

Business models in (re)construction

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for the “**Evolution of business models**” session

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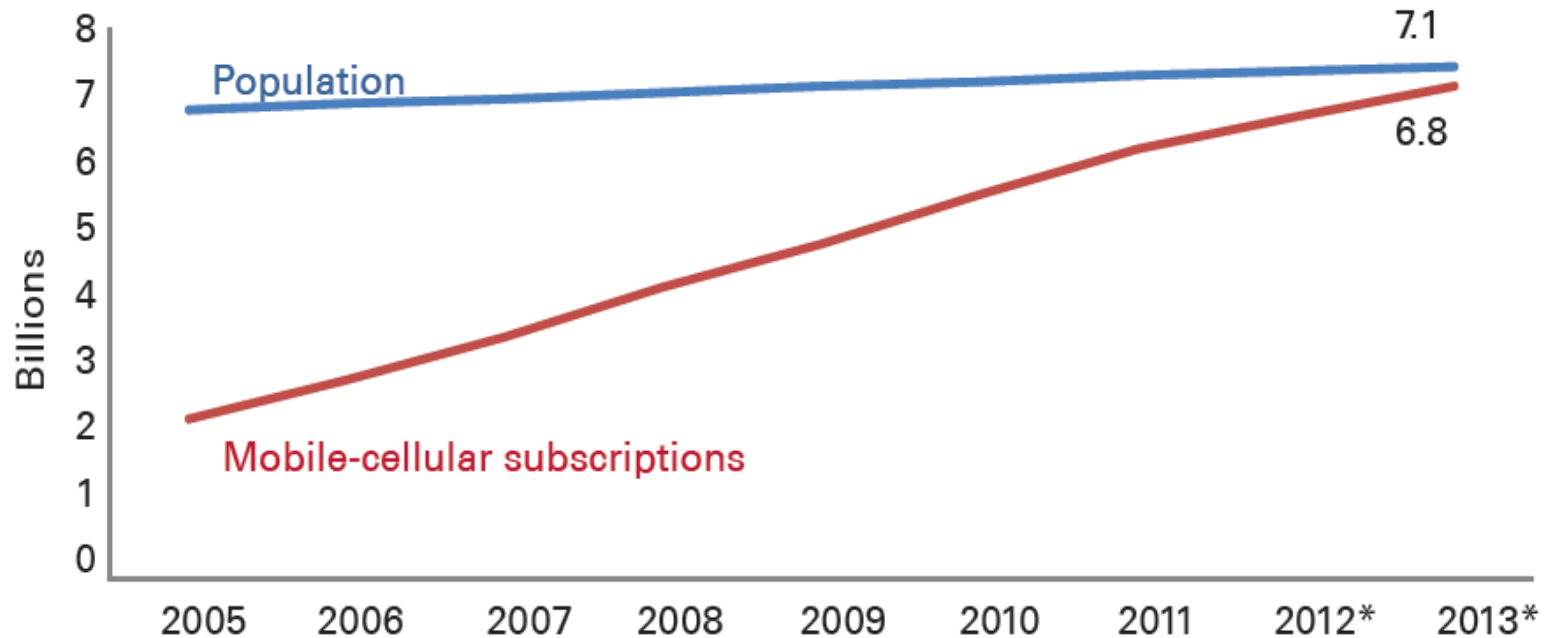
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Summary

- **A changing global landscape**
 - **Going mobile**
 - **Moving to a multiscreen/ multichannel world**
 - **Changes in the global video game market**
- **On-line games trends**
- **Mobile games trends**
- **Innovative business models**
- **Conclusion**

- **A changing global landscape**
 - **Going mobile**

6.8 billion mobile-cellular subscriptions



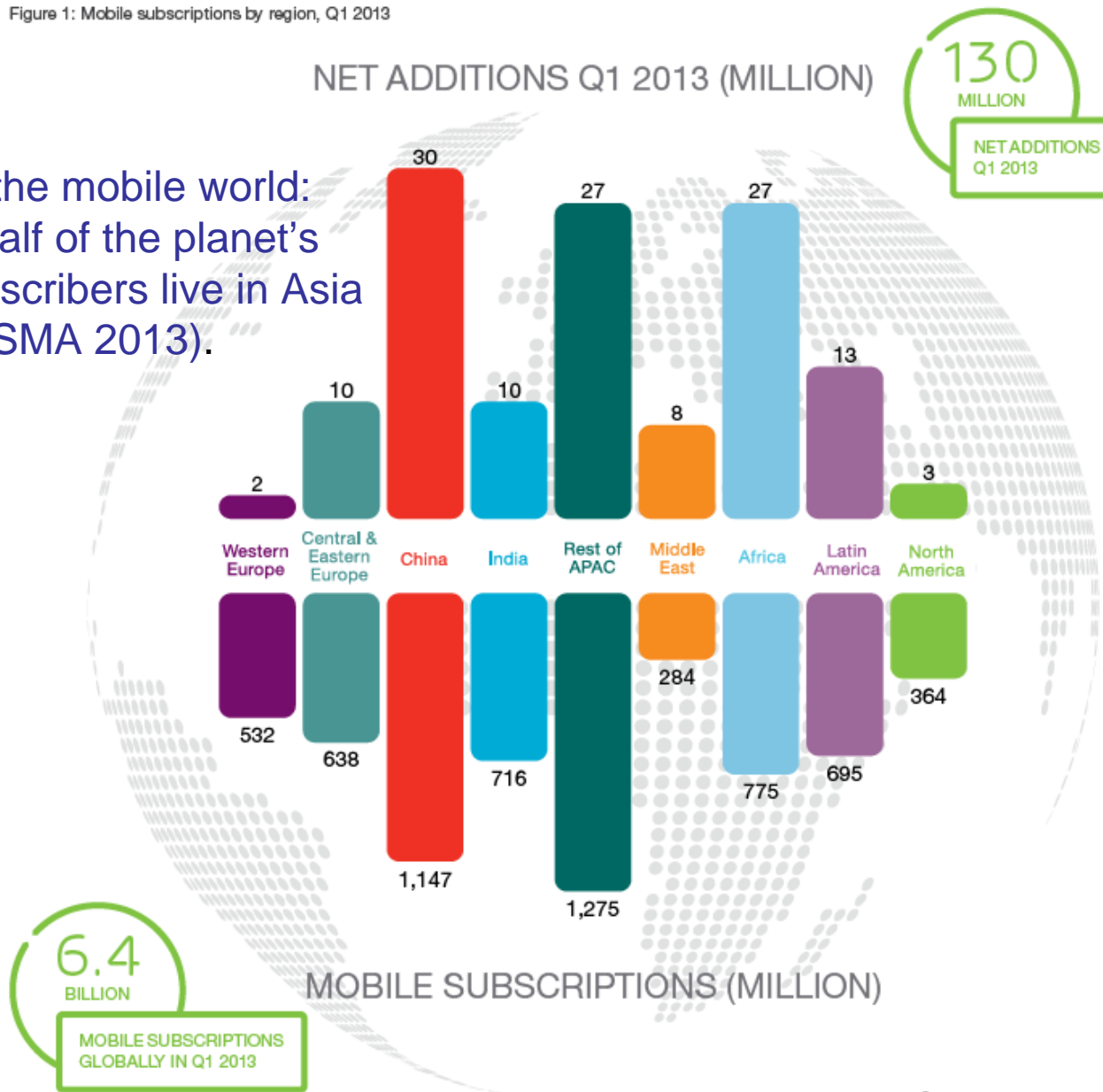
Source: ITU World Telecommunication /ICT Indicators database

Note: * Estimate

Wireless Intelligence (2012) forecasts **8.5 billion connections by 2017** with 50% from the new generation of mobile networks, 3G: 40% (HSPA, EV-DO), 4G: 10% (LTE, TD-LTE and WiMAX) Samsung's flagship Galaxy S3 and Apple's new iPhone 5 are LTE-enabled devices.

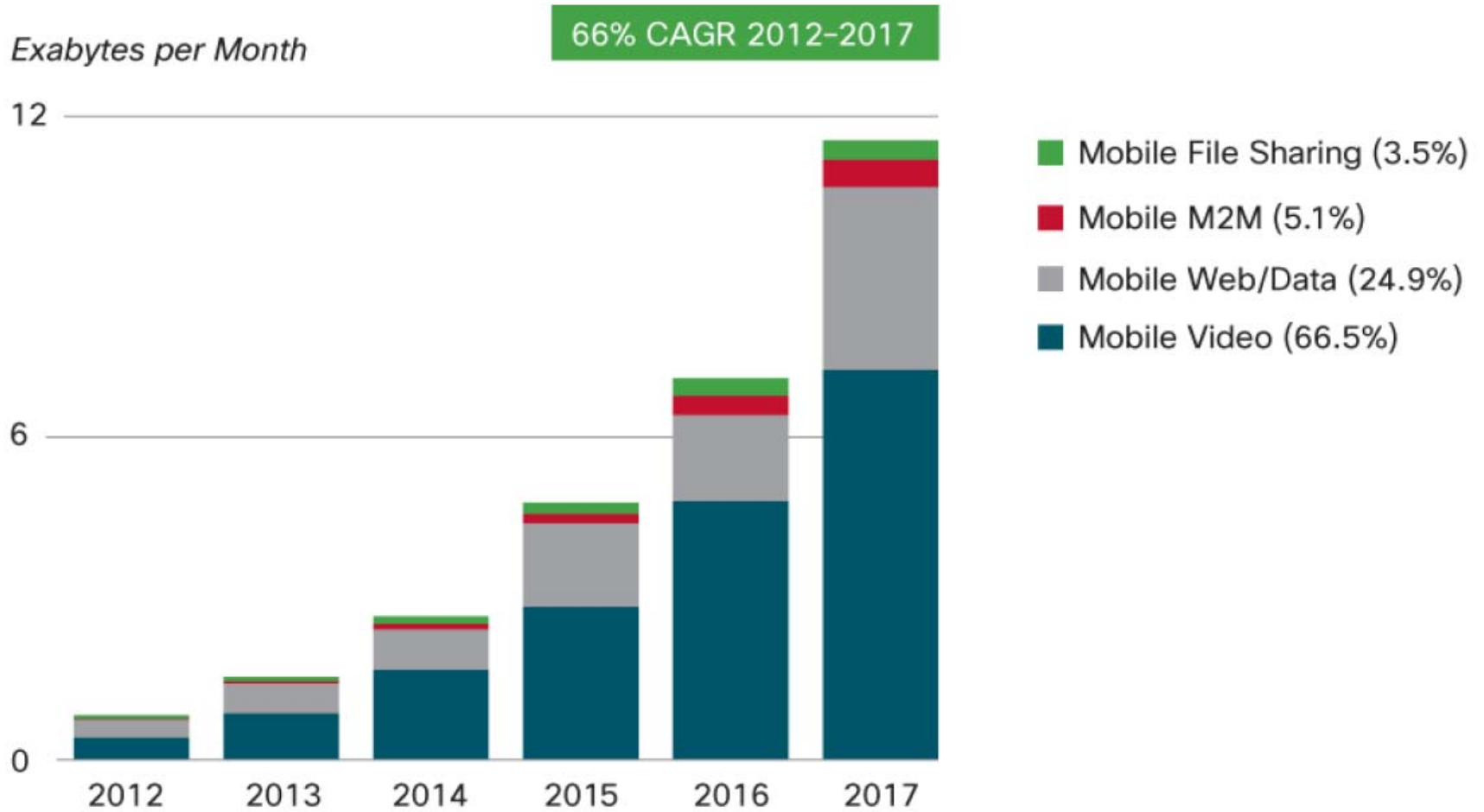
Figure 1: Mobile subscriptions by region, Q1 2013

King of the mobile world:
almost half of the planet's
mobile subscribers live in Asia
(GSMA 2013).



Source: Ericson 2013

Figure 6. Mobile Video Will Generate Over 66 Percent of Mobile Data Traffic by 2017



Figures in legend refer to traffic share in 2017.

Source: Cisco VNI Mobile Forecast, 2013

The rise of the app economy

- In five years (Jul 2008- Oct 2013) the number of apps available for download in the Apple platform has grown from 500 to more than 1,000,000 with 60 billion downloads
- App stores have changed the value chain of software (distribution and pricing), and also the industries of music, books, games, ...
- The mobile app market will be worth \$27 billion in 2013 from revenue generated directly from apps (Appnation, 2013). .
 - The first 'State of the App Economy Report' predicts that the largest contributor to this growth will be app-enabled commerce, with revenue from downloads, in-app advertising and virtual goods complementing this.
- The total size of the 'app economy' will hit \$151 billion by 2017, more than double the \$72 billion forecast for 2013

- **A changing global landscape**
 - **Moving to a multiscreen world**

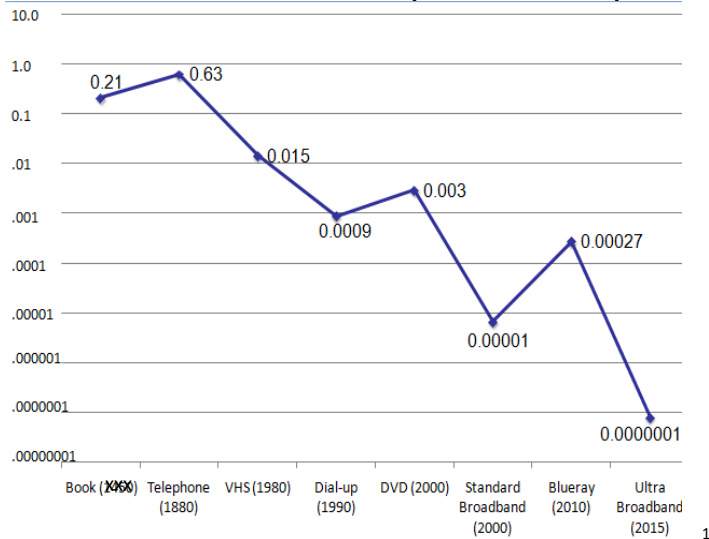


The logic of distribution/ access

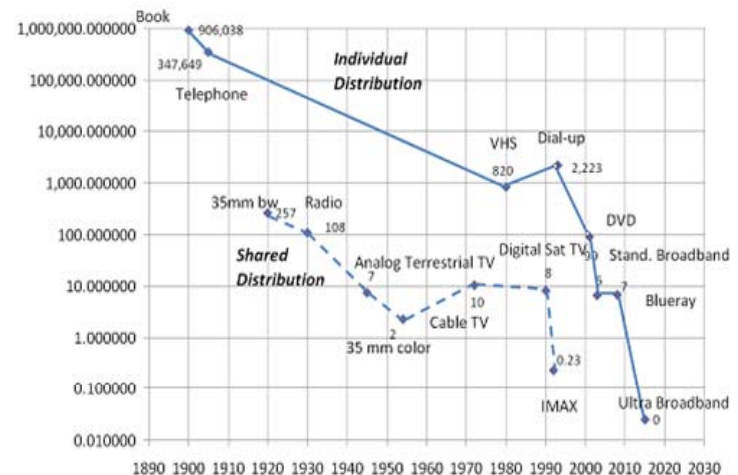
Tremendous decreases

Source: Eli Noam, 2010.

Price of Distribution per Mbit/capita



Price of Media Information per Gbit/cap;
P(B)



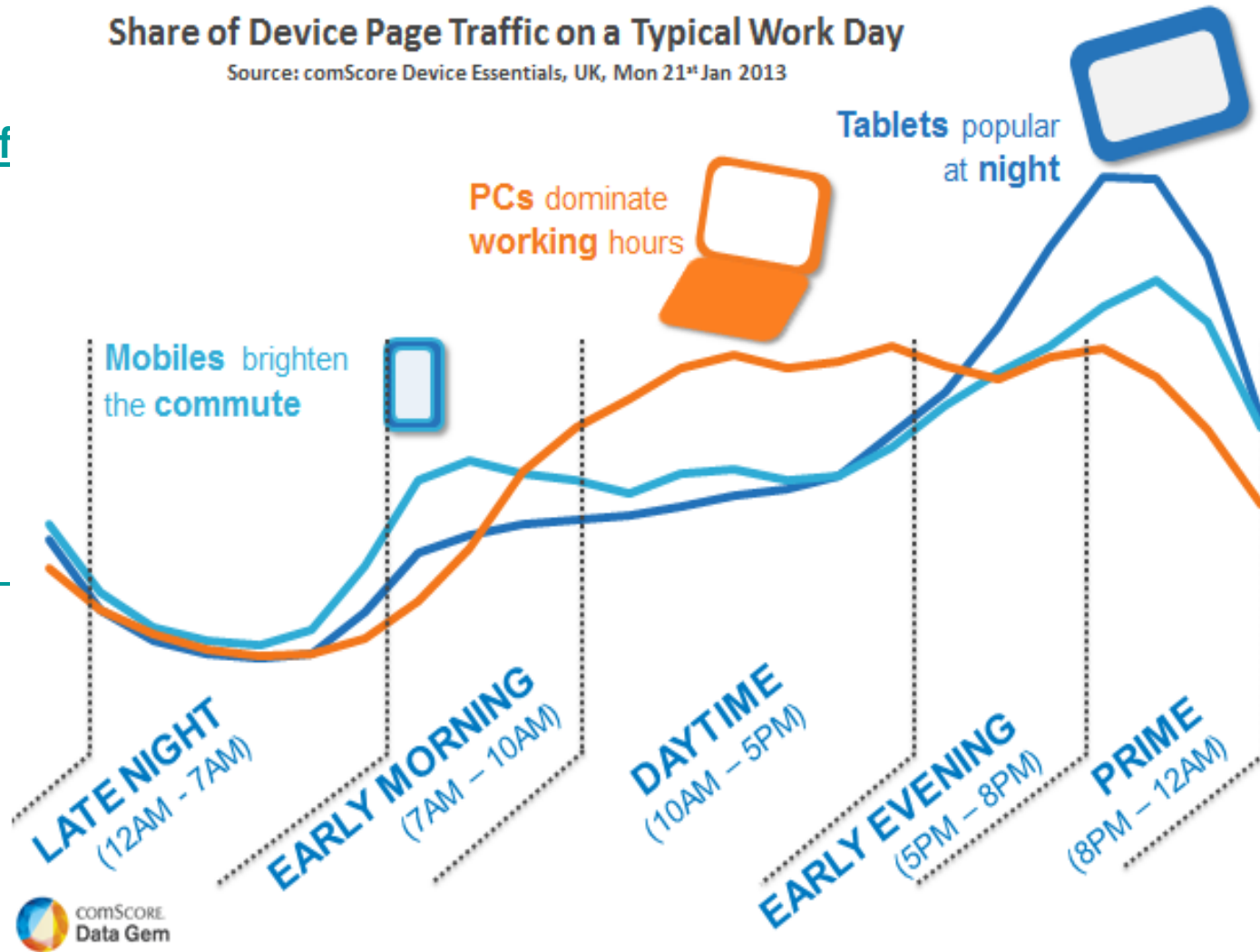
Benefits

- The main gains (cost efficiency, flexibility and enhanced quality) come from some elements of the production function (with sector specific variations)
- More flexible ways to markets the cultural goods:
 - trend toward more itemized sales (song, article, pages of books, avatars).
 - ✓ In a virtual world almost anything can be itemized
- Tremendous decreases in the prices of media distribution and information on the distribution side

Share of Device Page Traffic on a Typical Work Day

Source: comScore Device Essentials, UK, Mon 21st Jan 2013

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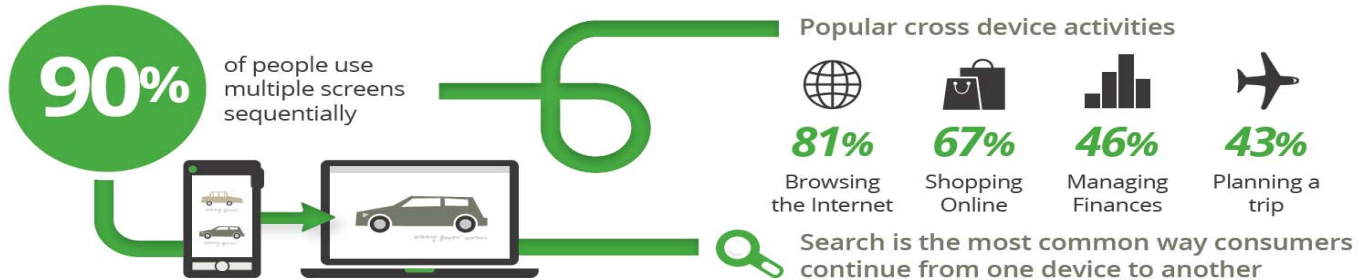
A new allocation of screens

- In the US (Pew 2013) some 31% of adults now own a tablet computer, almost three times the share recorded in May 2011.
- Web-enabled smartphones are even more widespread: 45% of adults own a smartphone today, up from 35% in May 2011.

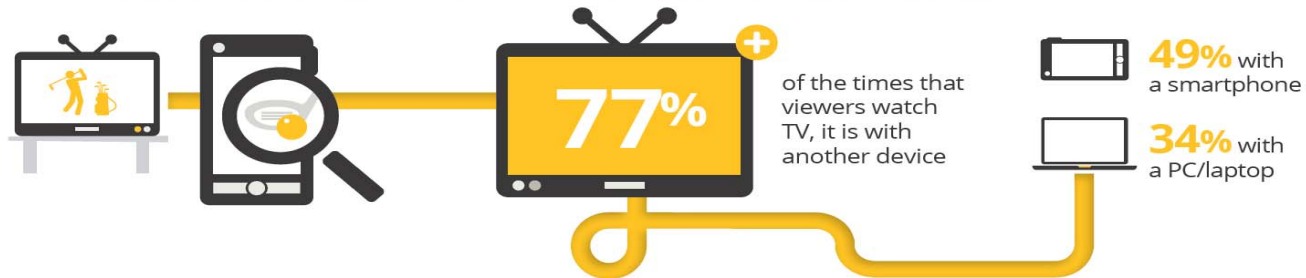
Majority of media consumption is screen-based



Consumers move between multiple devices to accomplish their goals



Television no longer commands our full attention

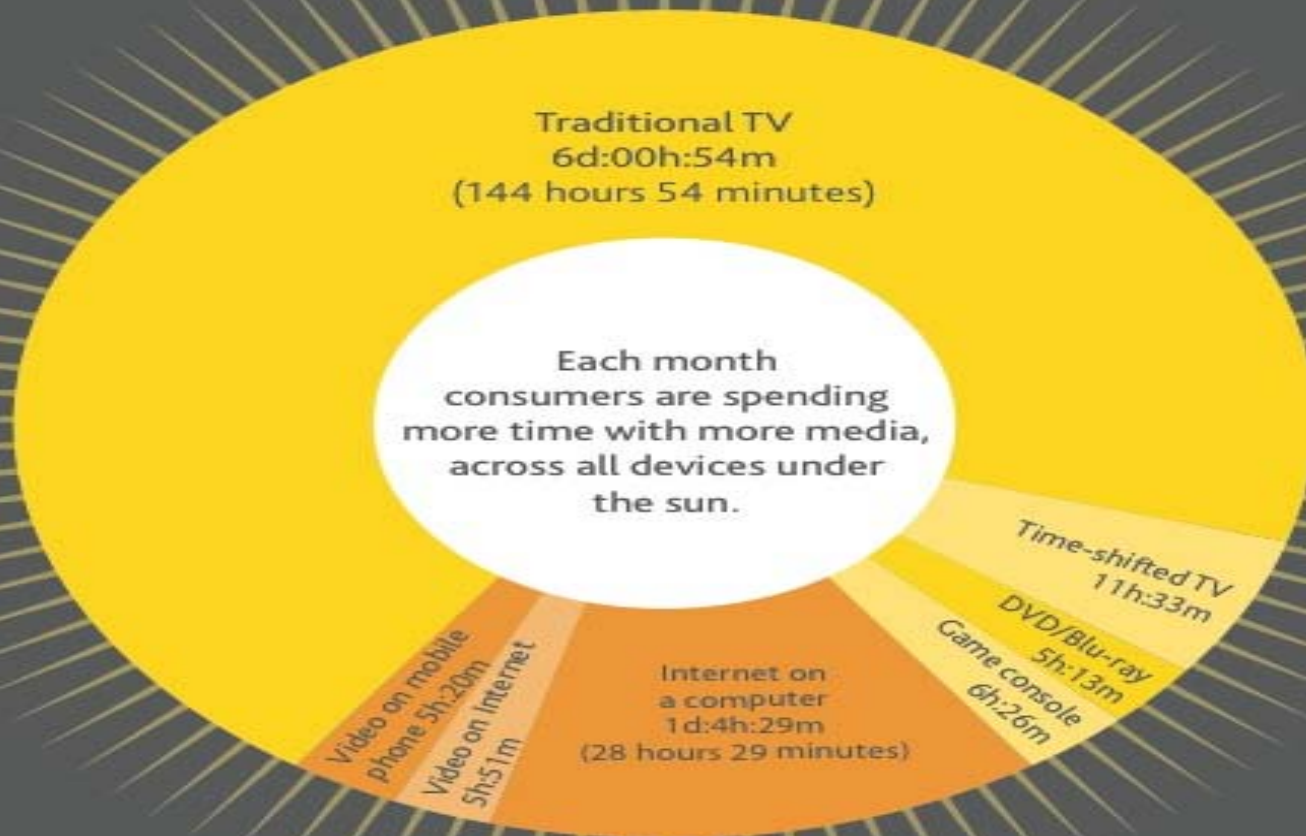


Online shopping is a multi-screen activity



CONSUMER MEDIA USAGE²

MONTHLY AVERAGE, Q2 2012



- **A changing global landscape**
 - **Changes in the global video game market**



Regional markets for video games: Asia rising

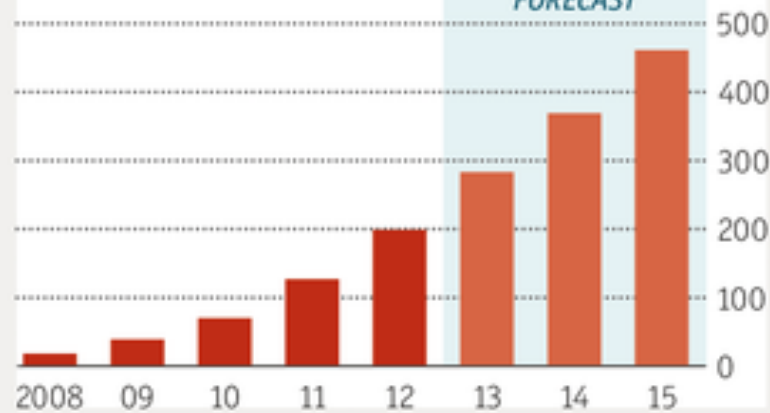
- Developed regions such as Europe, the US and Japan, have been the main markets for video games until 2009.
 - The EMEA once the biggest market for video games among the four major world regions, was overtaken by Asia-Pacific in 2010.
- In 2012, Asia-Pacific accounted for 32.9% of the global market (US \$ 22.2 billion of revenues, 298 million gamers) growing at a 13% rate, followed by North America with 32.2% (21.8 billion, 169 million gamers) growing at a mere 1%, then Europe with 27.8 % (18.8 billion, 274 million gamers) growing at 3% (Warman, 2013).
- If the US is still the leading market, the next three are located in this region, respectively: Japan, China and South Korea.
- The main engine of this growth is the on-line and mobile segment.
- Online gaming in the People's Republic of China represents one of the largest and fastest growing Internet business sectors in the world.
 - China is now the world's largest online gaming market
- “Games” is the fastest growing Internet category in India (McClelland, 2012)

China gaming industry

Numbers game

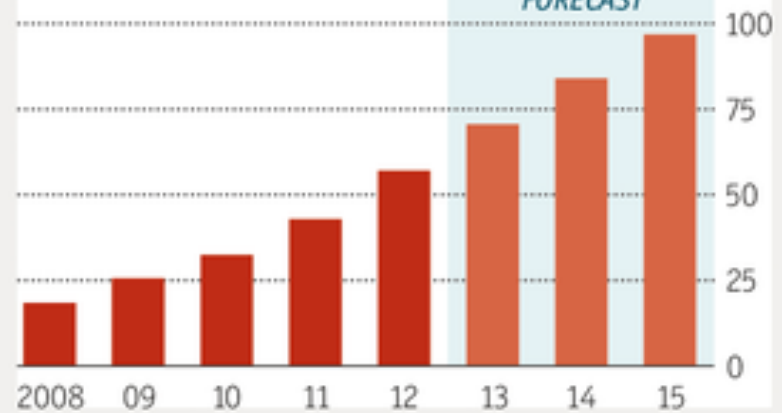
China's:

e-commerce market
\$bn



Sources: Morgan Stanley; 2012 China Gaming Industry Report

online gaming market
Sales, yuan bn



The Chinese online gaming industry illustrates two striking things:

1. The number of consumers and their spending have grown extraordinarily fast:
 - Far more people are online to shop, play games, search, watch videos and use social media in China than in any other country.
2. Consumers are spending almost all of that time and money on Chinese internet platforms

Top 20 video games companies by game revenues (2012)

Company	Country	Revenues US \$ million	Growth rate
Microsoft	US	5.524	4%
Sony	Japan	5.114	-10%
Activision Blizzard	US	4.573	-4%
Electronic Arts (EA)	US	4.034	4%
Nintendo	Japan	3.603	-5%
Tencent	China	2.755	36%
DeNa	Japan	1.955	14%
GREE	Japan	1.856	46%
Konami	Japan	1.663	-5%
Ubisoft	France	1.482	6%
Apple	US	1.441	30%
Nexon	South Korea	1.306	15%
Zynga	US	1.303	14%
NetEase	China	1.242	21%
Namco Bandai	Japan	1.097	2%
Take Two Interactive	US	900	5%
Sega	Japan	858	0%
Disney	US	845	-7%
Capcom	Japan	830	19%
Square Enix	Japan	821	-6%

Source: Newzoo (2013)

Changes in the global video game market

- New companies are climbing up reflecting changes in the global market.
- The entry of two Chinese companies (Tencent, NetEase) with very high growth rates (36% and 21%) is to be noted.
 - The two companies were not even included in the top 20 in 2009.
 - Tencent (founded 1998), the leader in online games, is the most profitable internet business in China, earning more than \$2 billion in 2012
 - ✓ As of November 2010 the company is the third largest Internet company in the world behind Google and Amazon
 - In July 2012, Activision Blizzard (ranking 3) and Tencent Holdings Limited announced a strategic relationship to bring “Call of Duty Online” to Chinese game players.
- By the same token, the entry of Apple is noticeable with a comparable grow rate indicating the strength of its ecosystem.
 - The iOS market (iPad, iPhone et iPod Touch) generates 89% of the revenues from mobile gaming (Newzoo, 2012 quoted by SNJV, 2012).
- Zynga’s position reveals as well the strength of mobile and social network.
- DeNA is a Japanese global leader in mobile Internet services.

➤ On-line games trends



Online games: an array of choices

“Browser-based games”

- no installation required
- easy to play
- easy plot / content

- o small efforts / teams
- o short projects
- o smaller investment

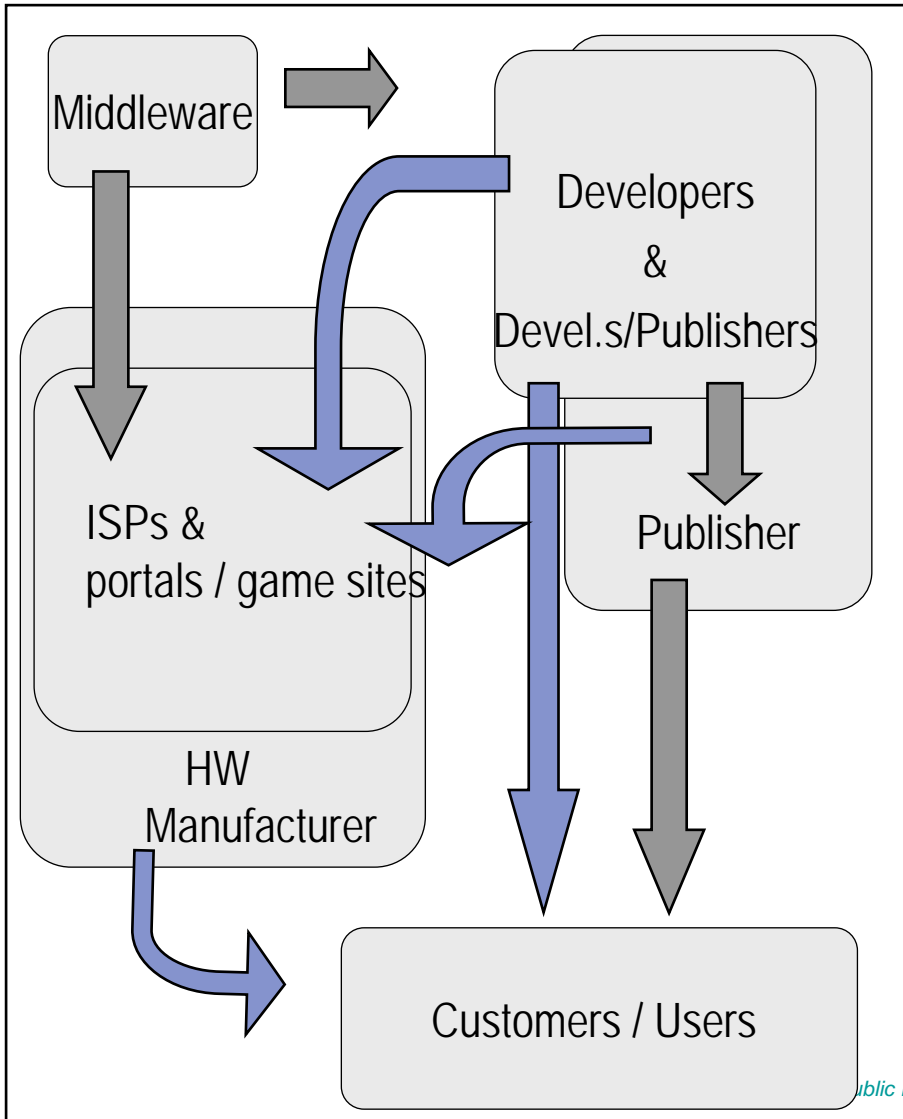
“Client-based games”

- client activity still relevant
 - sw engine to be installed
 - persistent virtual worlds
 - complex content / plot
- o big teams
 - o long projects / persistent
 - o big investments funded by publishers

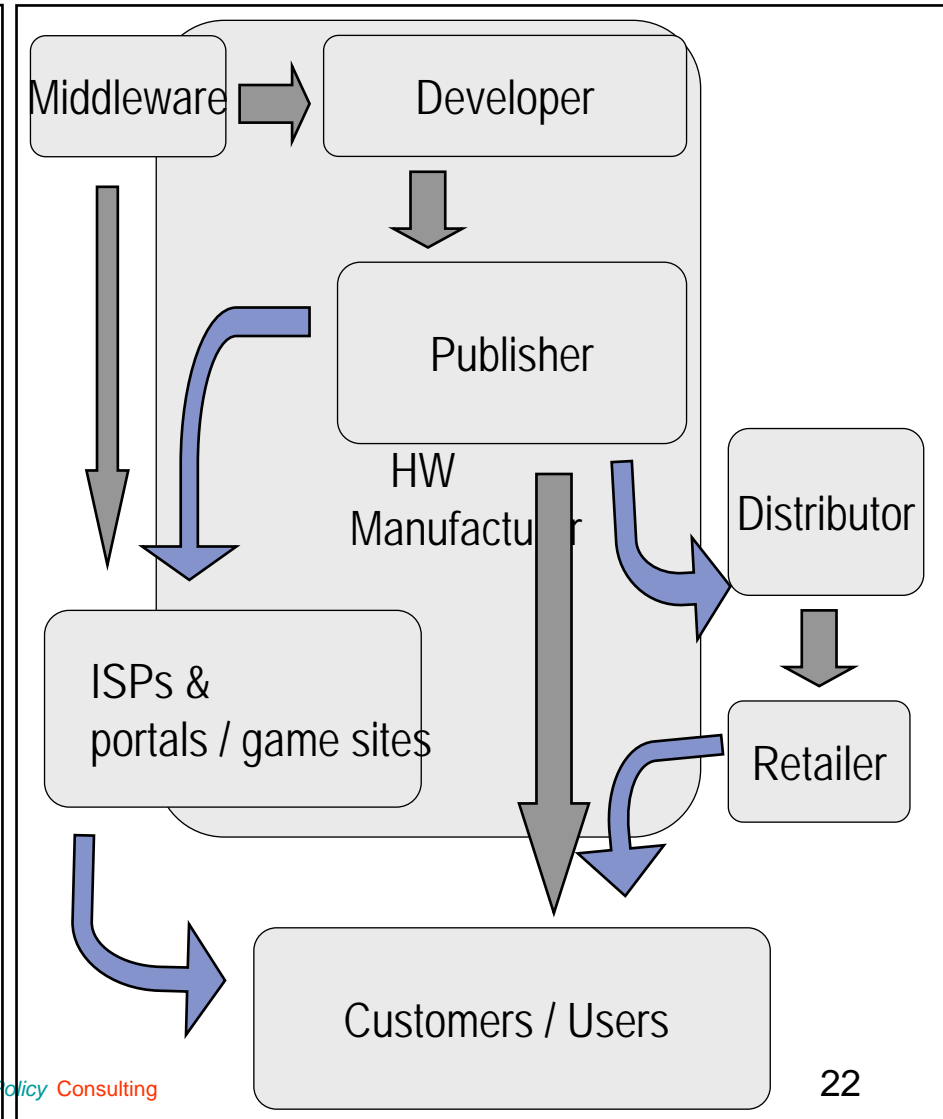
single user / stand alone games ⇒ multiplayer games ⇒
MMOGs

Value chains in (re)construction...

Browser-Based VideoGames



Client-Based VideoGames



Evolving interactions

- **New players/ new roles for players:**
 - Role of agregators
 - Telecom operators and applications providers
 - new role of portals
 - new opportunities for studios
- **Re-organisation of the value chain:**
 - disintermediation: developers closer to users,
 - re-intermediation: new actors, portals.
- **Demand:**
 - wider age range, higher number of users,
 - social networks, communities..
- **Technologies:**
 - not technology driven, but technology enabled..

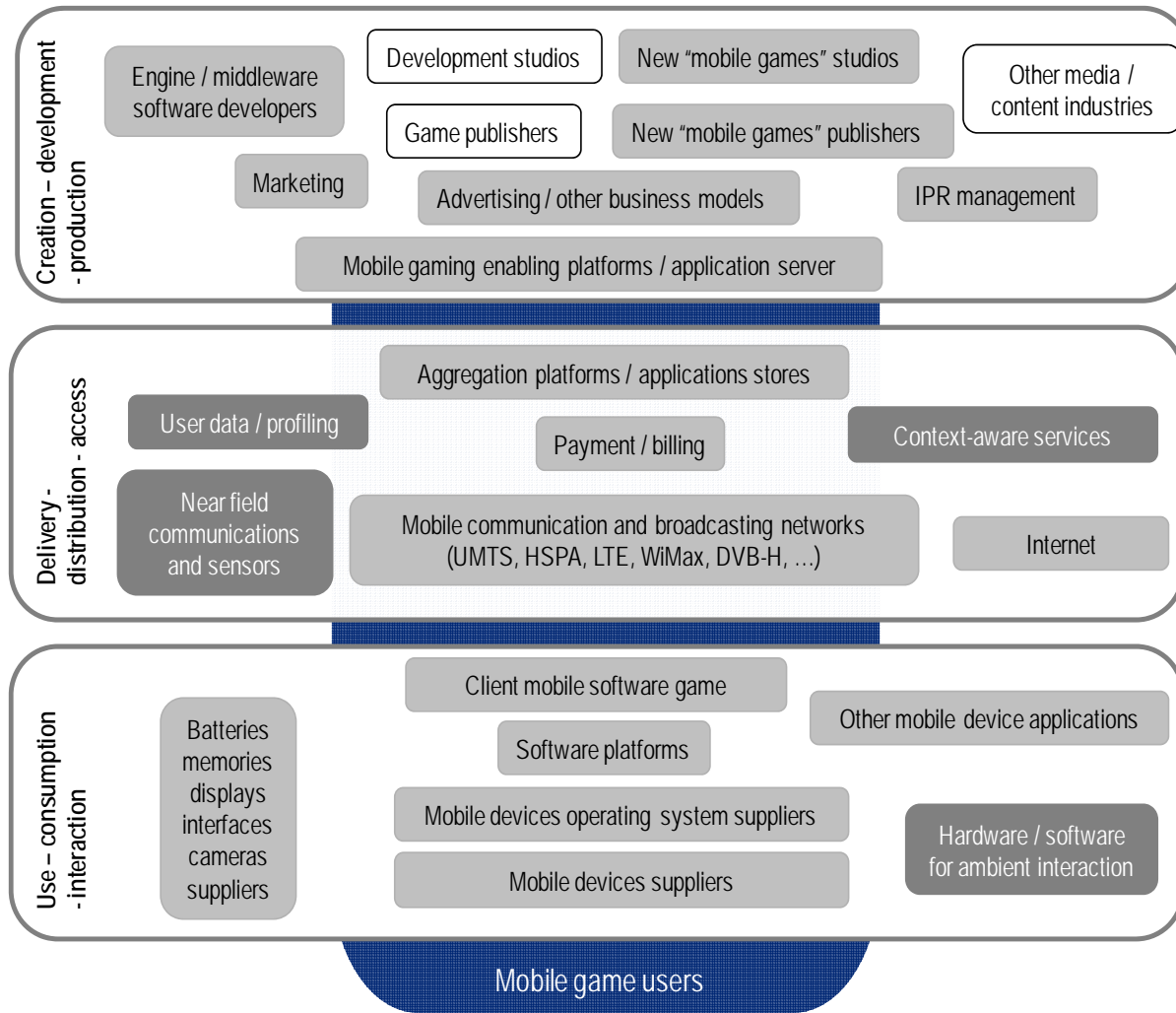
➤ Mobile games trends



A fast changing market

- **Three-stage** model for digital mass consumption + role of users:
 - some 59 percent of mobile device owners have played a game on either their handset or tablet in 2012, compared with 52 percent in 2011
- **Market power:** game publishers, mobile operators, handset suppliers and app platforms
- **Complex** structure due to layers of technical and business specifications
- **Multiple** choices (adv & disadv) for game developers
- **With mobile the possible innovations are manifold:**
 - They are fundamentally related with adding new sensors in and around the mobile device
 - and bridging the real and virtual worlds.

The ecosystem



The software platforms – A two-horses race?

Platform	Constituents	Strategies	Gate-keeping role
Apple	iPhone+iPod+iPad+OS X App Store iTunes SDK	Closed model with tight control over hw, sw and apps	Developer environment Provisioning / brokerage Charging & billing
Google-Android	Devices+Motorola Android Marketplace Android SDK	Relatively open model with control over sw development and some on hw	Developer environment Provisioning / brokerage
Microsoft	Nokia Windows Marketplace Windows Mobile SDK	Closed model with tight control over sw development	Developer environment Provisioning / brokerage
RIM	Blackberry + store + SDK	Closed model with tight control over hw, sw and apps	Developer environment Provisioning / brokerage Charging & billing
Linux / open	Linux for mobile	Open model with loose control over sw	Development environment
Firefox / operators	Firefox OS	Relatively open model with control over sw development	Development environment

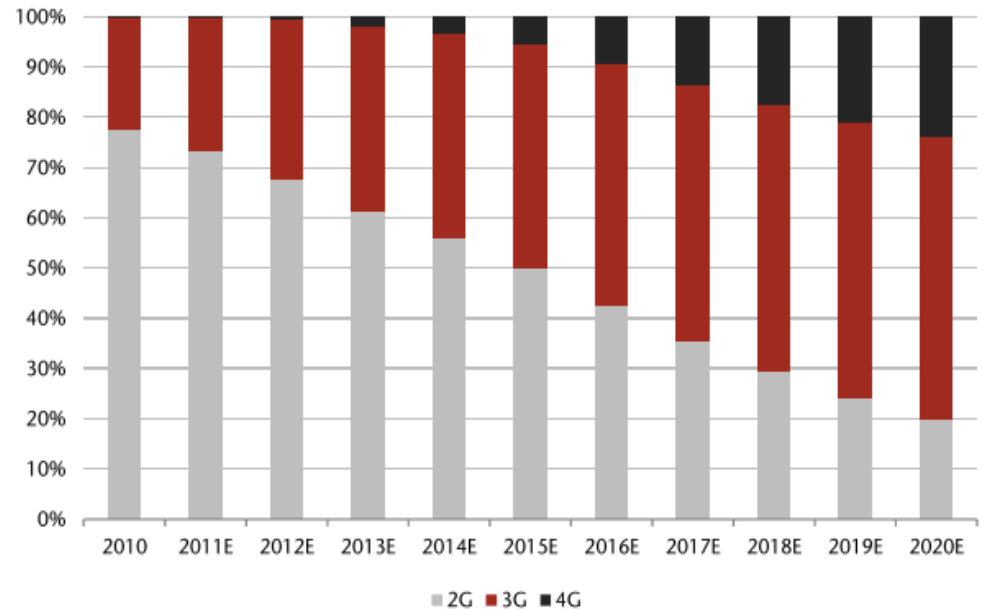
Top Four Operating Systems, Shipments and Market Share, Q3 2013 (Units in Millions)

Operating System	3Q13 Shipment Volumes	3Q13 Market Share	3Q12 Shipment Volumes	3Q12 Market Share	Year-Over-Year Change
Android	211.6	81.0%	139.9	74.9%	51.3%
iOS	33.8	12.9%	26.9	14.4%	25.6%
Windows Phone	9.5	3.6%	3.7	2.0%	156.0%
BlackBerry	4.5	1.7%	7.7	4.1%	-41.6%
Others	1.7	0.6%	8.4	4.5%	-80.1%
Total	261.1	100.0%	186.7	100.0%	39.9%

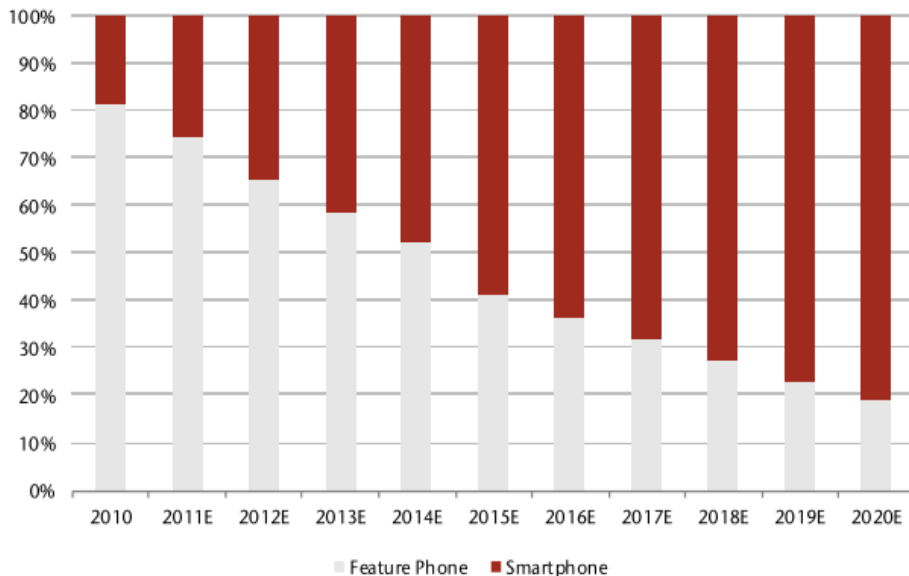
Source: IDC Worldwide Mobile Phone Tracker, November 12, 2013

Smartphones, the new hw platform

- Increasing availability (and affordability) of mobile broadband
- In 2015 half of the subscriber base will be in 3G/4G, and 80% in 2020 (27% in 2011, 31% in Q4 2012)
- 7.6 billion mobile users by 2020 (5.4 billion in 2011 and 6.8 billion in 2013). Mobile subscribers per 100 inhabitants: 99%.



Source: Jefferies (2011)



Consulting

- Increasing availability (and affordability) of smartphones
- In 2020 81% of phones sold globally will be smartphones (2.5 billion) from 26% in 2011 (400 million). 1,4 billion smartphones at the end of 2013
- 700 million tablets in 2020 (70 million in 2011, 450 million in 2013)

Tablets/ phablets/apps

- The rise in smartphone and tablet ownership has introduced gaming to different markets
- Sales of Apple's iPad alone were 65.7 million worldwide or around 62% of the total tablet in 2012 (Pew 2013).
 - App Store dominates in mobile game sales, but Google Play growing fast.
- A host of Android-based tablet rivals, including Amazon's Kindle Fire and its successors, Google's Nexus line and Samsung Galaxy devices – many of them cheaper than Apple products – have also expanded the market considerably.
- The installed base of mobile and portable devices used for gaming will grow from nearly 800 million in 2012 to more than 1.2 billion by 2014,
 - with Android-powered devices seeing the strongest growth in market share
 - at the expense of gaming-optimised handhelds such as the Nintendo DS and Sony PlayStation Vita.
- According to IDC and App Annie, revenue this year is on track to top \$12 billion,
 - with in-app purchases generating the lion's share (51 per cent),
 - followed by paid app sales (44 per cent)
 - and advertising (5 per cent).

“Angry Birds”

- Mobile games are no longer a delayed-in-time “poor brother” of console and pc games,
- but a distinct and exciting experience part of a new wide ecosystem with wide demographics.
- With the game “Angry Birds” (released in December 2009), Rovio, the Finnish start-up hit 1 billion downloads in May 2012,
 - with paid downloads accounting for more than 25% of total downloads,
- 1.7 billion one year later.
 - The company announced a profit for the year 2012 of EUR 55.5 million, compared with EUR 35.4 million in 2011, on revenue of EUR 152.2 million, up from EUR 75.6 million.

Innovative business models

Responding to changes

- Sources of revenues and business models are bound to change, and to keep evolving at the same pace as the underlying products, or services.
- The alternative business models which users face when entering the world of online/ mobile games are actually rather different from those they were used to,
- The business models are in (re)construction
- Part of the complexity of the evolution has to do with the number of streams of revenues that could now be added to the retail (physical) models.
- In that complex interexchange some main revenues are likely to become secondary and vice-versa.
 - The video games industry offers a good example of these hybrid business models

Multiple business models

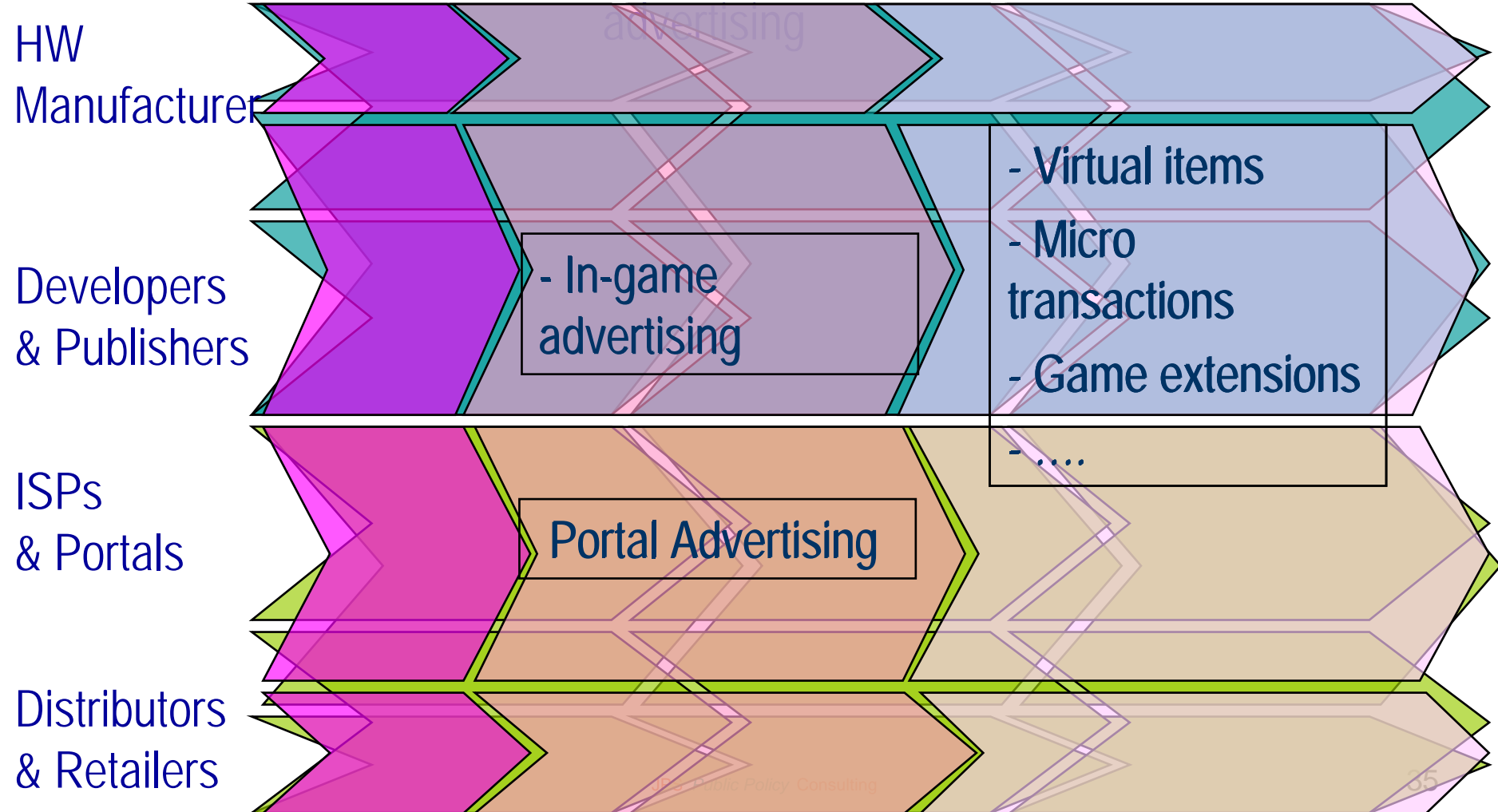
- Access models (web browser, client application, mobile application, etc.),
- Payment (pay per download, repeat subscription payment, payment for game extensions, pay for items, etc.),
- Game devices (consoles, computers, smart phones, tablets, etc.).
- The “free to play” model with basic features (“freemium” model)

Online/mobile games: Bus.models in(re)construction

Main revenues models: retailing

Secondary revenue options:

Additional revenue options: value added apps



Birth of the virtual item model

- The video games industry saw the birth of the virtual item model and basically any item can be sold as virtual.
 - Tencent, has excelled at converting its hundreds of millions of social-media users into paying customers, mainly for virtual items in games.
- Players can use virtual money and buy "*powers*" or characters' features, together with extensions to the gaming experience of various types:
 - soundtracks, scenarios, and textures - anything that can be transformed into a virtual item.
- On-line distribution offers novel ways to monetize contents and to test the willingness to pay of consumers.

Freemium

- A creative way to leave the "doom of free", under modified "economics of free" model:
 - free contents are used to lure customer into buying some elements, to access other models,
 - contents are used as a springboard towards paying access.
- The view from Zynga:
 - « *Games should be free. Free games are more social because they're more accessible to everyone. We've also found them to be more profitable. We have created a new kind of customer relationship with new economics—free first, high satisfaction, pay optional* »
- Freemium: the content is made available for free on line.
 - The model is built on economies of scale.
 - This is an innovative use of a two sided market with a segmented pricing (or non pricing scheme), most customers will get free services supported by those who are willing to pay.
- According to research by NPD Group (2012) around 40 percent of freemium game players make in-app payments with males more likely to shell out than women.
 - Moreover, the same study reveals that "*Freemium games appear to have a high retention rate, with 84 percent of users continuing to play after their initial interactions*".

Conclusion

- Consumer behaviour has evolved over the past few years and has allowed the viral diffusion of online gaming to take place at an unexpected pace.
- Demand has been a driving force, pushing all multimedia content towards convergence.
- The increasingly active role of users has been sustained by the interactive and social nature of the online gaming experience.
 - The user engagement has been largely pushed by the social aspects of interaction in multiplayer games, where communities of users play a big role and communications among them are mandatory.
 - This is seen as a first step for users towards interaction with the game itself, to the creation of content

- Online and wireless video games are expected to increase their importance in the video games market.
- Revenues from the online and wireless gaming market will continue to grow due to:
 - Increased consumer awareness,
 - growing internet broadband penetration in households
 - and increased content development for online-specific and mobile specific games sustained by new technology exploitation.
- Smartphones and tablets are adding new screens to play and opening new opportunities
- These evolutions of the video games industry indicate how it becomes possible to introduce new forms of advertising, for magazines, for e-books or music on line.
- It illustrates the path toward a service model where the consumer is buying a service linked to some editorial content rather than plainly the media per se.

Grazie/ Gracias/ Thank you/ Merci



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