



Swiss Entertainment & Media Outlook 2020-2024

# Video games and esports

Pulling the future forward: The entertainment and media industry reconfigures amid recovery

# Video games and esports

## Segment definition

This segment comprises consumer spending on video game software and services (not hardware or devices) across both traditional and social/casual gaming, as well as revenue from advertising via video games. It also includes revenue from consumer and advertiser spend on esports. Traditional gaming comprises revenues associated with play on PCs and game consoles (both TV-connected and portable). This includes physical (disc-based) game sales at retail outlets (both bricks-and-mortar and online retailers), digital game sales (including Steam, Good Old Games and Origin for PCs, and the PlayStation Store, Xbox Games Store and Nintendo eShop for consoles), and additional downloadable content (DLC) and subscription services. Online/microtransaction revenue also includes spending on free-to-play Massively Multiplayer Online games (MMOs), but does not include spending associated with social and casual browser-based games, which is included in the social/casual gaming segment. Revenues from the latter come from consumer spending on and within app-based games played on tablets and smartphones, as well as browser games aimed at a casual audience (e.g. Ruzzle and Zynga's Words with Friends). This includes revenues generated from the purchase of social and casual game apps, subscription services for social and casual games, and the purchase of virtual items in connection with social and casual games. Also included are revenues from "hardcore" mobile games (e.g. Infinity Blade 2). Video game advertising revenue includes only static advertising in video games. It does not include dynamic advertising inserted into or displayed alongside the game in an app or browser during play. Esports, which is defined as organised video game competitions both online and offline, comprises consumer and advertiser spending associated with one-off digital sports events as well as entire organised leagues. Streaming advertising is ad revenue from esports events that are streamed via websites (such as Twitch). This is distinct from advertising revenue associated with general video-game streaming on such platforms (e.g. Minecraft videos), which is not covered here. Sponsorship revenue is derived from sponsorship of organised esports competitions, such as Snickers' sponsorship of the ELEAGUE, as well as individual teams. This revenue is included within advertising revenue. Consumer ticket sales is revenue from consumer spend on tickets to physically attend esports events. Consumer contribution is revenue from consumer spend on compendiums for esports events or battle passes for virtually attending esports events, such as The International Battle Pass. This spending must be attributable to an organised esports event and is therefore distinct from regular spending on games such as League Of Legends. Media rights revenue comes from spending by broadcasters and streaming companies to acquire the rights to show esports events. This revenue is included within advertising revenue. Excluded from the definition are the sale of merchandise at events, and esports betting revenue.

## Global market drivers

The global video games market is still in a phase of remarkable growth, with new developments creating both opportunities and challenges. The market continues to experience major upheavals, as the balance between traditional and non-traditional gaming formats shifts back and forth. As gaming becomes more widely accepted as an alternative to traditional sports, the medium will gain significance and size in terms of its global appeal and revenue.

Cloud gaming is picking up momentum, thereby opening up opportunities for technology and telecom companies to break into the gaming category, even as the incumbent game/device providers – which are on the cusp of releasing the next-generation game consoles in 2020 – defend their market share. Cloud gaming is gradually emerging as a mass-market venue that challenges game consoles. However, console sales will stay strong and relevant throughout the forecast period. Social/casual revenue has rapidly overtaken combined console and PC revenue, thanks to the global proliferation of smartphones, significantly improved app ecosystems and a flourishing mobile-gaming development scene. However, its growth has started to cool. Innovation is being seen in new business models, including game subscriptions and evolving categories of augmented reality (AR) and virtual reality (VR). The advent of 5G, with its high download speeds and low latency, also promises a tremendous leap forward in the overall mobile gaming experience in terms of the quality of streaming and player interactions.

## Console gaming will stay strong, despite the growing interest in cloud gaming

The game console market is at a crossroads. The Xbox One and PlayStation 4, released in 2013, are coming to the end of their life cycle; their replacements, the Xbox Series X and PlayStation 5, are set for launch in late 2020. Meanwhile, Nintendo is seeing success with its Switch console, the portability of which enables it to compete with both home consoles and smartphones. The reality is that consoles are no longer the biggest source of gaming revenue; their earnings power has been eclipsed by smartphone-based social/casual gaming revenues and even PC-based gaming. Nevertheless, consoles remain as relevant as ever. They maintain strong support from publishers and are the flag-bearers for Triple-A gaming.

Meanwhile, cloud gaming is staging a rally. Recent investments by Google, Intel, Microsoft and Nvidia have led to significantly improved – albeit not yet perfected – cloud architecture and video-compression algorithms to support cloud gaming. Google Stadia and Microsoft xCloud preview services have boosted the buzz about cloud gaming to new heights. The global proliferation of fast Internet connectivity also points to a significantly increased addressable market.

Cloud gaming's “play on any device” proposition threatens the current console business model. However, given the former's inherent dependence on a fast and reliable Internet connection, adoption will remain limited over the next five years – even with the rollout of 5G networks.

## The push towards game subscription services is intensifying

Having witnessed the rapid transition of subscription services in music and video, the leading technology and gaming companies are now taking significant steps towards applying this lucrative business model. Game subscription services are not a new concept. For example, Sony has offered its PlayStation Now service since 2014, allowing users to either stream games via cloud or download them to their device. Existing subscription services have so far failed to attract large numbers of gamers. Some of the key reasons for this are low consumer awareness, the technical shortcomings of certain platforms, low global penetration of sufficiently fast Internet connectivity, and the limited availability of Triple-A game titles. However, the tide is now turning. Google's and Microsoft's commitment to offer cloud gaming subscription services – given those companies' immense network infrastructure, compelling consumer offerings and vast marketing budgets – is setting in motion a trend that will have a lasting effect on the entire gaming market.

In September 2019, Apple launched its own game subscription service, called Apple Arcade. Available across the company's mobile, PC and living-room devices, Apple Arcade will offer unlimited downloads of more than 100 premium new and exclusive games for US\$5 a month. Apple defied the cloud-gaming market buzz by choosing to focus on the immediate opportunity offered by mobile gaming. In the same month, Google released its competing Google Play Pass subscription service for Android handsets, which for the same price unlocks access to hundreds of premium apps and games without ads, download fees or in-app purchases.

In 2019, Electronic Arts (EA) revealed that it had more than 3.5mn subscribers to its EA Access service. Ubisoft, meanwhile, has launched its own service, called Uplay+. In 2020, these flagship subscription services will see their first full year of availability, providing a significant boost to consumer awareness and demand. More leading game publishers and developers will start looking at subscriptions as a viable avenue for income.

Overall, subscriptions will add to, rather than cannibalise, existing games revenue.

Going forward, as esports matures, subscription services could even be on offer to fans who want a single point of entry to watch their favourite competitions.

## Innovative monetisation strategies are emerging amidst loot box controversies

Although mobile games have been popular ever since the widespread emergence of smartphones more than a decade ago, it is only of late that publishers have found truly effective monetisation strategies. The early model of charging US\$0.99 upfront for mobile games met with only partial success.

Even that extremely low price point proved to be a significant psychological barrier for consumers unsure of the value of the product, and worse yet provided only tiny margins for each sale. In consequence, the vast majority of modern mobile games now rely on a combination of advertising and free-to-play, microtransaction-based business models. Although the effect is that most players never spend any money, the minority who do – so-called whales – spend more than enough to compensate for that.

## **AR is adding a new dimension to mobile games, while VR continues to grow**

The success of Pokémon GO! in 2016 and the release of AR developer toolkits by Apple and Google have propelled the popularity of mobile AR games and applications. Hugely popular face-augmenting “selfie filters”, initially popularised by Snapchat, are now widely available on most social networking and photo apps. These have demonstrated the basic capabilities of AR to most smartphone users.

Game makers are increasingly looking to integrate AR features as a way of delivering uniquely immersive gaming experiences not available on traditional platforms. Unlike Pokémon GO! and Harry Potter: Wizards Unite, which use AR sparingly, next-generation mobile AR games such as Microsoft’s upcoming Minecraft Earth will use AR extensively as the main component of gameplay. More immersive mobile games will emerge, allowing numerous players in the same physical space to interact with virtual worlds. Because most of the new smartphones on the market are AR-capable, this is quickly becoming a significant addressable market for game makers to target. The use of advertising in conjunction with AR features will also grow rapidly. Driven by Google’s strong involvement in this space, app makers will look to use AR advertising alongside traditional monetisation methods. Because holding a phone to one’s ear in order to interact with virtual objects hinders a truly immersive gaming experience, the talk about AR gaming headsets will also be renewed.

Despite the failure of VR headsets to excite consumers to the extent that many predicted, the global installed base of the devices continues to grow, albeit at a slower rate than initially expected back in 2016. VR suffers from the classic “chicken or egg” situation when it comes to content generation. Game developers are reluctant to invest in content until the headset market takes off, but a limited range of quality content is a major barrier to headset adoption. Despite its significantly smaller user base, VR will generate more revenue than mobile AR games, thanks to a more engaged and dedicated user base.

## **Esports**

Total esports revenue will rise by more than USD 1.0bn over the next five years, presenting a dizzying array of opportunities for tech specialists, platform providers, network specialists, event organisers, game developers and even the world of mainstream sports. China is leading the way, and explosively so, by bringing mobile esports to the masses and paving the way for the same phenomenon to achieve critical mass in the West.

### **Mobile esports**

As 5G gradually gains a foothold over the next five years, it will enable more advanced and more compelling mobile games – and, as a result, mobile esports. Whereas mobile has been the foundation of the gaming experience in the Eastern hemisphere, in the West PCs and consoles still hold sway. But mobile represents by far the greater opportunity, and developers and organisers will take advantage of this to significantly increase the viable base of esports players, ultimately creating as vibrant a mobile esports scene as currently exists in China, India and Indonesia. This is also a golden opportunity to woo potential players at the casual level. The establishment of a broad ecosystem of gamers engaging in a given title will ensure the longevity of the mobile approach, and this new type of casual esports player opens up a great opportunity for clever platform providers.

## Tencent

Although the GAFAs – Google, Amazon, Facebook and Apple – are all involved in esports to some degree, none comes close to matching the Chinese giant Tencent. In announcing its half-year 2019 financial results, Tencent reported astonishing numbers: a 24% rise in esports media rights revenue and a 57% rise in esports sponsorship income versus its 2018 full-year figures. The company organised more than 12,000 competitions in a 12-month period.

## Sports and esports

The accelerating development of esports has encouraged many mainstream sport federations to become enthusiastic partners – football's FIFA, basketball's NBA and ice hockey's NHL are now closely connected with esports events. Over the next five years, esports and mainstream sports will become even more entwined, culminating in a 2024 Summer Olympics in Paris that organisers promise will be “virtual and connected.”

One of the most exciting future crossover areas is motorsports, an area so fruitful that in October 2019 the world's first esports racing arena was announced. The stadium, to be located in Miami, Florida, will feature simulations sufficiently realistic to even train professional drivers. We are nearing a point where F1 esports players can anticipate being able to virtually race on the same courses as their idols – and at the same time those drivers are racing. Future Grands Prix could feature 20 real and 20 virtual cars, a revolutionary development that will be to the benefit of both esports and mainstream sports.

## The impact of COVID-19

The outbreak of COVID-19 in 2020 will have a favourable effect on the video games and esports sector. With consumers across the world spending extended periods of time indoors due to lockdowns, the time they devote to gaming will obviously increase. During the first week of lockdown in Italy, network operator Telecom Italia reported that games such as Fortnite contributed significantly to a total 70% increase in Internet traffic.

Many brand owners have opted to freeze or cut their advertising budgets as the effects of the pandemic cause economic distress throughout the world. However, businesses that usually favour other forms of media and advertising, such as out-of-home (OOH) and cinema, may decide instead to divert their spend towards video games advertising rather than not deploying those funds at all.

Restrictions to mass gatherings will put a damper on growth in the esports sector, with ticket sales revenue set to contract sharply in 2020 as major tournaments are cancelled or postponed. However, the absence of live sports will cause a shift in viewing patterns towards esports, with broadcasters showing online esports events to what are often entirely new audiences.

# Switzerland

## Video games and esports in Switzerland

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2019 - 2024 CAGR
<b>Video games and esports in Switzerland (CHFmn)</b>	486	566	618	687	743	795	852	899	948	993	5.96%
<b>Esports (CHFmn)</b>											
Esports consumer contribution (CHFmn)											
Esports consumer ticket sales (CHFmn)											
Esports media rights (CHFmn)											
Esports sponsorship (CHFmn)											
Esports streaming advertising (CHFmn)											
<b>Video games (CHFmn)</b>	486	566	618	687	743	795	852	899	948	993	5.96%
Video games advertising (CHFmn)	33	34	36	37	38	37	37	38	39	40	1.15%
<b>Video games consumer (CHFmn)</b>	453	533	582	649	706	757	815	861	909	953	6.19%
<b>Social/casual gaming (CHFmn)</b>	171	196	223	251	280	306	330	350	369	387	6.70%
App-based social/casual gaming (CHFmn)	159	185	213	241	271	297	322	343	362	380	7.04%
Browser-based social/casual gaming (CHFmn)	11	11	10	10	9	8	8	7	7	6	-6.68%
<b>Traditional gaming (CHFmn)</b>	283	336	358	399	426	452	484	511	539	566	5.86%
<b>Console games (CHFmn)</b>	196	212	226	244	261	275	291	301	312	321	4.27%
Digital console games sell-through (CHFmn)	52	63	73	88	102	116	129	135	139	140	6.53%
Online/microtransaction console games (CHFmn)	22	27	33	36	39	45	50	57	66	77	14.21%
Physical console games sell-through (CHFmn)	121	121	120	119	119	115	112	109	107	103	-2.65%
<b>PC games (CHFmn)</b>	88	125	131	155	165	177	193	210	227	245	8.18%
Digital PC games sell-through (CHFmn)	18	52	56	74	82	91	103	114	125	134	10.41%
Online/microtransaction PC games (CHFmn)	46	51	55	63	68	73	79	86	94	103	8.67%
Physical PC games sell-through (CHFmn)	23	22	21	18	16	13	11	9	9	8	-12.65%

Notes: Numbers shown are rounded. Totals may not equal the sum of their parts due to rounding. Sources: PwC, Omdia



Switzerland's video games market has been growing strongly in recent years with revenue reaching US\$815mn in 2019, up 8.3% year-on-year. The primary engine of growth is social/casual gaming. Switzerland now has close to full smartphone penetration, which has dramatically expanded the addressable audience for mobile games. Because device penetration is at a saturation point, developers are having to rely on innovative means of monetisation for revenue growth. Most modern mobile games are now at least partially free to play, with payment only for additional content or various in-game boosts, a model that has proved highly profitable for long-running titles like Clash of Clans and Game of War.

But the majority of Swiss video games revenue continues to come from traditional gaming. The release of the Nintendo Switch in 2017 gave a substantial boost to the console market, which was also assisted by upgraded versions of the PS4 and Xbox One launched around the same time. The market continues to shift towards digital sales rather than boxed copies of games, a trend that is likely to accelerate through the imminent release of new-generation consoles from Sony and Microsoft. Digital sales are particularly attractive to consumers in Switzerland due to the country's limited access to independent online retailers, which compete with platform-/holder-controlled digital stores.

