



The video games market

How has the video games market evolved over the last few years?



How is the video games industry organised?

The games industry is diverse and sprawling, having been globalised and swept along by mobile and digital waves over the past 20 years.

This has introduced some complexity to the traditional model. Even so, games companies are still commonly split between developers (content creators), publishers (finance, marketing and promotion) and distributors (high street and online retail).

Most larger studios develop and publish games, handling the entirety of game production. As ventures have grown larger, outsourcing specialists such as [Keywords Studios](#), Moonwalk Audio and Sumo Group have grown to support more complex projects.

As for retail, digitisation has split the sector into online platforms and bricks-and-mortar stores.

The market itself can be segmented into mobile, console and PC games. Mobile is the largest category, generating around \$70.3bn revenue in 2018 globally, according to game consultant Newzoo. After mobile, PC and console stand neck and neck, with \$34.6bn and \$32.9bn of 2018 global revenues, respectively.

How is the video games market evolving?

Today the market for video games is very different to a decade ago, having been affected by globalisation, digitalisation and the mobile gaming revolution.

In 2018, mobile gaming made up 51% of the market, with 2.2bn players globally.

The growth of mobile gaming has been instrumental in broadening the player base, extending the reach of the games industry in the process.

However, the increasing use of mobile phones has led to the prevalence of shorter casual titles that are cheaper to produce and

easier to play in short bursts, when time allows. This has helped drive a proliferation of smaller teams of 'indie' developers alongside the established players.

Finally, supported by the digital model, the concept of community-centric games-as-a-service (GaaS) has caught hold.

GaaS sees a title released into a playing community that gives constant feedback to that community, with a developer responsive to the needs of the community and its preferences. This responsiveness provides support for an initial release with additional paid-for downloadable content, extending the lifetime and revenues of the game.

Is the video games industry still subject to its traditional console cycle?

The games industry has traditionally been resilient to broader macroeconomic cycles, but has been subject to its own console cycle.

The console cycle, typically six to eight years long, is the transition period between games console releases from the major manufacturers, Microsoft (Xbox), Sony (PS4), and Nintendo (Wii-U).

We are six years into a cycle that began with the release of the PS4 and Xbox One in 2013, which is likely to last until 2020 at least.

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'The dynamic nature of the games market and digitalisation continue to create disruption. We believe this is a good time to be looking at the industry and the small-cap European sector offers exposure to a number of well-run, innovative businesses that will benefit from current and future themes. Those that do perform well will generate significant value.' Richard Williamson, TMT analyst

With the release of a new console comes an upsurge in games sales and a variety of new games. This includes new IP and console exclusives that take advantage of the capabilities of the new hardware to entice gamers to buy new devices, reinvigorating the industry.

However, a number of new factors have begun to change the traditional console cycle dynamic.

First, the very success and scale of the global games industry suggests it is now too large to be considered independent of macroeconomic consumer cycles, although conventional wisdom that says when times are tough consumers migrate to home entertainment, rather than go out.

The games industry is now bigger than the film and music industries combined.

The market is also hit driven, especially for the big publishers, with the large sales swings in profitability this represents.

However, below the top tier of AAA titles, games can be developed more cost effectively and game production can be significantly de-risked, somewhat reducing a company's reliance on big hits.

How has digitalisation affected retailers?

In the UK, boxed video game revenue declined 2.8% year-on-year in 2018 and dropped 7.1% in terms of unit sales, according to GFK/UKIE. This is due to the speed and convenience of downloading games compared to buying physical copies. As well as improved digital storefronts, there has also been an increase in online sellers like Amazon and PC-based downloading services such as Valve's Steam, GOG and Epic's game store.

The changing environment puts pressure on retailers to adapt or suffer. Retailers such as the UK's [Game Digital](#) have focused on promoting exclusive items, memorabilia, pre-owned games and experiential offerings, including e-sports, to support their physical and digital game sales.

By comparison, GameStop, the US leader in game retail, has struggled to adapt as effectively to the new market and the UK's HMV recently went into administration.

Which other companies are involved in the video games market?

The largest games companies tend to be in the US and Far East (China, Japan and South Korea).

The largest European company, French publisher Ubisoft, reported good results for 2018, having released two top 10 best sellers, Assassin's Creed Odyssey and Far Cry New Dawn.

In H218, many of the leading video game companies suffered significant share price falls. Activision Blizzard disappointed with just one bestselling game in 2018 and a weakening in the player base of its two flagship games, Overwatch and World of Warcraft.

The company's underwhelming performance is partly attributed to the success of Fortnite competing for player time in the first-person shooter genre.

Epic Games, the developer of Fortnite, is diversifying by offering an online distribution platform launched around Fortnite's huge player base. This was announced in December 2018 and made news when the long-awaited Metro Exodus moved from Valve's online Steam store, with its near monopoly of the PC download market, to Epic's new game store.

Based in China, Tencent, the world's largest games company, is highly active in mobile gaming with a smaller position in core gaming. Mobile games approvals in China

were largely frozen in H218, significantly affecting sentiment, but Tencent's share price has started to recover now the backlog of approvals is being addressed.

The tech giant is an active investor in other games studios and is in talks with Electronic Arts (EA) over bringing EA's new game, Apex Legends, to China.

EA, another leading US gaming company, cut its outlook for the year in early February. However, since then it has launched its free-to-play battle royal game, Apex Legends, great fanfare, reaching 50 million players worldwide by 4 March 2019.