



Legal Offers for Consumers in the Video Games Industry

“Born digital”, video games have become, in just four decades, a popular form of mass entertainment, a powerful and exciting platform for innovative art, a key technology driver for computer graphics and a multibillion dollar industry. Video games have never been more popular, with the industry now worth around US \$70bn worldwide, and continuing to grow at higher rates than other entertainment categories. There are now an estimated 1.2 billion gamers worldwide. The average gamer today is in his or her mid-thirties, and in many European territories more than half of the 6+ population play video games, with a quarter of those online playing at least once a week.

Within just 3 days of going on sale in September 2013, Take-Two Interactive’s *Grand Theft Auto V* achieved worldwide retail sales of more than US\$1 billion, beating Activision Blizzard’s *Call of Duty: Black Ops II* to become the biggest entertainment launch of all time. It took *Black Ops II* 15 days to gross US\$1 billion in November 2012. The current generation of video game consoles - consisting of the Xbox 360 from Microsoft, the Wii from Nintendo, and the PlayStation 3 from Sony - has enjoyed incredible success, selling between them well over 250 million units worldwide.

Packaged or boxed

Video games are still mainly sold as traditional boxed or packaged products, either in bricks and mortar stores or via online retailers like Amazon. Although the market is clearly and steadily transitioning from physical media to pure digital distribution, physical game discs still bring in the bulk of revenue, and the upcoming launch of Sony’s PlayStation 4 and Microsoft’s Xbox One could spur a recovery of the physical market by reigniting interest in console gaming generally, even if these two systems are really focused on driving online business models.

The sheer size of some major console games can make digital distribution more difficult today on account of their storage and bandwidth demands. Retail distribution, therefore, is likely to remain significant for years to come. The lines

between boxed product sales and digital distribution are, however, blurring, as publishers increasingly include online components in their boxed games and provide post-release downloadable content (DLC) to enhance the gaming experience and to expand the life of their titles. Boxed product retailers, too, are developing online stores in an effort to capture market share in digital gaming and to offset the decline in PC packaged games and slowing console game sales.

Online

Over the past several years, online games have become one of the fastest growing segments of the video game sector, spurred by rising broadband penetration, the inclusion of robust online capabilities in the current generation of consoles, and the morphing of the MMOG genre into social games and casual online games. Legitimate downloads of all types of games are widely provided today by game publishers, console and phone manufacturers, and retailers. Many games that are bought on disc or cartridge today can be played against others using a PC or games console with Internet access.

The industry is now characterised by the very large numbers of players who are able to simultaneously engage with each other and to play online. A recent study conducted for the industry revealed that 71% of gamers played some form of online game. The video game industry now offers more new, innovative ways for consumers to experience its products online than any other industry. Worldwide revenues from online games on consoles and PC now exceed US \$21bn. By 2017, it is estimated that the online platform will have almost reached parity with consoles.

Digital distribution of games has actually existed since the 1980s, but it was only with the roll out of 'broadband' in the 2000s that the process become more prominent. Games are now available for online play or download through a multitude of outlets and for a multitude of screens. Consumers can purchase and download games from third-party marketplaces or directly from publishers. Although the PC was the first online game platform, consoles have becoming increasingly important as each of the main consoles supports online gaming. Each works in tandem with an integrated, console-specific online marketplace that enables consumers to purchase various forms of digital content for download. Also now emerging are cloud-based and streaming gaming services. These enable users to play high-end games located on remote servers directly on their low power home computers or even set top boxes by streaming video signals and user inputs.

Various game companies have set up their own digital distribution platforms, such as Valve's Steam, EA's Origin, and the previously mentioned console specific

networks: the Nintendo Network, Sony's PlayStation Network and Microsoft's Xbox Live. Steam has over 2,000 games available for download to its over 40 million registered users worldwide. Origin is a digital distribution system enabling users to purchase games online and to download them to their PCs or mobile devices. Origin allows the saving of games in the cloud, thereby enabling them to be played on different devices, and also offers social features such as networking with friends. Sony's PlayStation Network is an online multiplayer gaming and digital media delivery service for use with PlayStation consoles and handhelds, and has over 90 million accounts worldwide. In 2010, Sony introduced PlayStation Network Plus, an optional paid upgrade that provides free games, discounts, and other content. The Nintendo Network is Nintendo's online service providing online functionality for the 3DS and Wii U systems, and their compatible games. Xbox Live is a multiplayer gaming network, social network, and media suite. Worldwide, Microsoft has over 48 million subscribers to its online services. Blizzard's proprietary online platform, Battle.net, lets players communicate and collaborate across games while giving the company a way to interact with and support its players through direct digital sales, free trials and value-added services. During 2012, over 42.9 million people used Battle.net to play a Blizzard game.

The online game market is composed of several segments. MMOGs are usually role-playing games that take place in fantasy or medieval worlds and can be played over long periods of time by thousands of people simultaneously around the world. After purchasing copies of the game at retail stores, players often pay monthly fees to participate, sometimes making additional purchases to buy online equipment and accessories. The microtransactions associated with MMOGs are major drivers of online gaming revenue growth.

Most MMOGs are played on PCs, with additional content being delivered online. *World of Warcraft*, which was launched in November 2004, is by far the most popular MMOG and had over 12 million active subscribers at its peak in 2010. Many other MMOGs have switched from the traditional subscription business model to a free-to-play model, with microtransactions generating revenues for the publisher. Another major MMOG title is the free-to-play *League of Legends*, published by Riot Games, which has over 30 million registered players worldwide, and averages 12 million players per day. Wargaming.net are currently seeing major success with their free-to-play MMOG, *World of Tanks*, on PC. The game has over 60 million players in more than 200 countries worldwide, and a version is also being brought to the Xbox 360.

Rapid growth in social gaming is also driving spending on microtransactions. Many

social games are free, but gamers can buy virtual goods to give them an edge or otherwise improve the gaming experience. Social gaming on sites like Facebook and Google+ has grown exponentially. The games are free, widely available, load in a few seconds, and require only a few minutes at a time to play. Zynga is a leading provider of social game services with approximately 250 million monthly active users playing its games. Zynga's *FarmVille*, which was launched on Facebook in June 2009, was the fastest-growing game of all time, with more than 84 million monthly users at its peak. Its *CityVille* game became the biggest Facebook game of all time, reaching 100 million users and surpassing the record held by *FarmVille*. King's *Candy Crush Saga* game became the top Facebook game in January 2013 and had over 45 million monthly users by March.

Another segment of the online market consists of casual gamers who go to a website and play strategy or puzzle games often at no charge with advertising supplying the requisite revenues. Casual game sites like King.com, and PopCap.com reach two-thirds of European gaming households. Founded in 2002, Big Fish is one of the world's largest producers of casual games. The company has distributed more than 2 billion games from a growing catalog of over 3,000 PC games and over 300 mobile games, and offers cross-platform streaming games via its proprietary universal cloud gaming service, Big Fish Instant Games. Big Fish's games are played in over 150 countries on a wide variety of devices across 13 languages.

Increased broadband penetration and, with it, growing digital distribution is driving the growth of the online market. The migration of many MMOGs from their subscription models to a free-to-play business model is increasing the number of players worldwide. The growth of microtransactions is providing a boom for the industry. Publishers also offer consumers ad-supported versions of games, which give them the opportunity to enjoy a basic gaming experience for free. Both models give consumers more flexibility in accessing and paying for game content, but ensure revenue streams to publishers and developers for their creative works. Casual games and social network games are also helping to expand the demographic base and to stimulate spending.

The advent of digital distribution has also transformed the video game value chain, enabling developers to reach audiences directly, or through online stores such as the iOS App Store, Steam, Xbox Live and others. It has also made it possible to produce new kinds of game that are played on the Internet or on social networks, with new business models that generate revenues through subscriptions, online advertising, and the sale of virtual goods and premium content.

Cloud computing is another area where early strides have been made by games companies. Cloud gaming, also called gaming on demand, is a type of online gaming that allows direct and on-demand streaming of games onto computers, consoles and mobile devices, similar to video on demand, through the use of a thin client, in which the actual game is stored on the operator's or game company's server and is streamed directly to computers or other devices accessing the server through the client. With cloud gaming, there's no need to download the games or to own the physical media.

OnLive and Gaikai were the first companies to offer full cloud gaming services. Gaikai has since been bought by Sony, and it was recently confirmed that the PlayStation 4 will strongly feature Gaikai technology, allowing players to begin playing a new game immediately on purchase, whilst the rest of it is being downloaded in the background. Microsoft has also announced plans to invest US \$700 million in a new cloud computing site in Iowa to boost Xbox Live and the new Xbox One's cloud functionality.

In January 2012, Bouygues Telecom and Playcast Media partnered to launch a new cloud gaming service called Bbox games. Bouygues is the first French telecom company to bring high-profile game franchises directly to gamers' TVs with an easy-to-use interface.

Cloud-computing models will continue to contribute to overall growth in online games. Some experts estimate that the streaming games market will grow nine-fold by 2017, reaching US\$8 billion. In the near term, however, cloud-based services will face competition from companies that are already established in the digital distribution of games.

Mobile or Apps

As increasing numbers of consumers turn to smartphones and tablets for entertainment, mobile is expected to be the fastest-growing games sector in the next five years. There are estimated to be over 1 billion smartphones and over 200 million tablets in use worldwide today. The mobile device market has put substantial computing power - and game-playing capability - into the hands of over 1 billion people in just a few years, and rapid growth continues. With a total of over 6 billion mobile handsets in use worldwide, the installed base of hardware is simply huge and far outstrips that of any dedicated games platform. Smartphones and tablets, aided by intuitive-touch interfaces, are fast becoming the devices of choice for casual game players. Millions of people worldwide have discovered games through their smartphones, opening up whole new possibilities for developers to create experiences never before possible.

Games is now the largest category of apps on Apple's iOS App Store, and game publishers regularly constitute the majority of the top ten app publishers on both the iOS App Store and the Google Play store, measured by revenue. Of the 20 most downloaded apps on the iOS platform (as of 7 June 2013), 12 were games, and of the 20 highest grossing apps, 15 were games. Games now claim 80% of the revenues on Google Play and 75% on iOS. In the second quarter of 2013, games accounted for roughly 45% of downloads from the iOS App store.

The business model for mobile games is moving from the pay to download to the freemium model, where games are downloaded for free, with microtransactions and advertising providing the necessary revenues. It is estimated that in-game purchases will soon outpace download fees. Rovio's *Angry Birds* was a hugely successful game as a paid download, but garnered even more fans as a free download. It is important to note, however, that gameplay and business models are intertwined and that not all games suit the freemium model.

The mobile game market is expected to continue to grow as the penetration by smartphones and tablets expands. More people are playing games, including casual games, social games, and more-advanced multiplayer games. Casual games continue to dominate the market because they're quick to learn and easy to play. The most popular mobile games are single-player board games, puzzles, and word games. These casual games widen the demographic reach of mobile games. In addition to casual games, however, more-sophisticated games are being developed for the mobile market. Some cloud gaming companies are now delivering console-quality games to mobile devices, and MMOGs have also been developed to take advantage of the speed of advanced mobile networks.

Conclusion

No discussion of game industry business models can ever be exhaustive. Indeed, publishers and developers are already finding ways to blend several of the aforementioned business models to monetize their works, seeking to grow the potential consumer base, incentivise sustained user engagement, and ultimately generate revenue streams. In any case, there can be no doubt that the video game industry remains poised to innovate digital business models to meet consumer demands and to thereby counteract the demand for pirated copies of games. The video game industry has come a very long way in a short period of time to revolutionise console game play and to create many new business models.