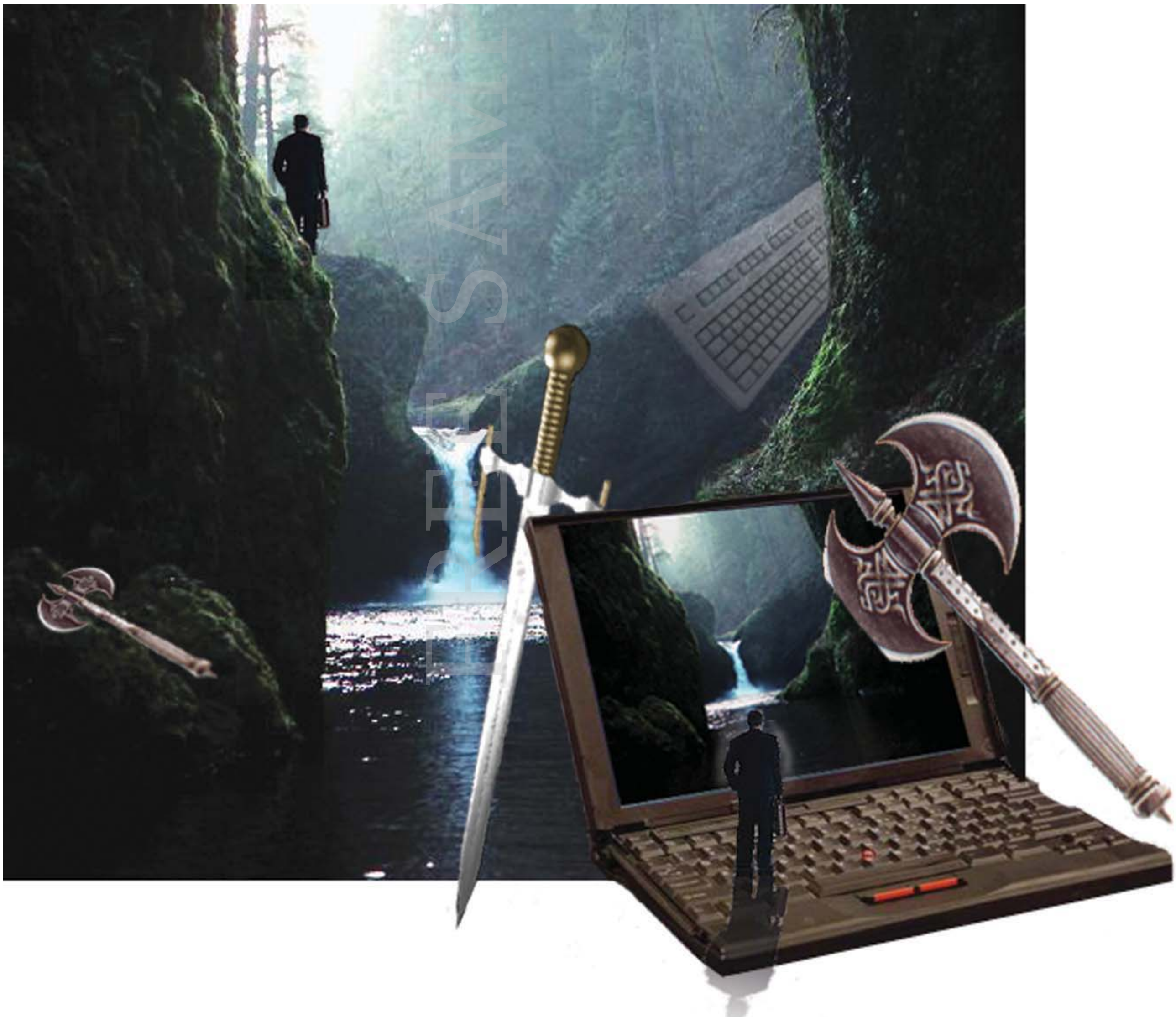
Online Gaming Markets to 2007

The new growth opportunities



screendigest

Online gaming markets

Published June 2004 by
Screen Digest Limited

Screen Digest Limited
Lymehouse Studios
38 Georgiana Street
London NW1 0EB
telephone +44/20 7424 2820
fax +44/20 7580 0060
e-mail editorial@screendigest.com
website www.screendigest.com

Printed by Fotodirect, Brighton BN1 8AF

Principal author Nick Gibson
Editor and additional research Ben Keen
Layout Dennis Shearman
Design/editorial David Fisher

About Games Investor Consulting Limited

GIC Ltd was founded by specialist games industry consultant, **Nick Gibson** to provide independent games research and corporate finance consulting to the games industry and financial community. Nick is a former senior analyst at investment bank Durlacher specialising in the computer and video games and Internet industries. He is widely considered one of the City's leading authorities on the games and Internet industries, having specialised in those fields for over eight years. He has consulted to telecoms, media and games companies both large and small, is the author of numerous reports and articles on games and digital entertainment in general, and the creator of the award-winning Games Investor website. His views are also regularly featured in the specialist, business and mass-market press, and on television and radio.

www.gamesinvestor.com

Contents

7 List of tables and charts

1 **Executive summary**

2 **Market definition**

9 Introduction
9 Geographic coverage
9 Sectoral coverage
10 Browser-based games
10 Massively multi-player online games
11 Boxed product PC games featuring free online play
11 Online games technology and service providers
11 Digital distribution

3 **Addressable markets**

13 Introduction
13 Online game usage
13 Broadband
13 Household activity
15 PC ownership trends
15 Relationship to the offline market

4 **Demographics of online games service**

17 Introduction
17 Casual online gamers
19 Hard-core online gamers
21 More mass market
22 Gender profile
22 Social dimension
22 Younger profile
22 Single males the core market

5 **The browser-based online games market**

23 Introduction
23 Market trends
24 Technology platform types
24 Game content types
25 Casual online games content providers
26 Casual gameplay types
26 Casual game community management
27 The advertising-based casual online games market
28 Advertising business models
29 Advergames
30 Distribution strategy for advertising-based browser games
30 Content strategy for advertising-based casual online games
31 Forecasts for advertising-driven casual online games
32 Selected online casual game company profiles
34 The pay-per-play online games market
34 Pay-per-play gaming and regulatory issues
35 International expansion of the pay-per-play gaming market
35 Pay-per-play business models
37 Pay-per-play game distribution strategy
38 Pay-per-play game content strategy

39 ● Pay-per-play gaming market forecasts
40 ● Selected pay-per-play company profiles
42 ● Other casual games business models
43 ● Forecasting the subscription-based casual online games market
43 ● The casual games download market
44 ● Forecasting the casual games download market

6 **The massively multi-player online games market**

47 ● Introduction
47 ● History of the massively multi-player online game (MMOG)
48 ● Massively multi-player online games genres
50 ● Massively multi-player online gameplay types
51 ● Massively multi-player online game content trends and demographic target markets
52 ● Intellectual property rights (IPR)
53 ● MMOG content providers
53 ● MMOG development trends and costs
54 ● MMOG business models
58 ● Alternative and ancillary revenue streams
59 ● MMOG business model viability
60 ● MMOG market forecasts
63 ● The impact of online MMOGs
63 ● Selected company profiles

7 **Boxed product PC games with free online play**

65 ● Introduction
65 ● Historical background
66 ● 'Modding'
66 ● Genre popularity
67 ● Business models
68 ● Related business models

8 **Online games technology and service providers**

71 ● Introduction
71 ● Network games middleware providers
72 ● Network games middleware business models
72 ● Network games middleware company profiles
74 ● Network games infrastructure and other publishing service providers
74 ● Hosting and bandwidth market
75 ● Network games infrastructure company profiles
76 ● Billing and security companies
76 ● Billing and security company profiles
77 ● CRM and community management companies
77 ● CRM and community management company profiles

9 **The digital games delivery market**

79 ● Introduction
79 ● The game downloads market
80 ● Game download business models
80 ● Game downloads company profiles
81 ● The application streaming market
83 ● Application streaming business models
83 ● Application streaming company profiles
84 ● Games-on-demand market forecast

List of tables and charts

1 Executive summary

8 Total Western online PC games market, 2001-2007

3 Addressable markets

14 Addressable market for online PC games
15 Western markets: browser games households/boxed product online games households

4 Demographics of online games services

18 Casual gamer demographic profile
20 Hard-core gamer demographic profile
21 MMORPGamer demographic profile

5 The browser-based online games market

26 Key casual online game developers
31 Advertising-based casual games sites' genre popularity
32 Advertising on casual games sites, market size 2001-2007
39 Pay-per-play casual games market size 2001-2007
43 Casual games subscription market size, 2001-2007
44 Casual games: market value per year 2001-2007
45 Browser games download market 2001-2007
45 Browser games: market size 2001-2007

6 The massively multi-player online games market

48 Western MMOG timeline
50 MMOG genre popularity by value
60 MMOG market aize, 2001-2007
61 MMOG subscriptions 2001-2007
61 Illustrative MMOG churn profile

7 Boxed product PC games with free online play

66 GameSpy usage statistics

9 The digital games delivery market

82 Western world games-on-demand services
85 Western world games-on-demand services market forecast

1 Executive summary

- The total online PC games market will top $1bn in the West in 2004 and is expected to exceed $2bn by 2007. Growth is currently being driven by pay-per-play browser gaming, massively multi-player online games (MMOGs) and aided by the resumption of growth within the online games advertising market as well as the successful introduction of new models such as casual games service subscriptions. Over the longer term, broadband games-on-demand services are expected to make a growing contribution.

- Pay-per-play browser gaming, where users pay to enter skill-based games tournaments to compete for cash and other prizes, is the hottest of the new online gaming sub-sectors. Its dramatic growth over the last two years has already precipitated a service provider (and investor) land-rush. A $35m market only three years ago, pay-per-play gaming reached $137m in 2003 and is forecast to grow at an impressive compound annual growth rate (CAGR) of 40 per cent to 2007 to become the second largest online gaming sub-sector behind MMOGs.

- The MMOG market continues to grow, defying industry scepticism. Continued expansion will come from both existing MMOGs as well as a range of high profile releases expected over the next two years. Europe, a relatively untapped MMOG market to date, will become the largest growth opportunity as the North American market approaches saturation. The increasingly busy release schedule will also lead to over-supply issues and the re-appraisal of current models and pricing strategies.

- Whilst hard-core online gaming still remains a predominantly male activity, growth within the casual games market is being driven by women and in particular middle-aged unemployed women—what we have termed the 'bored housewife' market. Every single casual online gaming sub-sector is now dominated by female gamers, from pay-per-play to casual games subscriptions—with some service providers reporting female:male ratios as high as 70:30.

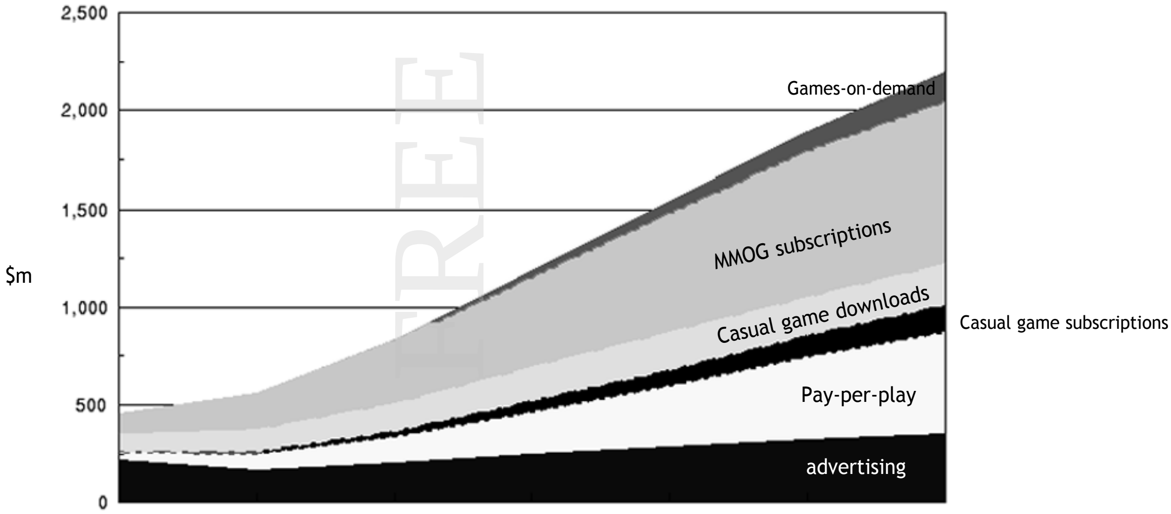
- Advertising on casual games services resumed growth in 2003, the first time since 2000. This was principally driven by the resumption of growth in the online advertising market overall, but is being assisted by advergaming (games that heavily feature an advertiser's brand) and the improved understanding and attractiveness of casual gamer demographics.

- Casual games service subscriptions is another new online gaming model which is currently experiencing extremely rapid growth, albeit from a very small base. Although average revenue generated per subscriber is low (2003 average $5.50/month), volume growth has been remarkable to date and almost all major casual games sites now plan to launch a subscription service in the next 12 months.

- The digital delivery market for full-sized (boxed) games is showing increasing promise, particularly as new forms of download business model come on stream. Some broadband Internet Service Providers are also gaining market traction through the deployment of streamed games-on-demand services. Key lessons are being learnt about how to effectively operate such GoD services and the market should show good growth rates over the next few years, driven by expanding broadband demand.

Total Western online PC games market 2001-2007

	2001	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Advertising	218	168	202	248	285	319	351
Pay-per-play	35	78	137	217	311	423	524
Casual game Subscriptions	8	14	28	55	85	113	139
Casual game Downloads	91	117	144	174	189	199	206
MMOG Subscriptions	102	180	310	455	604	734	818
Games-on-Demand	-	1	14	38	65	105	158
TOTAL	454	559	834	1,187	1,539	1,893	2,196



Source: Screen Digest 2004

screendigest

Screen Digest is the leading news and market research journal for the international media business. Read by senior executives in over 40 countries, it has an unrivaled reputation for concise, impartial reporting and comprehensive coverage of all audio-visual media.

Since being founded in 1971, it has built up a remarkable database of reference material and statistics, frequently cited in business and official reports around the world. The company also undertakes private client research for major international media companies and trade associations.

Visit www.screendigest.com

Global media intelligence

R040601