German Gaming Market 2011

Market Development and Trends

Düsseldorf, August 2011

Authors:
Florian Dickgreber
Christian Kukwa
Nikolaus Rickers
Viktor Wingert

ATKEARNEY

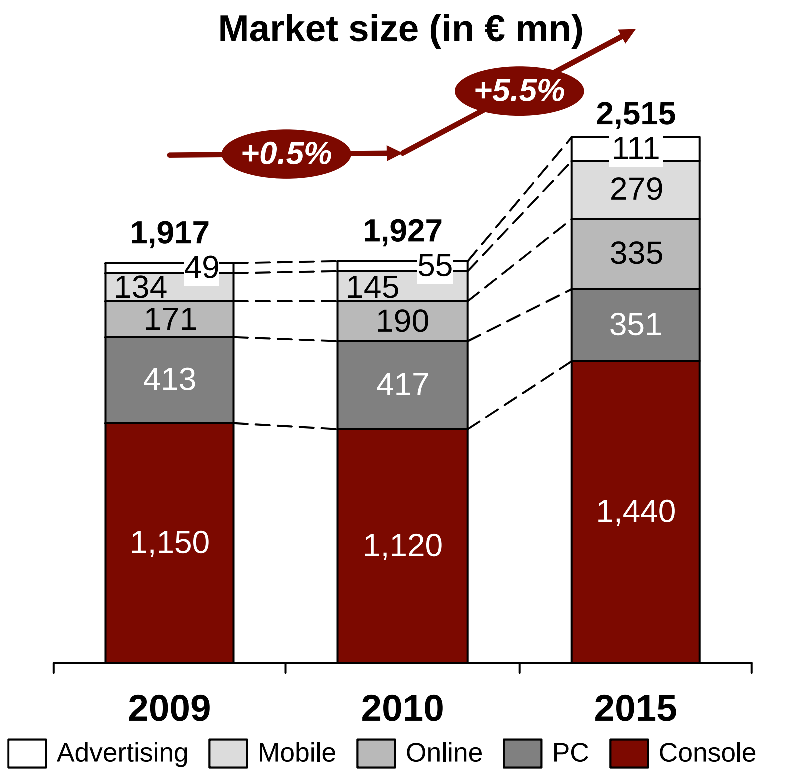
Agenda

- Development of German gaming market
- Selected gaming trends

The gaming market in Germany remained steady over the last two years but is expected to grow moderately until 2015

Market Size Overview

German gaming market (€ mn)



Comments

- After a decline during the economic crisis in 2009 the **gaming market remained steady between 2009 and 2010** with slight shifts away from console gaming
- **44%** of German regular gamers are **female**
- Until 2015 **mobile and online games will become stronger**, the **console segment is expected to recoup** while the only **declining market is that of PC games**
- **Growth** will be mostly triggered by **increasing broadband connections** and the increasing **smartphone** penetration
- **LTE (Long Term Evolution) will play a crucial role in the development of more sophisticated games for handheld devices** and supports the increasing importance of the **mobile sector**

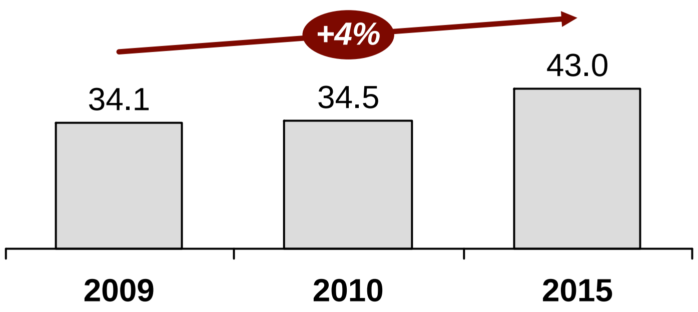
Source: BIU; GFK; A.T. Kearney

Consoles, as the largest market segment, is expected to grow through an increase in sold volume

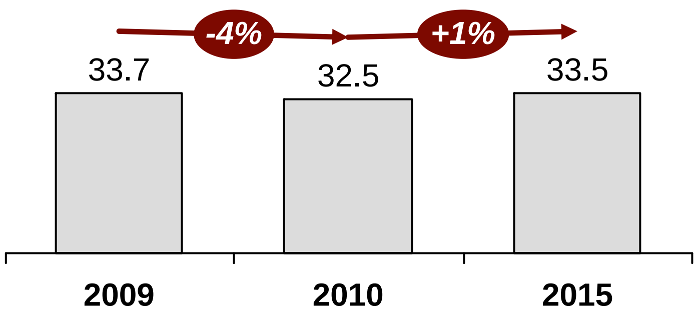
Market Size Overview

German console market

Console games sales (in mn)



Average price per game (in €)



Comments

- The market segment of **stationary consoles is expected to grow** while **portable consoles segment is expected to decline slowly**
- The **cycles for consoles** which were **4-5 years consoles are increasing** - **longer cycles** will cause **slower growth until 2015** compared to the years **2005-2008**
- Console producers **extend** the cycles by including **additional functionalities** and **upgrading** - a commonly used upgrading feature is **motion control** (e.g. Kinect) as an alternative steering concepts
- Another **differentiation** factor is the **display technology (i.e. 3D)** and **size** actively developed by console manufacturers
- **Prices** are expected to **decline until 2012** and to **recoup** after that triggered through **new consoles and games**

Source: Bitkom; BIU; iDATE; A.T. Kearney

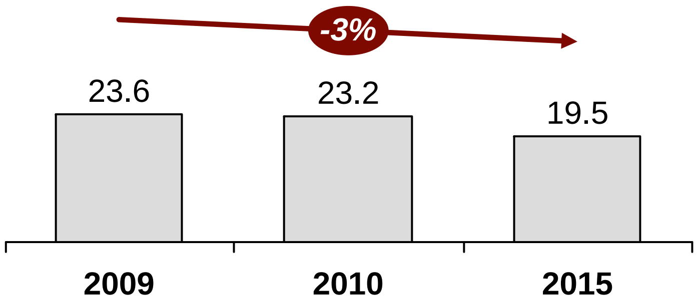
CAGR

The German market for PC games declines overall by 3% driven by volume reduction

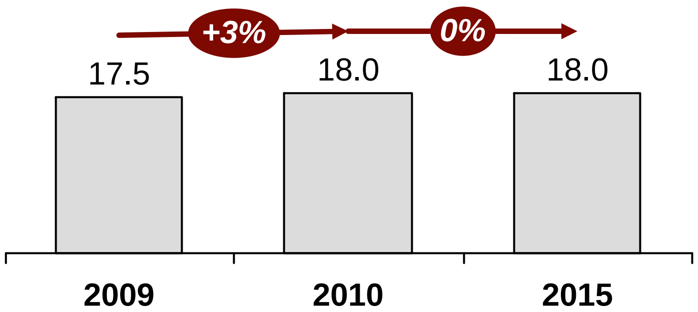
Market Size Overview

German PC games market

PC games sales (in mn)



Average price per game (in €)



Comments

- The **PC games** is the **only segment** that is **expected to decline** in the considered time horizon
- This is mainly **triggered by the decline of online gaming players** while **offline gaming remains mostly constant** (not online-subscribers, which are considered in the online gaming segment)
- The **main reason for the decline** of online gaming players is the **migration of online gamers to consoles** and strong growth in the segment of **browser games** (online segment)
- After a **decline of average game prices in 2008 and 2009** the **prices rose again in 2010** and are expected to remain **relatively constant until 2015**

Source: Bitkom; DFC; A.T. Kearney

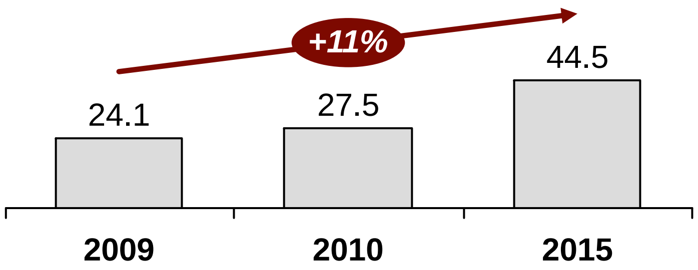
CAGR

The online gaming market is the third-largest segment in the gaming branch and driven by a strong increase in users

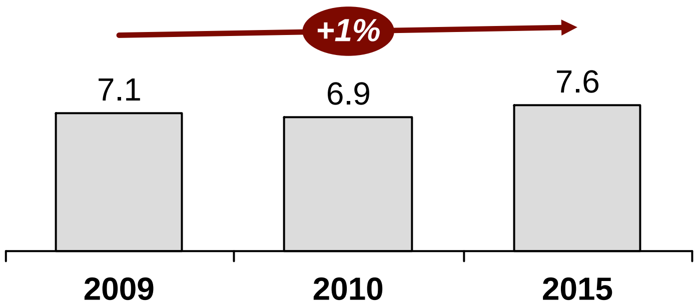
Market Size Overview

German online gaming market

Number of users (in mn)



Average monthly spend (in €)



Comments

- **Online games is a segment with expected double digit growth** compensating for mature business segments like PC games
- The **worldwide online gaming market is expected to grow by 11%** annually until 2015 while **the European gaming** is currently expected **to increase by approx. 15%** in the upcoming years (**German market: 12%)**
- In total **worldwide revenues from subscriptions, online usage and virtual features** are expected to increase by **75% between 2010 and 2015**
- The worldwide volume of **virtual goods in online games is expected to double** between 2010 and 2015 from approximately €5bn to €10bn

Source: Bitkom; DFC; Financial Times; GFK; A.T. Kearney

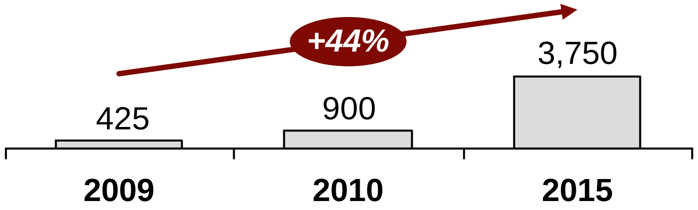
CAGR

The mobile gaming market is the strongest segment in terms of growth driven by higher demand for app content

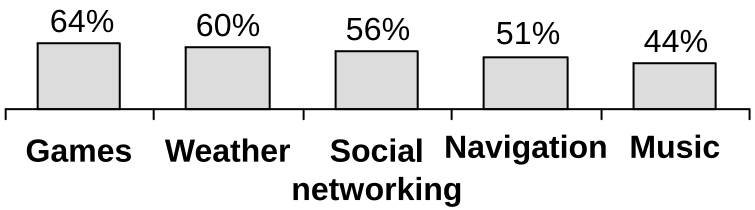
Market Size Overview

German mobile gaming market

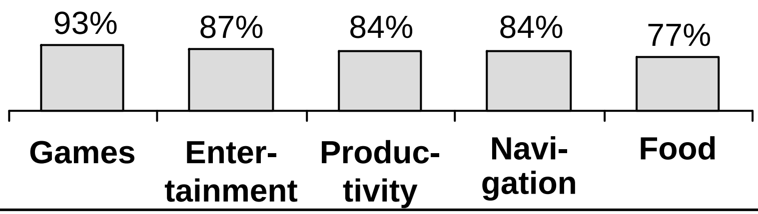
Number of mobile app downloads (in mn)



Top 5 app usage (in %)



Top 5 paid app content (in %)



Comments

- Number of **mobile app downloads** shows a **steep increase**, while **games are the most popular app category**
- **16% of iPhone** apps and **19% of all iPad** apps **are games**
- Games are **number one paid app content**
- The percentage of **mobile subscribers** who are willing to **pay for games** will **double between 2009 and 2015** (2.5-5.0mn)
- **LTE** and the penetration through **smartphones and tablet PCs**, improved **functionality and displays** and the growing number **of apps** represent the main **drivers** for mobile games
- **Many mobile games** are **exclusive titles** that do not exist for consoles or PCs but a convergence is probable

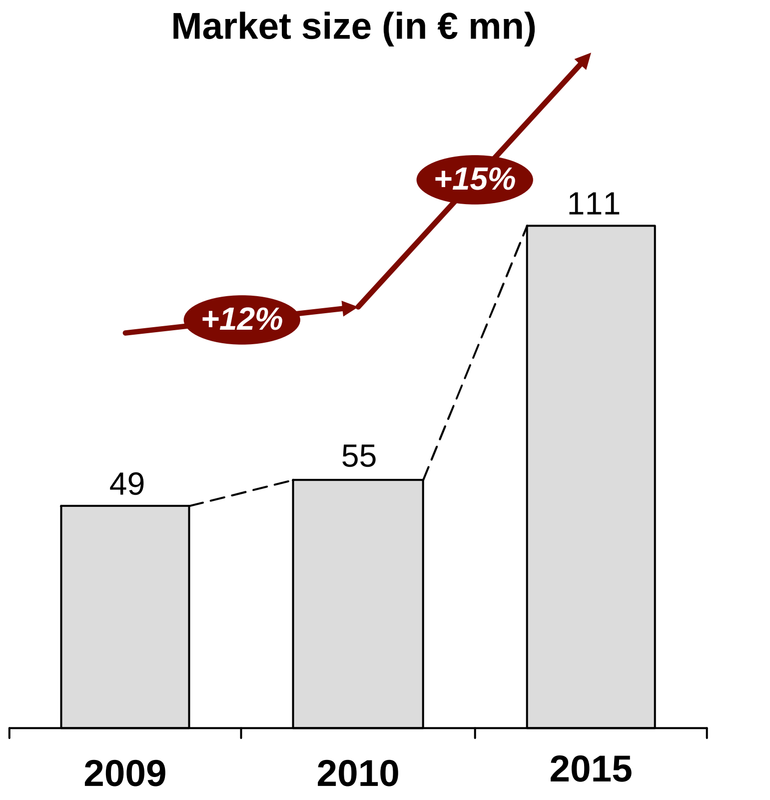
Source: Adzine; Bitkom; Nielsen; A.T. Kearney

CAGR

The gaming advertising market is relatively new and a leading market segment with regard to growth

Market Size Overview

German gaming advertising market



Comments

- Companies increasingly develop **advertising games** to improve **image and brand awareness**
- There are **two main types of advertising** in games, where especially the first is promising:
  - **Dynamic advertising is chronologi-cally adjusted and location-specific**
  - **Static advertising is integrated into the game and cannot be adjusted**
- The advertising can contain **direct links to homepages** with online offers of products
- **Community functions** allow to retain customers and increase their **customer lifetime value**
- **95% of the spend** is forecasted to be achieved with advertising for **consumer products**

Source: Bitkom; GFK; A.T. Kearney

CAGR

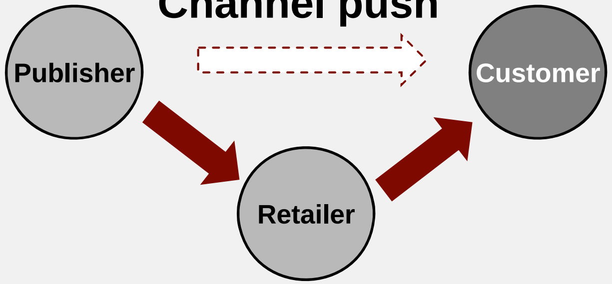
Selected gaming trends

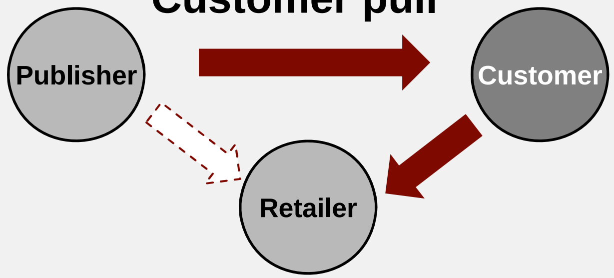
- **Changes in gaming G2M model**
- Social gaming
- Device convergence
- Free games and cloud gaming

Note: G2M = go-to-market

In general, two generic go-to-market models for game publishers exist

Generic Go-To-Market Models





	Channel push	Customer pull
Business model	• More "collaborative" business model	• More centralistic business model, typical for premium brands and products
Channel strategy	• Products are pushed through retail channels • Reduced competitive threats due to strong retailer relationships • Less channel diversity, i.e. increased dependency of single retailers	• Customers directly appealed by manufacturer's brand and products • Less dependency of single retailers, more direct links to customers
Marketing	• Lower marketing and ATL budgets	• Larger marketing and ATL budgets
Sales	• Retailer focused sales force, more central • Seldom direct sales to customers – online mainly info	• Larger sales force, often decentralized locations • Often as well direct sales to customers

Optimal strategy must arise from business model plus brand reputation.
Either go-to-market model can lead to profitable growth – hybrid models are possible

Source: A.T. Kearney

Physical retailers are loosing their power, as online retailer and especially game publishers gain further importance

Drivers of Gaming G2M Changes

Balance of power

1. Exclusivity deals and M&A activities empower retailer

- Exclusivity deals with retailers (e.g. extra level) enforce attractiveness of buying games via (physical) retailers
- CE retailers are engaged in a merger endgame – few chains with profound bargaining power will dominate

2.(New) Online channels are reducing power of physical retailers

- Consumers increasingly trust online sales
- Traditional retailers neglect online presence
- Publisher-direct sales (EA/Origin, Nintendo, Valve/Steam) or online-only (Amazon, Best Buy) establishments will outgrow traditional channels
- New creative online sales models like Facebook

3. Digital only, online updates and online gaming are retailers worst nightmare

- Further reduction of game hardware importance – digital only version rising
- Convenience of game updates provided together with new information shift power to publisher
- Online gaming provided by publisher (Steam) and supported by trends like (social) cloud gaming and device convergence and mobile options

Source: A.T. Kearney

Selected gaming trends

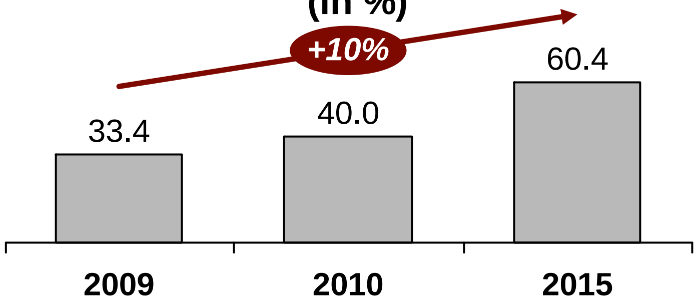
- Changes in gaming G2M model
- **Social gaming**
- Device convergence
- Free games and cloud gaming

A.T. Kearney’s 2010 study on gaming already stated that a cultural phenomenon was born, social gaming

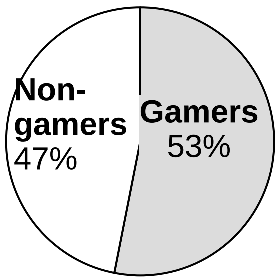
Social Gaming as sub-form of online gaming

Social gaming phenomenon

Social network German user penetration (in %)



Social gaming on Facebook (in %)



- More than half of Facebook members are gamers
- 69% of Facebook gamers are women
- Average monthly time spent with gaming is seven hours
- 20% have paid for in-game benefits

Comments

- The **growth** in **online gaming** is **driven by browser games**, particularly by the **sub-form social games**
- Social games benefit from a **trend towards casual gaming** for users that prefer to **play regularly** but in **short time intervals**
- Main platforms are **social networks (e.g. Facebook)**, **casual gaming websites** and **mobile devices**, such as smartphones and tablets
- **Social networks** are **gaining further popularity**, due to **increasing broadband coverage** and higher **internet usage** of **generation 50+**
- Alone **20 millions** of social network users in Germany are **registered with Facebook**
- **Google’s** investments into **Zynga**, acquisition of **Playfish** and **PopCap by EA,** and **Disney's Playdom** acquisition underlined the **importance of social gaming** for **software companies** and **video game publishers**

Source: eMarketer; Nielsen; InsideFacebook; A.T. Kearney

CAGR

Selected gaming trends

- Changes in gaming G2M model
- Social gaming
- **Device convergence**
- Free games and cloud gaming

The mobile revolution promotes convergence of stationary and portable devices to enhance overall gaming experience

Convergence of home and portable gaming devices

Home video game consoles

- The **advance of tablets, smartphones** and a **new generation of portable devices** is key to connect the gaming experience with the home game consoles
- **Portable devices** are **promoted** to game controllers or additional displays to enhance the gaming interface
- **Wireless technology** thereby facilitates the **synchronization** between all relevant devices to allow a seamless gaming experience on **various displays** at the same time either at home or underway

Portable devices

Eighth generation of video game consoles

- Nintendo's sixth home console, **Wii U**, which is to be released in 2012 **follows convergence trend**, as the controller comes with an **embedded touchscreen** to allow **gaming beyond console** and television
- Sony's successor of the PSP, the **PS Vita**, with its larger screen, multiple input methods, and video game console-similar processing power rather **resembles a tablet** than a handheld console

Source: A.T. Kearney

Selected gaming trends

- Changes in gaming G2M model
- Social gaming
- Device convergence
- **Free games and cloud gaming**

"Free-to-play" turns traditional business models upside down; cloud gaming is highly dependent on LTE networks

Other gaming trends

Free games and in-game purchasing

- **Browser games** and **gaming apps** have broadened the gaming market
- These kind of games are immediately available, entertaining, and either for free or relatively low-priced
- Games already represent the **number one app download category**
- Offering a free game, allows a game provider to **establish a wide customer base** and **secure revenues** at a later stage through **in-game purchasing**
- The major video game publisher **Ubisoft** offered its game **Ghost Recon Online for free** in 2011 – recent quarterly results underline that the software company is **banking strong sales** on its game, as users pay for in-game features
- It appears that **free-to-play** titles turn into **pay-to-win** blockbusters
- Research shows that **free games** are **generating more revenue** than paid games by upselling users to premium tiers and bonus content

Cloud gaming

- In times of iCloud and Co., **direct and on-demand streaming of games** follows the principle of accessing a game from **any device, at any time**
- However, the **development** is still in an **early stage** and the capability of cloud gaming will **depend on bandwidth** and **network capability** of (to-be-established) **LTE networks**
- Only a **dynamically adjustable streaming rate** will enhance the user experience and allow **seamless user interaction**
- Users with **slower internet connections** might encounter **higher latency** and therefore unsatisfactory gaming experience
- **OnLive** and **Gaikai** are the largest games on-demand services
- With the **increasing penetration of smartphones/tablets** and **increasing internet speed** for mobile devices as well as home networks, **cloud gaming will become more popular**

Source: Flurry; Nielsen; Playspan; Ubisoft; A.T. Kearney

ATKEARNEY

Kontakt:
Florian Dickgreber
Christian Kukwa
Nikolaus Rickers
Viktor Wingert

A.T. Kearney GmbH
Kaistrasse 16A
D-40221 Düsseldorf

Phone : +49 211 1377-0
Fax : +49 211 1377-2999

www.atkearney.de
www.atkearney.com

AMERICAS Atlanta I Boston I Cambridge I Chicago I Dallas I Detroit Mexico City I New York I Sao Paulo I San Francisco I Toronto Washington D.C.

EUROPE Amsterdam I Berlin I Brüssel I Bucharest I Copenhagen Dusseldorf I Frankfurt I Helsinki I Istanbul I Kiev I Lisbon Ljubljana | London I Madrid I Milan I Moscow I Munich I Oslo Paris | Prague I Rome I Stockholm I Stuttgart I Vienna I Warsaw | Zurich

ASIA PACIFIC Bangkok I Beijing I Hong Kong I Jakarta I Kuala Lumpur Melbourne I Mumbai I New Delhi I Seoul I Shanghai Singapore I Sydney I Tokyo

MIDDLE EAST Abu Dhabi I Dubai I Johannesburg I Manama I Riyadh