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The European Video Games Market: Game on Europe – Seizing the future

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Video games make up today the largest entertainment sector in the world. The sector is a powerful enabler of technological and business model innovations. Europe is the third largest market globally. Europe has strong capabilities in creative game development, and middle ware. Legacy handicaps in console development, hardware, and a fragmented market contribute to a lack of development in marketing, distribution, and scale. But digital connectivity is driving far reaching changes, that present Europe with an opportunity to leverage its competences, leapfrog its impediments, and create a powerful digital sector. This White Paper looks into the European video games market and gives insights about the current size and future opportunities.

Highlights

- The European video games market represents an important economic sector of the Economy. It was worth €21.6 billion in 2019. And, it experiences high global year on year growth with 12.3% in 2018-19. There are today over 3,200 Game developer studios in Europe providing employment to over 45,000 people.
- Digital distribution, new platforms and revenue models are transforming the sector. Online revenue growth ranged between 20-30% in the last 6 years. In 2019 the proportion for mobile apps revenue grew 18%. In-game 'microtransactions' grew 66%.
- Cross platform, streaming and cloud gaming are decreasing the relevance of hardware lock ins, which creates new opportunities for the European video games sector.

1. Taking stock of the video games market in Europe

Video games are the largest entertainment sector in the world valued at \$152.1 billion in 2019. Europe at €21.6 billion is the third largest video game market in the world. Great Britain, France, Germany, Italy, and Spain account for €18.2 billion. Europe experienced the highest global year-on-year growth in 2018-2019 with 12.3%. The four key markets of Germany, the UK, France, and Spain have experienced steady and increasing growth - 15% since 2017, and 45% since 2014. The number of gamers, time spent gaming, and the value of the market has grown at an increasing rate from 2017. By 2018, 54% of all people aged 6 -64 in these four markets played video games. Video games are strongly relevant across age groups and gender.

European markets share several commonalities but are not homogenous. Europe is strong in middle ware and highly inventive and artistic small game development studios, centred largely around the UK, France, Netherlands, Germany, and the Nordics. There are over 3,200 game developer studios in Europe providing employment to over 45,000 people. There are no European console-platforms however, and except for France's Ubisoft no major publishers especially in the traditional physical distribution ecosystem. Video game publishers handle marketing and sales, and often finance game development, consequently taking a significant

share of revenue. Three of the top four video game publishers globally also have their own hardware console platforms.^{1,2,3,4,5}

2. Shifting sands: transformative business models and digital distribution of games

Digital distribution, new platforms and revenue models are transforming the sector. Digital distribution has been growing along with increases in bandwidth capabilities. Over the last decade, online and mobile app play have enjoyed the greatest growth across the key markets. In Europe, growth has been driven by downloadable content rather than packaged content. Mobile apps, and overall online gaming has seen spectacular increases in usage and now contributes most of the revenue. Digital stores have rapidly come to a commanding position in distribution. Some take significant revenue from publishers and control a customer base through catalogue choice, loyalty programs and data. Digital distribution presents a significant opportunity for European developers that are able to leverage it successfully, such as Poland's CDProjekt Red.^{6,7,8,9,10,11}

And revenues in the video games market have shifted dramatically. Physical retail purchases are now worth less than other sources such as additional content and in game microtransactions. Freemium games give players access to a significant portion of their content without paying. Monetization occurs through microtransactions - users can purchase virtual goods through micropayments in the game environment. In 2018-19 in Europe, in game extras (microtransactions), grew from 30% to 66% of online revenue. Mobile app revenue grew 19% between 2018 and 2019, with 97% coming from in-app purchases. Streaming and on demand games were worth 324 million euros in 2019. The sector switched from a one point-in-time revenue to a live or continuous revenue strategy, which allows games to stay profitable over time. Balancing player engagement with monetization is the current challenge and key. Monetization is directly proportionate to time spent on a game, which is linked to player engagement. Online streaming technology opens the possibilities for advertisements, linking gaming to other profitable commodities, and the value of maintaining users in an overall profitable ecosystem. As the nature of the sector moves towards live streaming immersive and evolving experiences, with a premium on continuous engagement, companies will have to employ and balance a range of hybrid revenue streams and models.^{12,13,14,15,16,17,18,19,}

Revenue Models	Ordered games	Premium	Paid mobile	Subscription	Freemium	Licensing
REVENUE STREAMS	Single Payment	Multiple Payments	Multiple Payments	Season Pass or Paid Access	In-game purchases or In-game ads	Licensing modular/technical game components
AIM	Selling paid games	Selling paid games	Selling paid games	Selling paid games	Selling free games	Selling Intellectual Property Rights

Table 1: Revenue Models in Video Games

¹ Newzoo 2019 Global Games Market Report <https://newzoo.com/insights/articles/the-global-games-market-will-generate-152-1-billion-in-2019-as-the-u-s-overtakes-china-as-the-biggest-market/>

² Statista 2020

³ <https://newzoo.com/insights/rankings/top-25-companies-game-revenues/>

⁴ <http://creativeindustries.com.cuhk.edu.hk/wp-content/uploads/2014/12/European-Game-Industry-Report-2013.pdf>

⁵ <https://www.tweaktown.com/news/72703/2019s-top-earning-video-game-companies-sony-conquers-the-charts/index.html>

⁶ WEPC Video Game Industry Statistics in 2020 <https://www.wepc.com/news/video-game-statistics/>

⁷ <https://www.isfe.eu> see: Gametrack Digest European summary data Q4 2011-2017

⁸ <https://www.isfe.eu/games-sales-data/>

⁹ <https://www.gamesindustry.biz/articles/2021-02-05-digital-downloads-jumped-47-percent-across-europe-in-2020-european-annual-report>

¹⁰ <https://venturebeat.com/2019/02/27/cloud-gaming-will-determine-the-new-lord-of-digital-distribution/>

¹¹ <https://www.cdprojekt.com/en/wp-content/uploads-en/2020/04/management-board-report-on-activities-of-cd-projekt-group-and-cd-projekt-s-a-in-2019.pdf>

¹² Klimas, Patrycja. (2017). Current Revenue (Monetisation) Models of Video Game Developers. Journal of Management and Financial Sciences. X. 119-136

¹³ Ubisoft's digital focus is paying off big time. <https://www.tweaktown.com/news/65944/ubisofts-digital-focus-paying-big-time/index.html>

¹⁴ Free-to-Play Games: Professionals' Perspectives, Conference: Nordic DiGRA 2014, 2014

¹⁵ The evolution of business models in the video-game industry. <https://www.edhec.edu/en/news/evolution-business-models-video-game-industry>

¹⁶ Free-To-Play, Pay-To-Win, Free-to-start : les genres de jeu stars sur mobile expliqués. <https://www.p-nintendo.com/articles/dossiers/free-to-play-pay-to-win-free-to-start-qu-est-ce-donc-250300>

¹⁷ <https://www.isfe.eu> see key facts 2018, 2019, 2020, Final ISFE Key Facts 2020

¹⁸ Gametrack Digest Quarter 4 2011 https://www.isfe.eu/wp-content/uploads/2019/01/gametrack_european_summary_data_2011_q4.pdf

¹⁹ <https://www.gamesindustry.biz/articles/2020-05-19-how-to-use-data-to-make-a-hit-video-game>

3. Dropping the crutches

Disadvantages in lack of a proprietary hardware industry, and market fragmentation can be overcome in a changing scenario. The overall proportion of mobile and consoles use is increasing while PC usage has held steady in certain European markets and declined in others. Revenues are increasingly driven by the mobile segment in the four key markets, creeping up on the previous dominance of consoles. Cross platform and cloud gaming are two factors illustrating the decreasing relevance of hardware lock in.

Cross-platform games are online games that can be played on all the different gaming devices. These games facilitate online play, allowing gamers a continued plotline that exploits the conveniences and benefits of each format, such as mobility on smart phones and powerful experiences on PC and console. Four-fifths of gamers play on all platforms. For gamers, fluidity of device decreases the relevance of hardware lock ins. For game development companies, locking into devices is a loss of player base, revenue, and game longevity. This trend potentially tilts the balance towards developers who can successfully leverage digital distribution.^{20,21,22}

Cloud gaming runs video games on remote servers and streams them directly to a user's device. Cloud-based gaming can be played on multiple devices without losing progress. The technology enables gaming that currently requires powerful hardware, to be played from a standard laptop or mobile. It has the potential of making hardware lock ins irrelevant, empowering digital retail and distribution, and allowing European game developers to potentially reach any audience without hardware gatekeepers. Cloud gaming can open opportunities for local European broadband providers to be incorporated as players as in television, create streaming models as in movies and music, and establish new revenue models.^{23,24,25,26,27}

Finally, the fragmented European market can be compared to the walled gardens of an upscale neighbourhood. Game localization is a way to transcend this. It involves translating language, context and feel of an experience for users from cultures different from a games initial market. It includes marketing, technical, legal and imagery aspects. This is already a developing auxiliary industry. Sony and CD Projekt Red have demonstrated the high value of localization to expand markets and scale up. Bringing the market together to match the common legal framework of the Digital Services Act package, will be crucial in the goal of leveraging its size. Monetization is increasingly dependent on user engagement. This is driving increased personalisation, immersive and complex experiences. Localisation is a key factor in personalisation and engagement. It can unlock the potential of game developers from an aggregation of small high-income countries. Going beyond Europe it can catapult European products in the global market and create more AAA titles.^{28,29,30}

4. Conclusion

The European video game sector sits at a confluence of factors that can be uniquely favourable. Technology is fuelling changes in business models, product offerings, and applications. Equilibrium is shifting from hardware to software. Increasing digitalization, cross platform formats, high speed connectivity, and cloud gaming will accelerate fluidity and portability reducing the relevance of hardware to customer retention and monetization.

Customer lock in effects and revenues will be increasingly dictated by user involvement levels. Competitive advantage will rest on content which is complex and immersive with high levels of

²⁰ <https://www.isfe.eu> see key facts 2019, 2020; Gametrack Digest Quarter 4 2011,2012,2013,2016,2017

²¹ McGlynn, A. (2021). Grand Theft Auto 5 continues to sell by the millions. URL: <https://www.pcgamesn.com/grand-theft-auto-v/sales-2020>

²² <https://www.gamesindustry.biz/articles/2020-05-19-how-to-use-data-to-make-a-hit-video-game>

²³ <https://www.isfe.eu> see key facts 2019, 2020; Gametrack Digest Quarter 4 2011,2012,2013,2016,2017

²⁴ Cloud gaming streaming services set to change your game. <https://www.zeebiz.com/technology/news-cloud-gaming-streaming-services-set-to-change-your-game-113199>

²⁵ <https://store.steampowered.com/hwsurvey/Steam-Hardware-Software-Survey-Welcome-to-Steam>

²⁶ <https://venturebeat.com/2019/02/27/cloud-gaming-will-determine-the-new-lord-of-digital-distribution/>

²⁷ Klimas, Patrycja. (2017). Current Revenue (Monetisation) Models of Video Game Developers. Journal of Management and Financial Sciences. X. 119-136.

²⁸ https://www.researchgate.net/publication/319665976_Current_Revenue_Monetisation_Models_of_Video_Game_Developers

²⁹ <https://ccci.am/western-europe-game-localization-market/>

³⁰ <https://termcoord.eu/2017/08/video-games-are-they-translated-or-localised/>

³⁰ <https://www.daytranslations.com/resources/industry-whitepapers/gaming-industry-whitepaper/>

personalization, user relevance and proprietary data. Europe has the capacity to deliver such content, and the middleware strength to integrate it into new technologies, interfaces, and applications.

The continent's diversity fuels creativity, but also results in a fragmented market. Companies will need to successfully leverage its size to be globally competitive. The declining relevance of hardware as a gatekeeper is to Europe's advantage. It is neither a major manufacturer of current gaming hardware nor an established gaming console. While content is the product, the connection to the consumer controls revenues - Europe is not a major player in game publishing or digital retail. This is an area it will need to focus on to leapfrog to the front.

Recommendation 1: Localisation through a dedicated game localization program

In order to make Europe's video game sector competitive, localization can become key. This would include subsidies, rebates, and funds, both for intra-European games, and to take promising European games to the international market. This can automatically apply for the major languages, and state aid can be conditional on bundling smaller markets. A successful game can then be required to add further European localization, which will qualify it for support.

Recommendation 2: Creating a favorable incentivized environment for domestic broadband providers to extend into 'GoD' or Games-on-Demand.

Competitiveness of video games depends today on access to diverse platforms. By creating a favorable incentivized environment for domestic broadband providers to extend into 'GoD' or Games-on-Demand, such new distribution models can reach the market. Customers could then select, pay and order streaming games via their cable and broadband providers, which would create new competitive advantages.

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