

Interactive games and e-sports

Executive summary

In-game microtransactions, continued adoption of new technology such as 5G, and cloud-based gaming and e-sports will fuel strong growth in the gaming industry over the next five years. While it is hard to predict if another game will dominate culture and generate as much revenue as *Fortnite: Battle Royale*, its success has been a huge contributor to increasing non-traditional gaming audiences and continuing the community focused gaming trend.

The free-to-play model has proven successful with significant in-game microtransactions driving revenue, however the pay to play model is still growing and will not disappear in the forecast period.

More money is also entering the gaming ecosystem as Australian gamers are professionalised into athletes and e-sports enter the mainstream. The presence of *Fortnite: Battle Royale* at the 2019 Australian Open and partnerships between the AFL and Riot Games demonstrates that many sporting bodies are trying to capitalise on e-sports younger audience. E-sports has increased its sponsorships, prize money pools, and has the opportunity for marketers to access hard to reach audiences, all while creating a generation of professional gamers who are able to monetise their skill through content distributed on Twitch and YouTube.

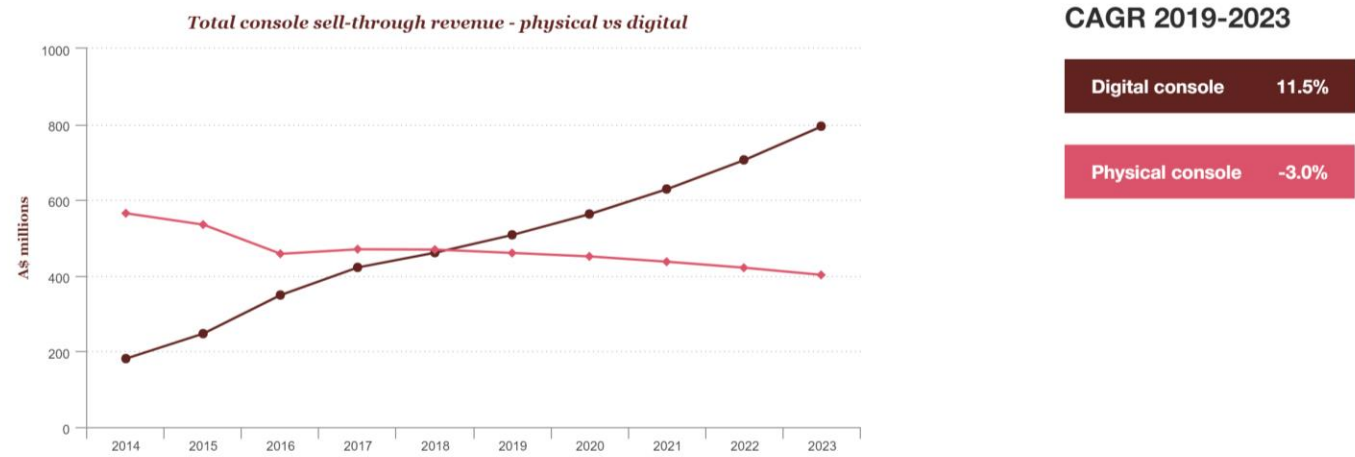


Growth Drivers

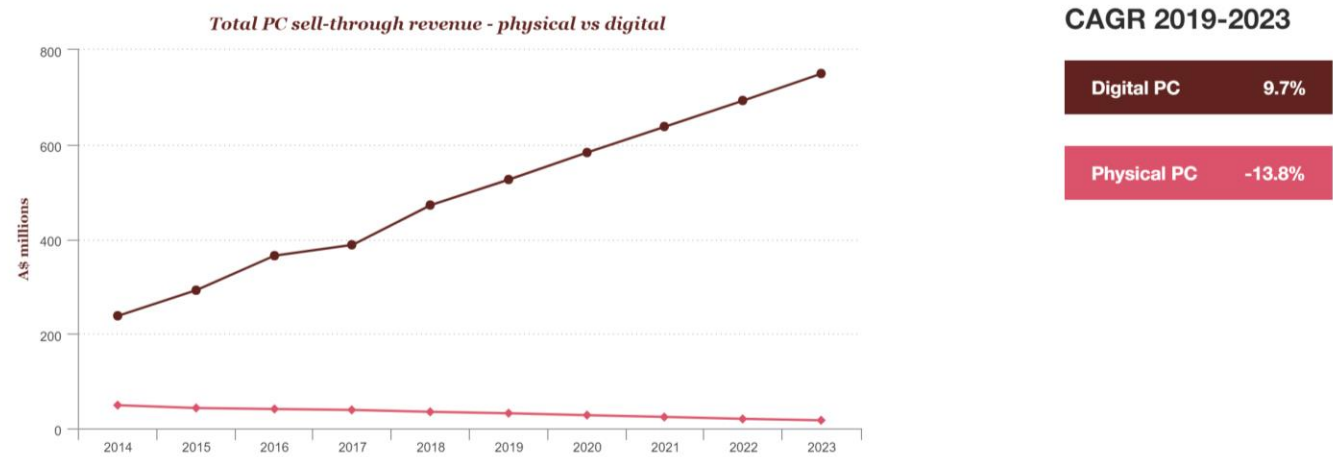
1. The transition from individual gaming to mainstream family entertainment
2. In-game microtransactions
3. Gaming and e-sports content development, distribution, and infrastructure
4. Improvements in audience measurement in e-sports

Forecasts at a glance

Digital sell-through revenue is now the growth driver of console gaming revenues



Digital PC sales continue to dominate as physical PC revenue expected to halve by 2023



The *Fortnite* effect

Fortnite: Battle Royale has had 125 million new players globally registered between June 2018 and March 2019,¹ doing more to push gaming into the mainstream than any other title in recent years. Ron Curry, CEO of IGEA describes the game as 'the new playground where kids gather to play and hangout'.² Increasingly, there is a trend toward families gaming together, or watching gaming content on either YouTube or Switch.³

With games occupying an average of 89 minutes per day,⁴ gaming is establishing itself as a competitor to free-to-air television and video-on-demand services.⁵

Content creators and are in-demand as audiences expect interactive, high quality experiences

In line with the broader entertainment industry, audiences are demanding higher quality content. This extends across the entire ecosystem, from big budget games, small developers, to influencers who stream their gameplay. Despite limited opportunities in our domestic market, Australia exports skilled games developers, streamers and content creators to the world.⁶

Non-traditional game development opportunities are increasing in adjacent industries. 'Applied' games in the B2B market which normally have an education focus, and globally is expected to rise from A\$4.5 billion in 2017 to over A\$24 billion in 2023,⁷ as well as the film industry, as demonstrated by Netflix's hiring of game designers to produce more interactive films such as *Bandersnatch*.⁸

Microtransactions that meet the definition of gambling will be regulated as gambling

The growth of gaming also invites increased scrutiny from governments and regulatory bodies, the latest hot topic being in-game transactions. For example, *FIFA 19*,⁹ *Star Wars Battlefront 2* and *Jedi: Fallen Order* producers, among other upcoming titles, halted in-game sale of loot boxes because it is said to encourage gambling.¹⁰

In Australia, the government committee has made five recommendations around loot boxes to protect minors and Australian consumers from unregulated gambling. These include changing classification ratings of games to R18+ if they allow certain items to be monetised, reporting mechanisms, and reviewing the process of risk identification to children.¹¹

5G will boost cloud gaming

The roll out of the 5G network infrastructure coupled with advancement in cloud technologies is set to make gaming on a mobile device become ubiquitous. A recent survey put smartphones and tablets as the second most important gaming platform after PCs, with 38 percent of game developers surveyed saying they are currently developing for the mobile platforms.¹² Google Stadia, scheduled to launch in 2019, promises gaming at up to 8K resolution from any internet-enabled device without the need for additional hardware.¹³ Apple Arcade also offers subscription based streaming from the cloud.¹⁴ The challenge for these new gaming subscription services will be the availability and reliability of high speed internet connectivity.

Professional Gamers are reaching rock star status

The professionalisation of gaming into e-sports has seen a lucrative ecosystem develop for gamers with large international prize money pools, streaming revenue, one to one sponsorship or in-kind gifting/ tipping all supported by behemoth platforms YouTube, Twitch and Patreon.

Gaming influencers and e-sports athletes in Australia are well and truly benefiting from the rise in influencer culture, and continue to have platforms on which to monetise their skills. Like any other influencer, from beauty to fitness, the three core elements of success are an authentic connection with the audience, timeliness of content, and high quality video and skill. Grace Watkins, Director of Click Management explains, 'Australia has 3 of the top 10 *Fortnite: Battle Royale* content creators in the world.'¹⁵

‘The International’ is the biggest and most prestigious event on the Major Championship DOTA2 circuit and in 2018, Australia got its first champion: OG’s Anathan ‘Ana’ Pham. Ana helped OG secure first place with an attached purse of ~US\$11.3 million. His personal total prize pool over his career is ~US\$2.8 million.¹⁶

Securing e-sports’ streaming rights deals will drive sustainability

E-sports is open for business, with buying teams, hosting events, selling tickets, partnerships or sponsorships all driving revenue in the sector. It has enjoyed enormous growth in recent years, with multiple professional tournaments and stadium-level events being held, like the Intel Extreme Masters and Melbourne E-sports Open.

Mirroring other more traditional sporting codes, the industry believes the key to unlocking long term sustainability will be the sale and distribution of streaming rights. CEO of Gfinity Australia, Dominic Remond believes that ‘the reliance on sponsorship revenue is still too high in Australia [where it is upward of 80 percent for some operators] compared to traditional sports [that take a lot more from media rights]’.¹⁷

E-sports are becoming more attractive for mainstream advertisers

Advertising revenue in the gaming industry has traditionally been limited. With the growth of e-sports audiences and influencers, the mainstreaming of gaming culture has made sponsorship and event advertising a much more attractive proposition.

Audiences too are ‘supportive of brand sponsors that relate closely to their passion of e-sports’,¹⁸ especially where the activation is authentic. For advertisers simply looking for mass reach at a low investment cost, esports will still be a fringe event, however, where there is a natural brand fit with the context of play and gaming culture, a deeper, bespoke sponsorship package would be attractive. Gaming hardware and software and other entertainment products including films and food and beverage products are industries that are benefiting from this alignment.

Addressing consistent metrics for success, and continuing to demonstrate mass reach is integral, as ‘growth won’t come until eyeballs are proven’.¹⁹

‘Understand where you fit in and how your fit adds value if you want to see a return in e-sports.’²⁰

Scott Russell, Former General Manager E-sports, The HOYTS Group

Breaking news: Sony and Microsoft have recently announced a ground-breaking alliance to jointly develop a cloud-based gaming solution for consumers enabling them to compete with Google, Amazon and Apple’s solution.

Total interactive games market (A\$ million)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-2023 CAGR
Mobile gaming revenue	703	870	988	1,004	1,118	1,215	1,315	1,404	1,462	1,515	
% change		23.8%	13.6%	1.6%	11.4%	8.7%	8.2%	6.8%	4.1%	3.6%	6.3%
Physical console	565	535	458	470	469	460	451	437	421	402	
% change		-5.3%	-14.4%	2.5%	-0.1%	-1.9%	-2.1%	-3.0%	-3.6%	-4.5%	-3.0%
Digital console	181	247	349	422	461	508	563	629	706	795	
% change		36.5%	41.3%	20.9%	9.4%	10.1%	10.9%	11.7%	12.2%	12.5%	11.5%
Physical PC	49	43	41	39	35	32	28	24	20	17	
% change		-12.2%	-4.7%	-5.0%	-9.3%	-10.2%	-11.7%	-14.3%	-15.4%	-17.2%	-13.8%
Digital PC	238	292	365	388	472	526	583	638	693	750	
% change		22.7%	25.0%	6.3%	21.7%	11.3%	10.8%	9.5%	8.7%	8.2%	9.7%
Online/microtransaction	132	187	199	252	840	1,052	1,354	1,800	2,470	3,512	
% change		41.7%	6.4%	26.5%	233.7%	25.2%	28.7%	33.0%	37.2%	42.2%	33.1%
eSports	1	1	2	2	4	5	5	6	7	8	
% change		26.5%	46.6%	55.5%	51.1%	25.8%	19.4%	17.6%	15.2%	13.8%	18.3%
Games advertising revenue	34	38	44	49	55	63	71	84	100	121	
% change		11.8%	15.8%	11.3%	12.6%	13.4%	13.6%	17.7%	19.5%	21.2%	17.0%
Total	1,903	2,213	2,446	2,626	3,455	3,860	4,370	5,023	5,881	7,120	
% change		16.3%	10.5%	7.4%	31.6%	11.7%	13.2%	15.0%	17.1%	21.1%	15.6%