viable services. In this context, how the platforms differentiate themselves will be critical.

How to seize
the future

The six structural, behavioural, and economic pillars that have impacted the industry represent both opportunities and threats for the parties operating within it. In order to seize the future, it will be essential to consider the importance of each, and the key questions that arise from them:

Category	Implications
1. More players, playing more	• New gaming occasions and gamer segments present a material opportunity
2. Gaming-as-a-Service	• Ensuring continued engagement within a game's universe will become crucial, increasing the importance of post-launch • Publishers must utilise a range of alternative revenue models to grow revenues outside of upfront purchase. Doing so will require a deeper knowledge of customer behaviour, and exploration of new revenue streams
3. The changing nature of video games	• New platforms and technological advances present opportunity to evolve game formats
4. Watching as a new mode of engagement	• Video gaming content will increase in importance as a marketing channel, through offering a more immediate call-to-action • Both content and marketing strategies must adapt to maximise the marketing potential of watching • e-Sports presents an additional monetisation channel for publishers, and a means for brands to access hard-to-reach audiences
5. Data-driven recommendations and development	• Data will increase in importance to personalise marketing and the user's gaming experience itself • Publishers must ensure they maintain access to player data across devices
6. Emerging cloud gaming platforms	• Cloud gaming platforms threaten to disrupt the traditional routes to market for publishers • The platform landscape is shaping up to be highly competitive, and differentiation will be key

Key questions
• How does the gamer base segment, and are you clear on which gamer segments you are targeting, and how you will win? • Is your portfolio of titles aligned to the fastest-growing highest-spending gamer segments? • How can brands utilise game environments for in-play advertising opportunities and product placement? What does this mean for publishers?
• How are content and mode narratives best used to maintain continued user engagement? • How should publishers balance resources between new game development and game iterations and updates? • Which revenue models are most appropriate for different types of gamers and content? • What is the right balance between audience and yield? What does this mean for platform choice, exclusivity agreements, and what an 'acceptable' deal with a cloud gaming platform looks like?
• Are developers thinking expansively enough about what comes next? • Which genres look most ripe for change?
• How should content balance gameplay and watchability? • To what extent can content facilitate closer interaction between gamer and viewer? • How can marketers best utilise influencers to support acquisition and engagement? • How are you addressing the e-Sports opportunity? • How open versus proprietary will your approach to e-Sports competitions and leagues be?
• What in-house analytics capabilities are required to succeed, and how do these best interface with the rest of the business? • How can publishers ensure access to consumer data from platforms to provide a closed loop marketing analysis?
• Which platforms are best-placed to win in your target segments? • What will you platform strategy be, and to what extent will you be platform-neutral versus seeking closer partnerships?

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