THE BUSINESS OF VIDEO GAMES

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The video game industry has become increasingly "business-like" in its investments, diligence, and development.

**PERFORMANCE**
Overview the current state of the video game industry

**SALES**
Pinpoint key drivers, quirks, and requirements of the video game industry

**PROJECTIONS**
Explore the future of the video game industry and its growth drivers

The video game industry generates over $41 billion in domestic revenues annually with an expected 7-10% growth rate.
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CURRENT STATE OF THE INDUSTRY

Consumer preferences for a subscription-based economy means on-demand services

71% of adults who consume music performances consume them solely through digital media

Average age of a game purchaser is 35 with that number increasing

42% of domestic households have a gaming console

Source: IBIS World
WHAT DOES THE INDUSTRY DO?

The video game industry is a broad term, let’s break it down

Major Industry Horizontals

Developing/Publishing Video Games

Includes companies like Microsoft, Nintendo, EA, Zynga, and Activision

Development drives the majority of innovation

Retailing/Wholesaling Video Games

Includes companies like GameStop and GameFly

Manufacturing

Includes the physical production of software, consoles, and accessories

Products and services segmentation (2014)

- 41.4% Physical games and software
- 32.6% Consoles
- 17.2% Online games and software
- 8.8% Accessories

Suppliers:

- Advertising Agencies
- Computer Manufacturers
- Freight Transportation

Source: IBIS World
**WHO ARE THE INDUSTRY LEADERS?**

*The industry is still heavily fragmented with less movement towards consolidation*

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"Dissatisfied developers have left to strike out on their own, recreating the garage atmosphere of game development 20 or 30 years ago. With smaller budgets, and less design by committee, indie games are where much of the industry's innovation is taking place."

*The Economist*

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**WHY INDIE?**

- Low market share concentration
- Profits moving towards online and mobile
- “Indie” movement is cultural in gamer community

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Source: IBIS World
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WHAT ARE THE EXTERNAL FACTORS?

Sales drivers that affect video game sales aren’t always controllable

Time spent on leisure and sports is the main external sales driver

Per Capita Disposable Income and CCI are expected to increase

Correlation between disposable income and time spent on leisure

More than 75% of households want to buy the next big gaming system

Source: IBIS World
WHAT DOES IT TAKE TO SUCCEED?

The video game industry requires competitors to always be on their toes.

“Skyrim was bold. Skyrim delivered. Skyrim did everything right: multi-platform, professional marketing, and excellent partnerships.”

- IGN

SALES FACTORS

Quickly adopt new technologies into new products

Establish brand name through aggressive marketing

Create economies of scale downstream

Source: IGN
WE WANT BLOCKBUSTER SALES

AAA games are the next big thing to fill the shelves

Category for 100M+ revenue games

Account for 42% of industry sales

MASTER CHIEF
Halo onset a new age of video games

Source: Statista, Business Insider
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FINDING NEW GROWTH

New consoles drive growth in software, retailing, and manufacturing sales

- **59.4 M** active users/month
- Xbox One moving into new dimensions and user interactivity

**ENGAGING FEMALES**
- Completely different market to acquire
- Large growth area

**TOWARDS MOBILE**
- The average mobile game budget costs 3% of a console budget
- Larger firms are looking to enter this space
- Difficult to maintain constant growth (Zynga, King)

Source: ESA of Canada
EXPLORING VIRTUAL REALITY

Companies are now venturing into the future of video gaming

- Trillions in potential revenues
- Totally unexplored business space with much room for future growth

Oculus

Microsoft HoloLens

UNLIMITED IMAGINATION

- Facebook, Sony, Microsoft
- Massive use beyond video games
- Increased productivity and redefinition of life as we know it
- Doomsday scenario?

This is awesome...
PROJECTING INDUSTRY REVENUES

Video games will continue to maintain above-average growth

Projected Revenue and Growth Rate

Industry revenue growth stands at 2.92% CAGR

$48 Billion
Projected Revenue by 2020

180M
Consoles owned by US Households

62%
Of US Households will own a console