

GAME ON: THE GAMING OPPORTUNITY UNRAVELLED

AN EXECUTIVE SUMMARY



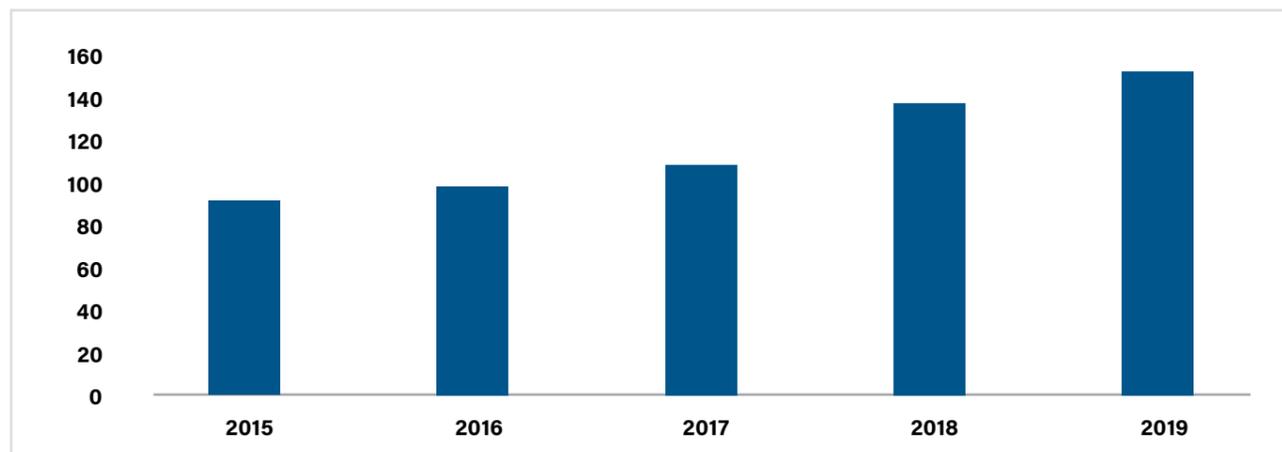
by **docomo** digital

EXECUTIVE SUMMARY

The origins of gaming can be traced to the 1960s when the first console games were introduced in the US and Japanese markets. It has since caught on at a dizzying pace. And while gaming consoles were once the rage, the past decade has been marked by a significant uptake in mobile gaming. Not surprisingly, the global video gaming market size grew to US\$152.1bn in 2019, from US\$91.4bn just four years earlier.¹

The Asia-Pacific region accounts for almost half of global gaming revenue, far ahead of other regions, and unsurprisingly, China is the single largest market, with gaming revenue amounting to US\$36.5bn in 2019.

Exhibit: Global games market revenue, 2015–2019 (US\$bn)



Source: Newzoo, via Statista

The nature of gaming has changed over the years as technology has evolved. According to Trip Hawkins, founder and first CEO of Electronic Arts, “A defining singularity in the history of technology was the launch of the iPhone.” Calling it a “dramatic leap”, he says the iPhone drove a radical shift in terms of the user interface and user experience.

The iPhone—and other subsequent smartphone models that entered the market—have transformed lifestyles. Indeed, they have transformed the experience of videogaming in countless ways. Most importantly, the smartphone, given growing accessibility and connectivity, has resulted in behavioural change, with children and the old alike glued to their phone screens.

¹ Newzoo. The Global Games Market Will Generate \$152.1 Billion in 2019 as the U.S. Overtakes China as the Biggest Market. Available online at: <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/>



“Emerging economies sit on the cusp of tremendous growth in the mobile gaming segment as they will see both, millions of new mobile gamers coming on board every year, as well as existing gamers spending more time on playing, given improving mobile internet connectivity and data speeds.”

Jonathan Kriegel, CEO – DOCOMO Digital



NOT ALL FUN AND GAMES

Mobile gaming boasts a large global following and is serious business – one that is even bigger than Hollywood and bigger than the OTT media industry, both in terms of reach and revenue generated. The industry’s growth is being driven by emerging economies in Asia, Africa and Latin America, where smartphone penetration continues to increase and mobile internet continues to become cheaper and more easily accessible. As a consequence, mobile gaming revenue is expected to surge. By the year 2022, mobile gaming revenue is expected to near \$100bn.²

Mobile gaming uptake has also fostered growth and had a profound impact on complementary spheres. e-Sports are now increasingly popular, for example. In addition to playing, the growing number of people interested in watching e-sports presents substantial advertising revenue potential in much the same manner as advertising slots sell during marquee sports events such as the US Super Bowl.

And as mobile phone screen sizes continue to increase, continued growth in advertising revenue is expected, all things remaining the same. But all things are not going to remain the same – more people are going to play games, more are going to watch others play these games, and people are going to be spending more time on their mobile phones. In fact, advertising will lead revenue generation for several mobile games in 2020, in a departure from in-app purchases that were popular earlier.

Gamification is another fast-growing segment complementary to mobile gaming, using games as a means to accomplish a certain task or objective. It involves using game mechanics in otherwise non-gaming scenarios such as education or training to drive higher user engagement and boost problem-solving. Attention spans are low and are only likely to decrease further, implying there is a significant gap waiting to be plugged. Gaming is intrinsically an interactive activity, and can drive greater engagement.

Continued advances in technological aspects such as voice and motion control, augmented reality (AR), virtual reality (VR) and live game streaming, are driving mobile gaming to the next stage. The advent of 5G technology will boost cloud gaming, which industry experts expect to be the next big thing as it will result in high speed transmission of gaming data and improve its latency. It could also result in game streaming and subscription services becoming the future. In a sign of things to come, video games are also driving new (in-game) experiences – for example, the game Fortnite recently broadcast a live concert in-game, drawing 12m viewers for the premiere alone.³

The mobile gaming ecosystem has evolved rapidly and this is a mainstream industry today – it is one that has something to offer everyone, be it the hardcore or professional gamer, the casual gamer, or the mass market gamer.⁴

² Newzoo. Global Games Market Report 2019 | Light Version. Available online at: <https://newzoo.com/insights/trend-reports/newzoo-global-games-market-report-2019-light-version/>

³ Tech Crunch. Fortnite Hosted a Psychedelic Travis Scott Concert and 12.3 million People Watched. Available online at: <https://techcrunch.com/2020/04/24/fortnite-hosted-a-psychedelic-travis-scott-concert-and-12-3m-people-watched/>

⁴ Typical professional gamers want to use high-end equipment since they are likely to also have a keen interest in competitive e-sports; casual gamers take a keen interest in gaming, but do not engage in it professionally; and mass market gamers are typically interested in free games or in Free2Play offers.

The journey of money

For the mobile gaming industry to make money, gaming-related purchases must be seamless, and the virtual gaming ecosystem a well-oiled machine. A consumer spends money at various points – when he or she purchases a paid game online, buys in-game offerings, purchases virtual goods or subscribes to a gaming OTT service. At any of these points, a cumbersome payment process could lead to an aborted payment due to “cart abandonment” – meaning the user is probably confused, lacks trust, or irked at the payment gateway and cancels the transaction entirely.

For the value of in-game purchases to increase, they must become convenient and friction-free. Micro-transactions are common, but can be cumbersome for users. Direct carrier billing (DCB) is an effective way to get around the inconveniences associated with payments in gaming. Owing to the convenience it offers, DCB delivers better conversion and retention rates than other payment means. Additionally, in many emerging markets—which are home to a large unbanked population that does not have access to bank accounts or credit cards—DCB is the preferred payment set-up option.

For telco operators, DCB usage can potentially result in a higher top line, and they also stand to benefit from higher mobile data usage. DCB is the quickest payment method in the market today, and it can be a catalyst for the continued growth in mobile gaming “as it is aligned with gamers’ need for instant gratification”, as Ms Koon Miin Ng, who is responsible for partnerships – e-sports, content & marketing at Malaysia-based U Mobile, says.

One of the key problems with DCB at present is that many merchants and telcos alike are still unsure of how DCB works, in particular that DCB is also an independent channel for payments, in addition to being used as a channel for Google Play. Contrary to popular belief, there is no cannibalizing of one over the other involved.

⁵ App Annie. Game Downloads Surge as Consumers at Home Look to Stay Entertained. Available online at: <https://www.appannie.com/en/insights/market-data/game-downloads-surge-as-consumers-at-home-look-to-stay-entertained/>



“ I see an industry now that instead of being stuck as it was 10 years ago, will get to US\$300bn, US\$400bn or US\$500bn – it’s going to be a much bigger industry than anybody ever thought... and certainly, mobile is not finished yet.”

Trip Hawkins, Founder and First CEO, Electronic Arts

What lies ahead?

Mobile gaming is here to stay, and the number of games is projected to continue increasing over the coming years. “Telecom operators, with their unparalleled access to large populations, are well-positioned to become active stakeholders in this fast-growing sector by leveraging on DCB deployments and subscription bundling,” says Jonathan Kriegel, CEO of DOCOMO Digital.

Besides improvements in the enablers, mobile gaming growth is going to be driven improvements in the games themselves – how they look, how they feel, and the experience they provide to gamers. It is also going to be driven by the blurring of lines between what is real and what is virtual. The wheels are in motion, and the COVID-19 pandemic is hastening the process. Unlike most sectors in the ‘real’ economy, mobile gaming is one of the industries that has seen improved performance as this pandemic has played out.

With more than half the world’s population in lockdown at the time of writing, people are spending more time and more money online, including on mobile games. In the first quarter of 2020 alone, 13bn mobile games were downloaded globally—reflecting a 25% year-on-year growth—and US\$16.7bn was spent in mobile games.⁵

As more and more people were compelled to stay home, new means of engagement and entertainment had to be found. This has led to the discovery of games as a pastime for some, and a rediscovery of sorts for many others. Will these behavioural changes be permanent? Time will tell.

KEY TAKEAWAYS

- A fundamental shift towards mobile gaming is underway, as reflected in the growth in mobile gaming revenue globally, and its growing share of total gaming revenue
- Direct carrier billing (DCB) helps accelerate the growth of mobile gaming by making payments friction-free, thereby delivering better conversion and retention rates than other payment means
- Rapid digitisation, faster and inexpensive data availability, wide smartphone usage and better gaming experiences are driving the shift from gaming consoles to mobile gaming
- In emerging markets, DCB has a potentially bigger role to play in the growth of mobile gaming revenue given these markets are home to large unbanked populations without access to bank accounts or credit cards
- Emerging markets, particularly in Asia, are expected to contribute most greatly to the growth in the mobile gaming industry
- The quality of content is going to be critical in mobile gaming – customer engagement and retention will depend on the quality of content and new experiences, such as in-game music concerts, for example
- In broader gaming sphere, e-sports are increasingly popular – both in terms of those playing and in terms of the numbers wanting to watch this community play
- Growing use of 5G technology is likely to result in a big shift in mobile gaming, as it will boost cloud gaming, which in turn will transform how games are distributed, sold and played
- All of these factors have helped drive revenue and by 2022, global mobile gaming revenue is expected to near US\$100bn, Asia comfortably contributing the largest share
- The global lockdown of almost 4bn people in early 2020 due to the COVID-19 pandemic is resulting in a surge in mobile game downloads and spending as people look for ways to keep themselves entertained, providing an unexpected boost to the industry
- For industry revenue growth to continue unimpeded, payments need to be streamlined further and made more convenient for users so that transactions don’t fall off



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ABOUT US

DOCOMO Digital is the mobile commerce-related business of NTT DOCOMO, one of the world's leading mobile carriers. We partner with carriers, merchants, app stores, OTT services and payment providers globally. Our Payments portfolio solves the challenges of scale, customer acquisition, regulation, and complexity for our partners. With teams based across twenty-five offices, we enable telecom carriers to grow their digital revenues while improving customer loyalty and lifetime value. For digital brands, our platform and carrier bundling services catalyse acquisition of new subscribers, especially in emerging markets. And Alternative Payment Methods (APMs) like carrier billing and e-wallets offer global merchants' access to their consumers, with our simple API and international payments' settlement facilities.

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