The impact of digitization
My gravity theory in the game industry

19 November 2015

Laurent MICHAUD
Head of Consumer Electronics Practice, IDATE
Laurent MICHAUD, Head of Consumer Electronics & Digital Entertainment Practice

I’m responsible for studies related to consumer electronics and video games industry through changing uses, technology innovation, market analysis, business strategy, industrial perspectives, forecasts and prospective issues.

I act as economic advisor for game companies and subcontractors working for video game industry.

I carry out techno-economic appraisals for innovation agencies and incubators on the issues of video gaming and multimedia content development.

I’m the originator of Game Summit, which takes place during the Digiworld Summit in November each year www.gamesummit.pro.

I hold a Master’s degree in Economic and Financial Engineering.
Dematerialisation of the video game industry (1/2)

- The video game market has risen from 35.3 billion EUR in 2008 to 47.7 billion EUR in 2014.
- Dematerialisation affects all segments of the video game industry.

Source: IDATE, Video Games in the Cloud, June 2015

Video game software market, 2008–2014
(billion EUR)

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>'09</th>
<th>'10</th>
<th>'11</th>
<th>'12</th>
<th>'13</th>
<th>'14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>35.3</td>
<td>34.0</td>
<td>35.4</td>
<td>36.9</td>
<td>37.7</td>
<td>41.1</td>
<td>47.7</td>
</tr>
</tbody>
</table>

Breakdown of the video game software market by type of revenue, 2008 and 2014

- Physical: 22% in 2008, 69% in 2014
- Digital: 78% in 2008, 31% in 2014

Source: IDATE, Video Games in the Cloud, June 2015
Dematerialisation of the video game industry (2/2)

- Home console: eventually the expected game changer
- PC: power and variety of the pioneer
- Mobile: the next big deal
- Connected TV
- Handheld consoles

Breakdown of the console gaming market by type of revenue, 2008 and 2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Physical</th>
<th>Digital</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>99%</td>
<td>1%</td>
</tr>
<tr>
<td>2014</td>
<td>76%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: IDATE, Video Games in the Cloud, June 2015

Breakdown of the PC gaming market by type of revenue, 2008 and 2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Physical</th>
<th>Digital</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>31%</td>
<td>69%</td>
</tr>
<tr>
<td>2014</td>
<td>7%</td>
<td>93%</td>
</tr>
</tbody>
</table>

Source: IDATE, Video Games in the Cloud, June 2015
Dematerialisation and value displacement

- Digitization has shortened value chains, let’s speak about disintermediation
- Functions have been redistributed to downstream players, new advantages imply new skills
- Digitization has moved video game market segments revenue along the value chain
- Disintermediation has appeared making possible for developers to be closer to their customers.
Dematerialisation and value displacement: PC

- PC gaming and distribution services, pioneers of dematerialisation
- Massively multiplayer gaming services

Physical and digital PC gaming value chains

Breakdown of online video game revenues by type of game, 2015

- Online... Video Game Market
  - Premium Massively Multiplayer: 12%
  - Free Massively Multiplayer: 38%
  - Social: 33%
  - Casual: 17%

Source: IDATE, Video Games in the Cloud, June 2015
Dematerialisation and value displacement: consoles

- In terms of distribution
- In terms of consumption patterns
- The 8th console generation made the shift to dematerialisation by turning to the cloud for data storage and processing.

Source: IDATE, Video Games in the Cloud, June 2015
The spread of smartphones has reduced the importance of telecom operators and content aggregators in the distribution of games.

Mobile gaming value chains

Mobile gaming revenue distribution, 2008 and 2015 (%)

Source: IDATE, Video Games in the Cloud, June 2015

Source: IDATE, Video Games in the Cloud, June 2015
Dematerialisation and value displacement: mobile

- An underlying trend, the huge popularity of Free-to-Play
- Increasing number of ubiquitous games
- The mobile gaming segment was behind a massive and unprecedented phenomenon
- Increased competition from smartphones and tablets is seriously harming the handheld console gaming business

Global mobile gaming sector revenue growth, 2000–2015
(billion EUR)

Source: IDATE, Video Games in the Cloud, June 2015
Internet service providers now offer video games through their set-top boxes. Their services fall into two categories:

- The GoDP may also choose to offer an Over-The-Top cloud gaming service, meaning it can directly address users and bypass the ISP managed service (OTT Streaming). Two scenarios are therefore possible.
Global video game software market

- The global video game software market will rise from 57.7 billion EUR in 2015 to 80.7 billion in 2019, an average annual growth rate of 8.7% over the period.
- The share of console games in the total video game software market will continue to decrease over the 2015–2019 period. Mobile device games will continue to grow.
- In 2015, 71% of video game software revenues will be generated by digital sales, compared with 88% in 2019.
- Revenues from digital sales will experience an average annual growth of 14.7% over the period, compared with -13.1% for revenues from physical sales.

Video game software market, 2015–2019 (billion EUR)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>'16</th>
<th>'17</th>
<th>'18</th>
<th>'19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>57,7</td>
<td>65,5</td>
<td>71,0</td>
<td>74,9</td>
<td>80,7</td>
</tr>
</tbody>
</table>

Breakdown of the video game software market by type of revenue, 2015 and 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Digital</th>
<th>Physical</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>2019</td>
<td>88%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: IDATE, Video Games in the Cloud, June 2015
Impact of dematerialisation on value distribution

- With increasing rates of dematerialisation, we see that the benefits of this value redistribution are felt higher up the chain, mainly by developers.

- The other link in the value chain to benefit from dematerialisation is retail sales. However, the players have changed.

- Although the publishing link still captures the largest share of the sector's revenues over the period, retailers will catch up to it in terms of value and relative share in 2019 as they increasingly benefit from the direct relationship with gamers/customers.

- Publishers benefit from cyclical growth in the market, but their share of total revenues in the sector will gradually be reduced as developers take over more publishing tasks.

Revenues earned by the various links in the video game market value chain (million EUR)

Source: IDATE, Video Games in the Cloud, June 2015

Revenues earned by the various links in the video game market value chain (%)

Source: IDATE, Video Games in the Cloud, June 2015
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