

Digital Games – Market Opportunities in UK & China

Confucius Institute – Cardiff University – University of Glamorgan

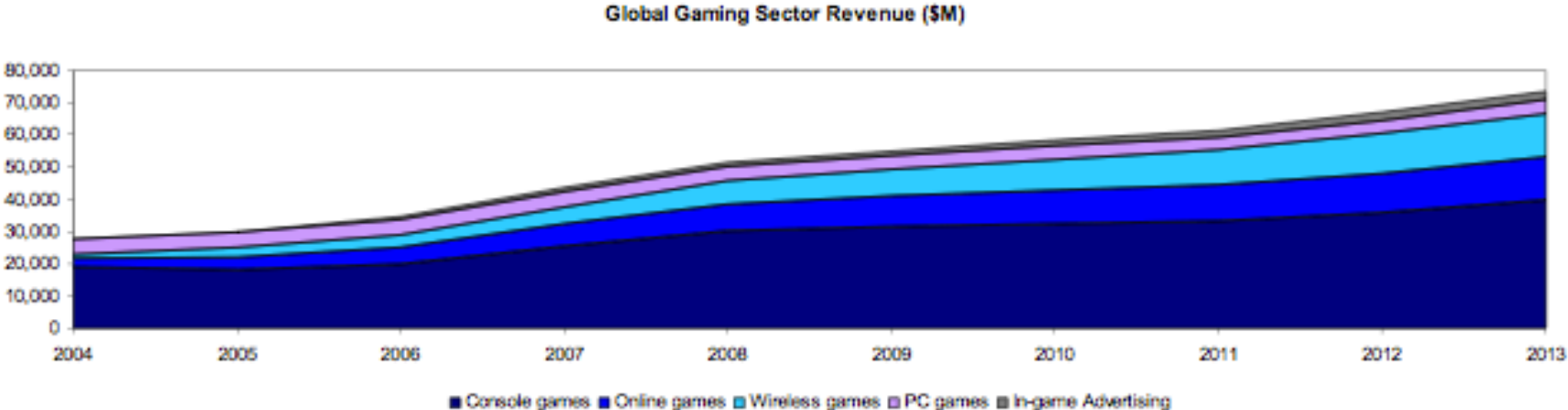
Tony Hughes, January 2011

My Background

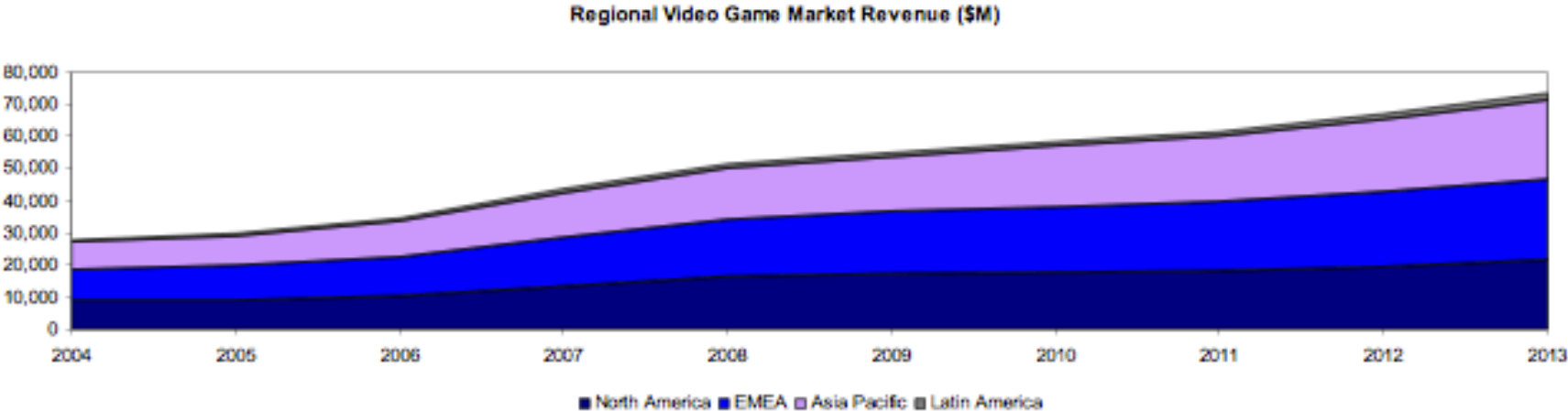
- Film School
- Television
- Digital Media Research Lab
- International Consultancy



Digital Games are big, getting bigger & changing



Europe and Asia Pacific to rival North America driven by higher growth rates



Casual/Online games growth is rapid

Casual/social online games have two primary forms

- Casual/social online games require little experience or time commitment, with simple rules and gameplay accessed through a web browser
- The primary forms of casual/social online games are:
 - Casual: single player, played on a casual games platform such as Spil
 - Social: multiplayer, played either on a casual/social games platform (e.g. Bigpoint) or via a social network such as Facebook (e.g. Zynga)

The global market is high growth

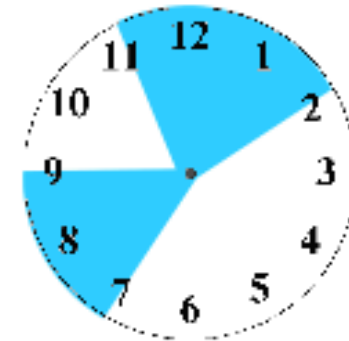
- \$2.25B revenue 2007, \$3B revenue 2009*
- >200m monthly unique players globally
- China and Korea generated \$1B revenue in 2007
- Casual/social games have a high proportion of paying female customer (74%)
- Popular casual games include:
 - Bejeweled (PopCap Games)
 - QQ Games Collection (Tencent China)
 - Diner Dash (Playfirst)
- Popular social games include:
 - Farmville (Zynga)
 - Dark Orbit and Deepolis (Bigpoint)
 - Pet Society (Playfish)

With multiple business models

- Subscription and in-game item sales (micro-transactions) models most profitable
- Advertising supported models are cyclical, with generally lower margins
- Bigpoint (browser "core" – between hardcore and pure casual gameplay): free, subscription and in-game item sale, limited advertising
- Zynga (social): free, in-game item sales (micro-transactions), lead generation
- Spil (casual): free, advertising supported, micro-transactions
- Casual/social game development costs of less than \$500k are much lower than console game development costs

Peak casual/social games hours

- Heaviest play times are 7-9pm and 11-2pm around lunch and dinner
- Casual/social gamers who pay for a subscription and/or are community users average 7-15 hours of online play per week



Casual/social players vs payers

Women account for 52% of casual/social game players



Women account for 74% of paying players



Mobile games growth rates are higher than online

Mobile phones are approaching ubiquity

- Global mobile phone penetration 67% in 2009, 5B subs in in 2010F
- Mobile phone penetration >100% in many developed markets
- High growth forecast in developing nations to complete the global mobile footprint

And mobile games are outpacing online*

- Global mobile games market forecast to grow to >\$13B in 2013
- The mobile games market landscape is adapting to consumer trends and market demand:
 - Mobile game publishers are bypassing network operators to sell directly to consumers
 - High connectivity and multiplayer games becoming mass market due to unlimited data packages
 - In-game advertising being used to supplement mobile game revenues
 - Integrated applications increasing to allow converged gameplay with console/MMO/casual/social games

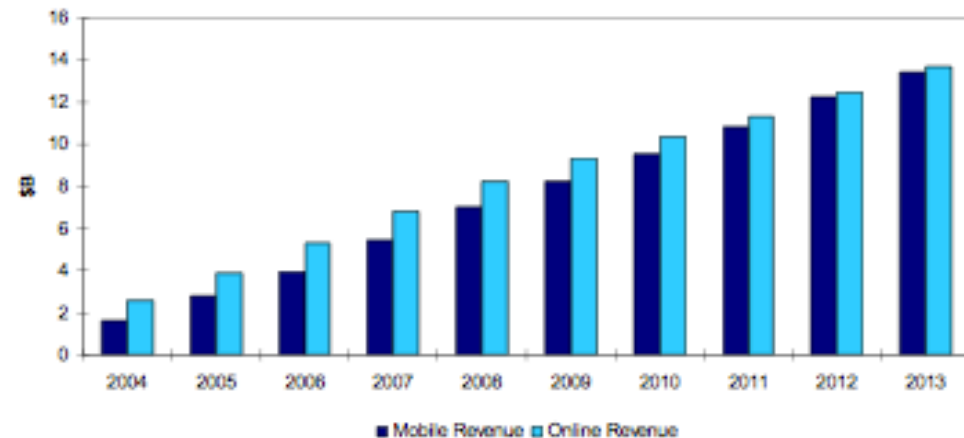
New players are entering from multiple markets

- Network operators (e.g. Vodafone Live!)
- Manufacturers (e.g. Nokia Ovi, Apple App Store)
- Web advertising platforms (e.g. Google)
- Console games majors (e.g. EA Mobile, THQ Wireless)
- Independent games companies (e.g. Glu Mobile)

With low barriers to entry

- Development costs tens to hundreds of thousands, not millions
- >3B iPhone Apps downloaded, many of which are independently developed games

Global mobile games revenue to catch online* by 2013



Mobile games platforms

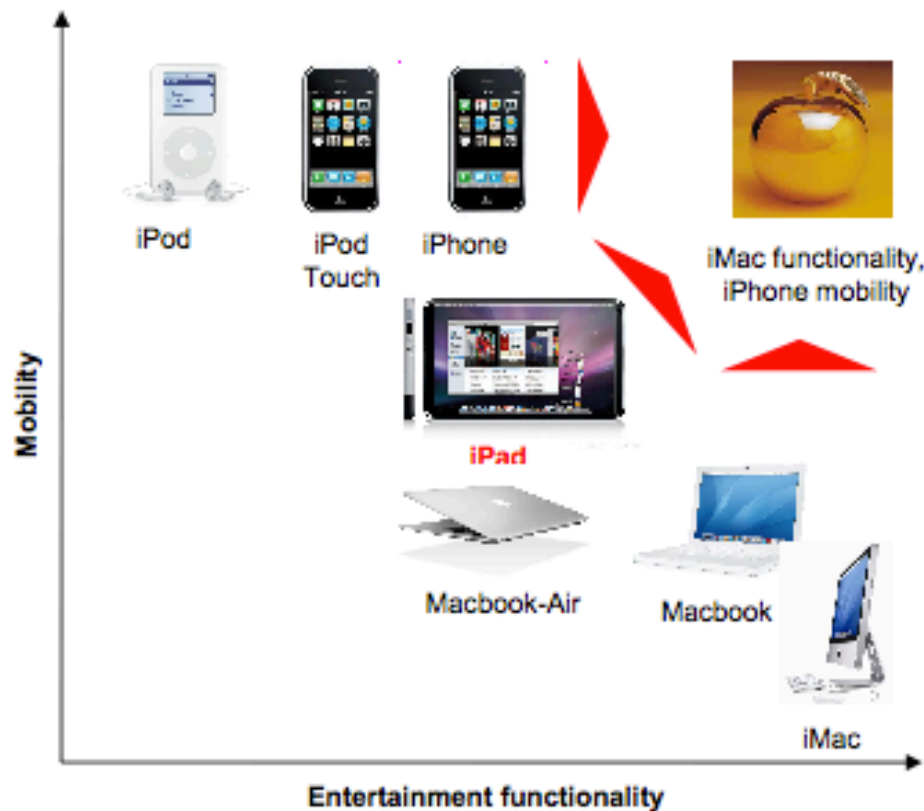
Java is the most common platform for mobile games, but limitations require native binary formats for sophisticated games. Apple is blocking the use of Adobe's Flash platform on its own mobile devices



Apple aiming to be *the* mobile entertainment company

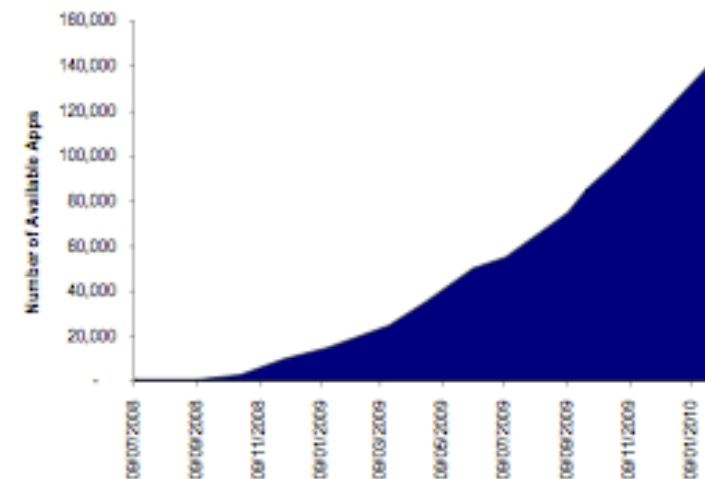
- Apple is far down the path of migrating from electronics and software to mobile communications and entertainment
- Apple's strength is providing all components of the mobile entertainment value chain in elegantly integrated consumer products and services, including hardware, software, eCommerce, applications and content
- iPad is the next stage of Apple's mobile entertainment strategy, likely to spawn many imitators. This may change the video games market in ways that are likely to be greater, but take much longer to occur, than anticipated

Aiming for a complete mobile offering



The App Store

- The App Store services iPhone, iPod Touch and iPad with >3B apps downloaded to date
- App Store should generate an increasing proportion of Apple's non-hardware revenues, with substantial unrealised profit potential
- 70/30 App Seller/Apple revenue split

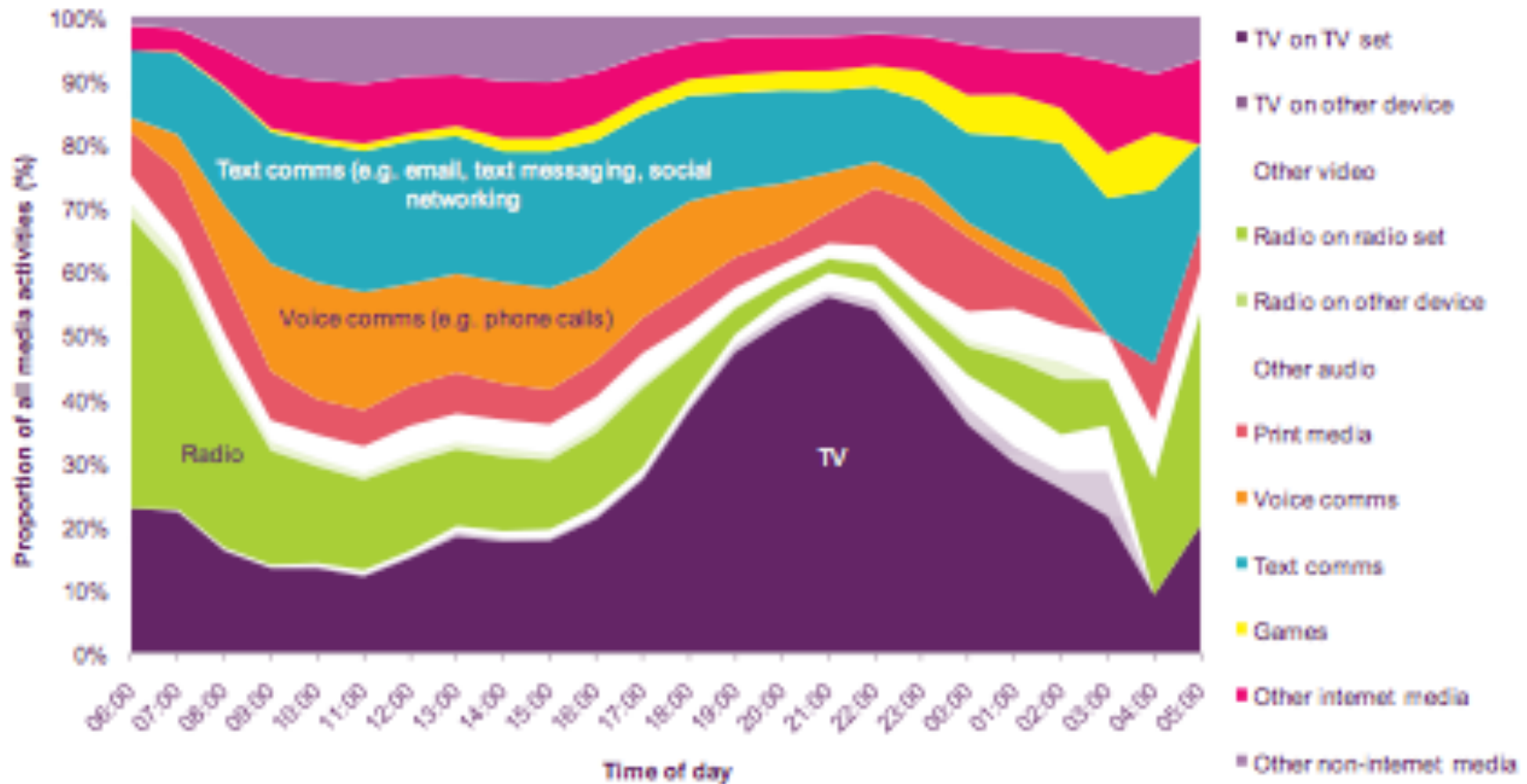


Innovative, creative, different...



UK Consumer

Figure 1.14 Proportion of all media activity throughout the day



Source: Ofcom research, base = all respondent days: 7966

UK – leading Europe..

- Reputation for creating new IP across Film, TV, Games and Digital Media (e.g. Harry Potter, Pop Idol, Lara Croft, Moshi Monsters)
- Well established links with key entertainment markets in US, Europe and India
- Largest digital entertainment market in Europe (In Film, TV and Games)
- Significant investment across fixed and mobile broadband

UK Games Industry



- They are twice as many professional games developers in the UK than France and Germany combined.
- 60% of the workforce holds an undergraduate degree, and strong links with universities mean that there is a higher proportion of postgraduate degrees in the UK than in any other games sector in the world. There are 46 universities and colleges in the UK offering a total of 81 games related courses
- The average UK independent studio size is 51 people, but 245 for publisher-owned outfits.
- UK independent game developers are embracing new online business models, with 64 per cent of studios currently self-publishing their products.
- The most popular platform for self-publishing is the iPhone, with 52 per cent of those surveyed releasing titles on Apple's handset, followed by PC (38%), PlayStation Network/PS3 (36%) and Xbox Live Arcade (16%).
- An average of 62 per cent of games created by those TIGA surveyed were for online or digital platforms, rather than traditional boxed product. 52 per cent of independents released games through digital platforms, and for indies who self-publish the figure rose to 72 per cent, with publisher-owned studios the figure was just 1 per cent

UK Games Market

- The UK computer games market is the fourth largest in the world and has the highest number of games development companies and publishers in Europe.
- 2009, was the second-strongest year on record for the UK videogames industry according to the UK Interactive Entertainment Association (UKIE). Total sales of all videogames software amounted to approximately £3.7bn.
- 59% of the UK population, aged 6-65 years (some 26.5 million people) play electronic games, with 21.6 million of these regularly playing at least once a week.
- Product placement and in-game video advertising are proving two of the most popular ways for brands to capitalise on social gaming. According to Playfish (part of EA), one of the key Casual Games developers in the UK, their gamers (through Facebook alone) are on average spending £5-£15 a month. The UK spent over £500m on virtual goods in 2009.
- 7% of all time spent online in the UK is spent playing games – as much as emailing.

Source: UKOM/Nielsen

Consumer Spending

		Total money spent	Total # of players	Total # of payers	Average spent / month
USA		\$ 25,290,000,000	183,500,000		Data per game platform on payers, average budget spent and revenues streams provided in Newzoo Games Market Report.
UK		£ 3,780,000,000	31,100,000		
Germany		€ 3,650,000,000	35,500,000		Revenue split per platform provided in Free Summary Report.
France		€ 3,560,000,000	25,400,000		
Netherlands		€ 590,000,000	9,300,000		
Belgium		€ 570,000,000	4,700,000		

Scope of revenues: Platforms and revenue streams included in the Newzoo Games Market Report

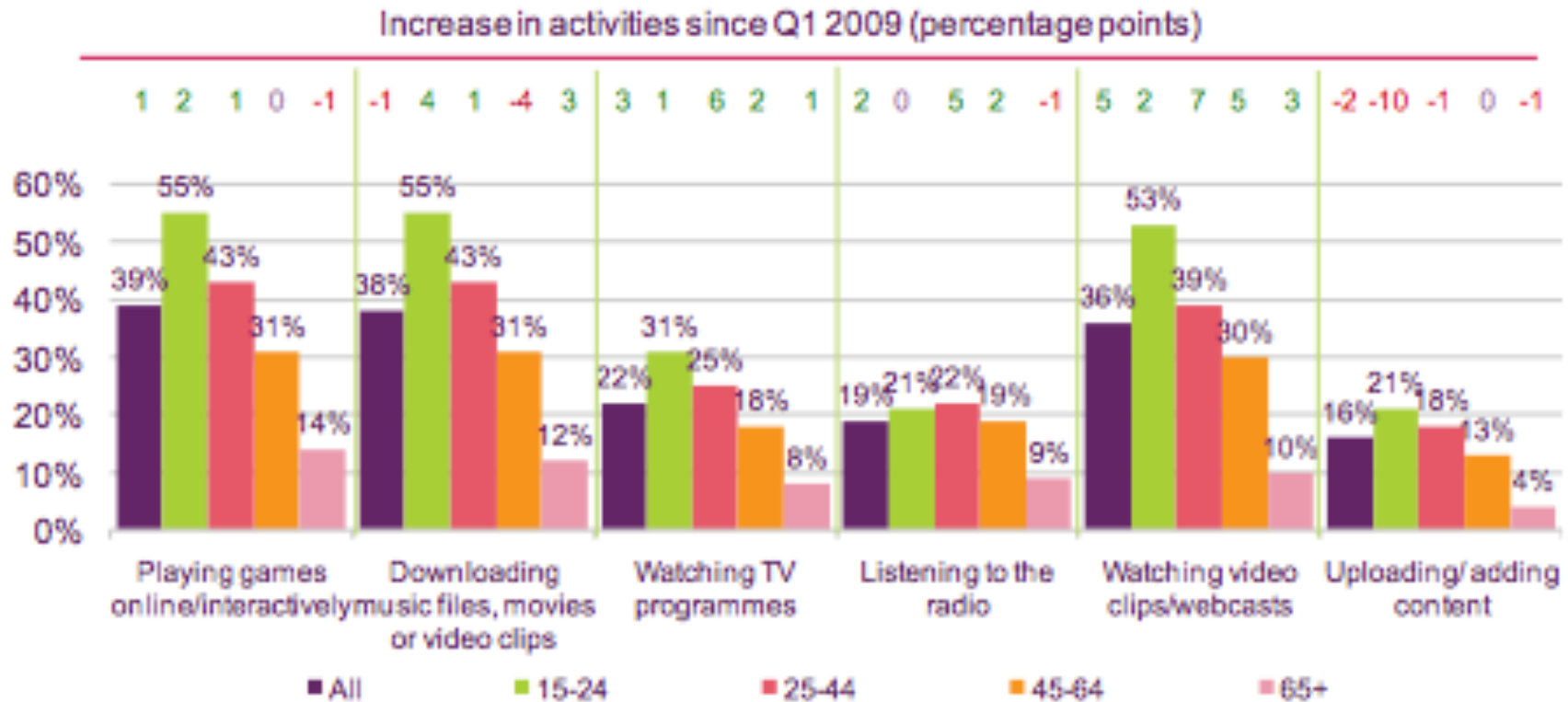
Consoles (incl. DS/PSP)	PC games	Game portals / social netw.	MMOs / Virtual worlds	Mobile devices (incl. iPod)
<ul style="list-style-type: none"> ■ Physical shop ■ Online shop ■ Second-hand trade ■ Digital distribution 	<ul style="list-style-type: none"> ■ Physical shop ■ Online shop ■ Second-hand trade ■ Digital distribution 	<ul style="list-style-type: none"> ■ Subscriptions ■ Premium downloads ■ Virtual currency ■ Direct micro-transactions ■ Skill gaming / Play for prizes 	<ul style="list-style-type: none"> ■ Monthly subscriptions ■ Annual subscriptions ■ Virtual currency ■ Direct micro-transactions ■ Client download / box 	<ul style="list-style-type: none"> ■ Revenues are all game download revenues and not split up.

© 2009/2010 Newzoo | Newzoo Games Market Report | www.gamesindustry.com | May 2010

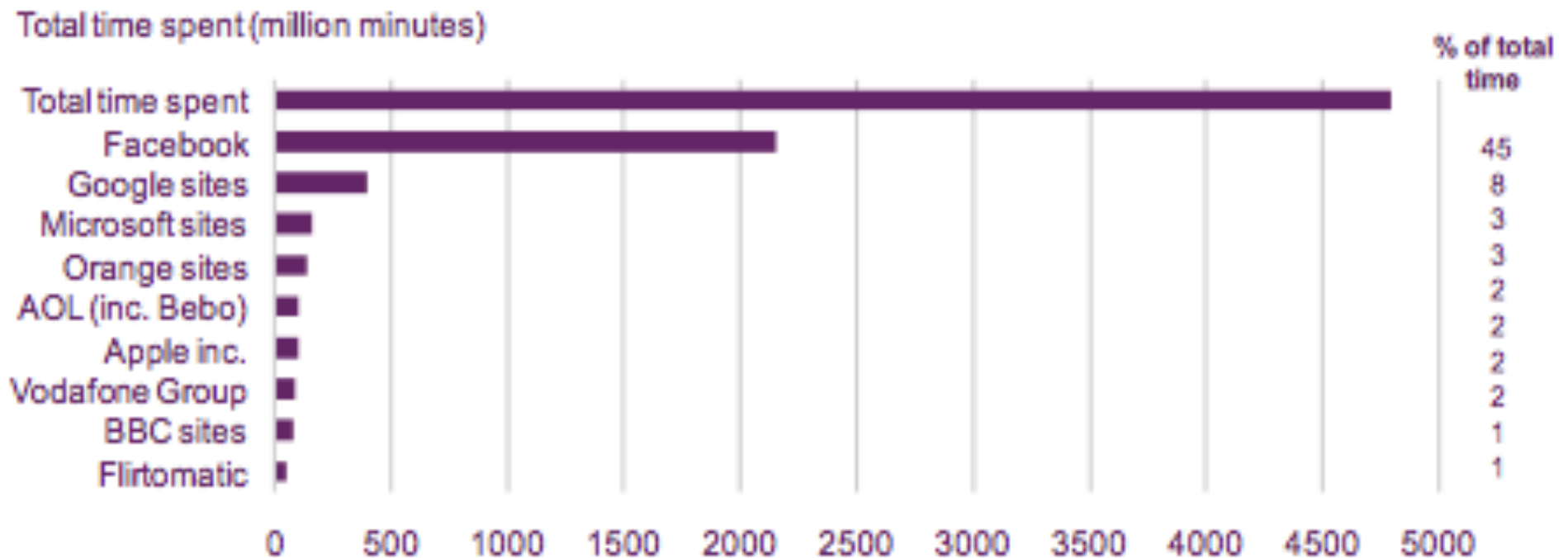


Engagement with online media content

% of households who use the internet for the following activities



Top UK Mobile Internet Sites, 2010

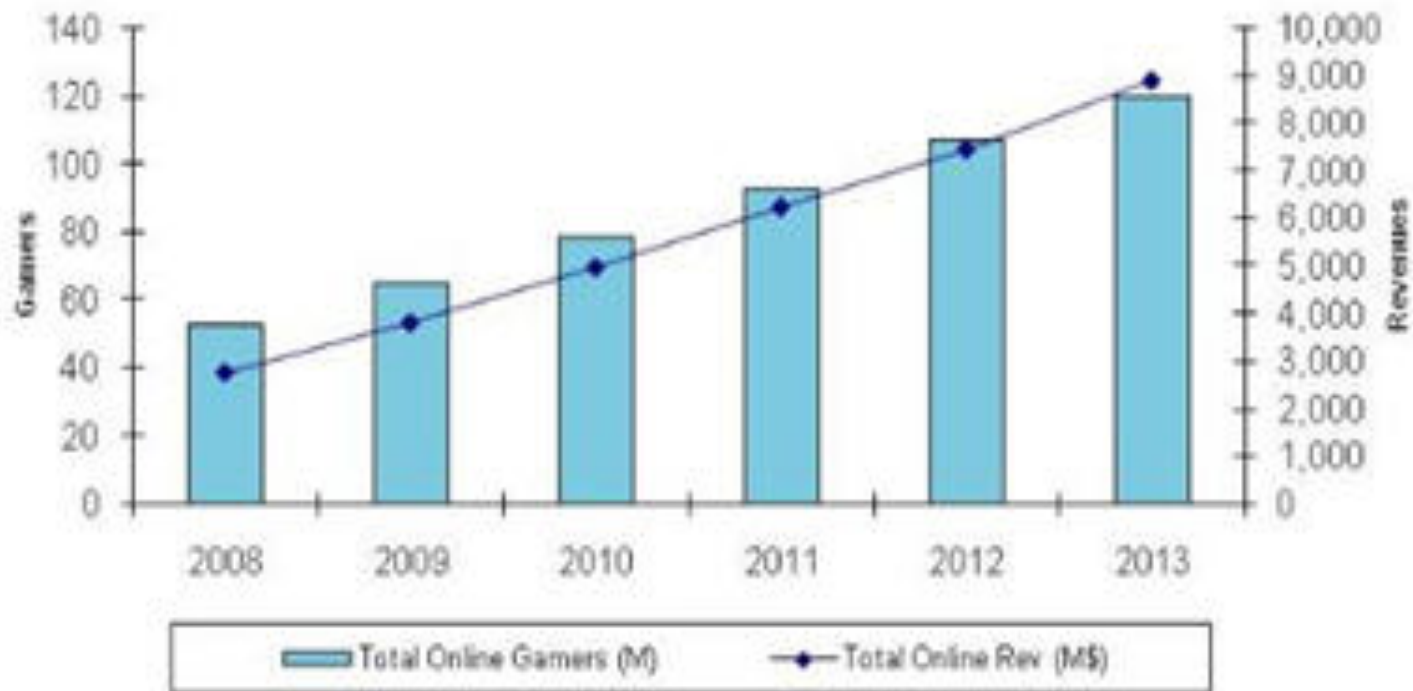


Source: GSMA mobile media metrics.

China Games Market

China Online Videogame Market Gamers & Revenues

Source: IHS iStrategy 2013



Working in China

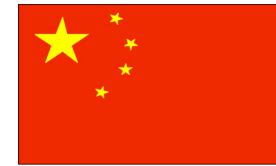
- Partnerships
- Content localisation
- Policy awareness
- Payment mechanisms



Productive Partnerships



- Creative Process
- IP development
- Access to Western Markets
- Mentoring development staff



- Technical expertise
- Cost efficient
- Access to China Market
- Online development know-how

UKTI Support

- Trade & Investment Offices in post
- Bespoke company reports - CBBC
- Business Networks
- Event management
- Policy support
- Trade missions (e.g. China Joy)
- ITA - grants



Thank you

QUESTIONS...

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