



# 2016 Top Markets Report **Media and Entertainment** Sector Snapshot

## Video Games

The U.S. and global video games markets are growing at a break neck speed. The United States is expected to post earnings of \$19.6 billion by 2019, growing 5.5 percent from 2016 (\$16.8 billion), and global revenues will reach 93.2 billion, growing at a 5.6 percent rate from \$79.7 billion. The Entertainment Software Association reports that more than 60 percent of the U.S. population plays video games. About 40 percent of U.S. households expect to purchase a virtual reality headset by 2017. In 2013, 51 percent of U.S. households owned a game console. The games sector is the fastest growing sector after advertisement in the media and entertainment industry worldwide. Some countries are attempting to restrict use for younger people after reports of fatal behavior stemming from game addiction. With this rapid growth, the challenge for U.S. exporters will be to protect copyrighted material while identifying and taking advantage of licensing deals at the intersection of multiple content segments, such as games and music, promotional tools for movies using mobile and online games, and games used in education.

ITA’s research indicates popular U.S. gaming trade shows with developers and other game companies include E3 in Los Angeles, GDC in San Francisco and Pax Prime in Seattle. Internationally, ChinaJoy in Shanghai; Gamescon in Cologne, Germany; and the Tokyo Game Show are respected in the industry as top networking shows to establish new partnerships and garner global attention, especially for new entrants or smaller distributors. [Please note that listing of shows in this report does not imply USG endorsement of these shows, and this list is not comprehensive.]

Video games have become a \$100 billion industry that is constantly innovating and bringing new applications to market. The traditional gaming sector includes video games on PCs and games consoles that can connect to TVs and have portable hardware.

Today’s consumer has access to multiple devices, whether mobile or tablets and more, to access and play video games. The sector also comprises the physical (disc-based), digital games, online games, various subscription services and downloaded games, mobile games, and virtual and augmented reality (VR/AR).

The industry has evolved quickly in the social and casual gaming sector where live competitions have become massively popular and e-Sports are the latest rage. Electronic sports, also known as esports or e-sports, includes competitive video gaming, professional video gaming and pro-gaming, where the players play against each other like in a chess game, with a live audience, whether in huge stadiums or online. Esports is evolving rapidly and is expected to post earnings at around \$621 million globally in 2016.

| <b>The 10 best-selling games of the year<sup>1</sup></b>                |
|-------------------------------------------------------------------------|
| <b>1. Call of Duty: Black Ops III (Xbox One, PS4, 360, PS3, PC)</b>     |
| <b>2. Madden NFL 16 (PS4, Xbox One, 360, PS3)</b>                       |
| <b>3. Fallout 4 (PS4, Xbox One, PC)</b>                                 |
| <b>4. Star Wars: Battlefront (Xbox One, PS4, PC)</b>                    |
| <b>5. Grand Theft Auto V (PS4, Xbox One) 360, PS3, PC)</b>              |
| <b>6. NBA 2K16 (PS4, Xbox One, 360, PS3)</b>                            |
| <b>7. Minecraft (360, Xbox One, PS3, PS4)</b>                           |
| <b>8. FIFA 16 (PS4, Xbox One, 360, PS3)</b>                             |
| <b>9. Mortal Kombat X (PS4, Xbox One)</b>                               |
| <b>10. Call of Duty: Advanced Warfare (Xbox One, PS4, 360, PS3, PC)</b> |

*Augmented reality simulates artificial objects in the real environment; virtual reality creates an artificial environment to inhabit. In augmented reality, the computer uses sensors and algorithms to determine the position and orientation of a camera. AR technology then renders the 3D graphics as they would appear from the viewpoint of the camera, superimposing the computer-generated images over a user's view of the real world*

Virtual reality, along with augmented reality, has emerged with futuristic programs for entertainment, shopping and healthcare. V/R is the use of digital technology to replace reality with a complete and 'realistic' immersive simulation, while A/R is the interaction with computer-generated content overlaid on the real world. U.S. developers and scientists are producing cutting-edge solutions in healthcare, in the educational field and with online/mobile shopping using these games applications. All entertainment sectors have major developments with video games and use games as part of the film, television, music and video service offering. Consumers have a myriad of options for entertaining themselves with video games.

| Top Video Games Licensing Markets |   | Export & 2015 - 2019 |
|-----------------------------------|---|----------------------|
| Less Certain                      | 1 | China                |
| Strong                            | 2 | United Kingdom       |
| Moderate                          | 3 | Germany              |
| Moderate                          | 4 | Canada               |
| Less Certain                      | 5 | Mexico               |
| Moderate                          | 6 | Brazil               |
| Less Certain                      | 7 | India                |

Data Sourced from PwC Global Media & Entertainment Outlook 2015-2019

### Global Export Market Opportunities

Fifty percent of consumers identify as gamers worldwide, and the highest penetration is in China and the United States. Eighth Generation devices are leading (such as by Nintendo, Microsoft and Sony Computer Entertainment), and 80 percent of gamers

still spend on traditional game consoles. eSports and Twitch are the #1 video game platform and the world's leading video platform and community for gamers with 45 million gamers logged on monthly. The eSports market is highly established in China and Brazil but is still growing in the United States, Mexico and the European Union (France, Germany and the United Kingdom). The most popular way to participate is either live, online, on TV or pre-recorded, and fans also follow eSports online just like major league football and other sports. Eighty-one percent of eSports fans are male, and 19 percent are women, but in the general video game population, women play as much games as men. The demographics change when you look at age groups, but 51 percent of young adults and millennials play eSports.

PwC forecasts global video games will reach \$93 billion by 2019, up from \$75.4 billion in 2015. The fastest growing markets across four major regions are Argentina, Brazil, China, Denmark, Egypt, India, Indonesia, Israel, Kenya, Nigeria, Netherlands, Portugal, Philippines, Saudi Arabia, Turkey, UAE, and all of Central and Eastern Europe –although some of these are nascent and small markets. The largest markets are Brazil, China, Japan, Russia, South Korea and the United States. The largest market by 2019

#### Top devices most frequent gamers use

- PC (56%)
- Dedicated Game Console (53%)
- Smartphone (36%)
- Wireless Device (31%)
- Dedicated Handheld System (17%)

\*Source: ESA-Entertainment Software

will be the United States at \$19 billion and counting, followed by China, Japan, South Korea and the United Kingdom.

App based games will reach \$19.8 billion by 2019, and console games will reach \$30.7 billion. The console industry is still strong, especially in developing economies where consumers cannot afford to buy the newest models, which keeps older models in demand and gamers trade used console games with one another. Physical consoles will grow at a much slower rate than digital console games.

Global digital distribution of traditional games will generate \$12.89 billion or 19.6 percent of traditional gaming revenue. The console market will still trade in physical games and due to the higher costs of digital video games and a lack of network infrastructure, especially in developing economies, will keep physical distribution relevant. With the proliferation of portable, handheld devices and tablets, the industry is growing at an incredible pace. Accessing the Japanese, Korean and Chinese markets will continue to be challenging due to protections in the marketplace, but partnerships and joint ventures look very favorable. Eastern European markets are growing their video game sectors, signaling opportunities for developments in several countries.

Markets with long-established traditional console and PC games will likely continue to be dominated by revenues in those fields; however, social and casual gaming revenue will grow to a \$22.5 billion market by 2019. Countries such as India and South Africa, for example, will see social and casual gaming

revenue overtake traditional gaming revenues by 2019.

There is a silver lining for the video game sector in the United States, the United Kingdom, Japan and China where advertising income related to games will reach \$300 million by 2019, driven by a sophisticated local advertising ecosystem or a massive potential audience.

Another interesting development is Cloud Gaming. With the proliferation in device connectivity and smartphones and a billion active tablet devices expected in the market by 2019, cloud streaming gaming services can begin. Similar to the video and music streaming services arena, the industry will need the right pricing model to both drive adoption and generate sufficient returns for platforms and publishers and robust IPR. It will also require speed, so broadband and mobile Internet infrastructure investments to support the required response times for interactivity will be crucial.

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<sup>1</sup> 2015 NPD: The 10 best-selling games of the year: <http://venturebeat.com/2016/01/14/2015-npd-the-10-best-selling-games-of-the-year/>