

Is the Future of Gaming Digital?

Opportunities for downloadable content

Bite Sized Thought Piece

2009



UK games market rooted in retail

2008 was a record year for the UK videogames industry. Despite the economic downturn, the software market grew by over 20% year-on-year to £1.905bn (ELSPA/GfK Chart-Track figures). The vast majority of this spend was on physical discs purchased in the high street or from online retailers.

Despite the growth in downloadable content (DLC) in other markets like music, for the games industry it was estimated to be just a fraction of the total (all format /platform) combined packaged and downloaded games sold in 2008. Going forward, is the shift from physical to digital inevitable or will it remain a niche market?

This thought piece explores the level of interest in downloadable content in the games market, the price gamers are willing to pay and what's holding back adoption.



Importance of DLC for the publishers

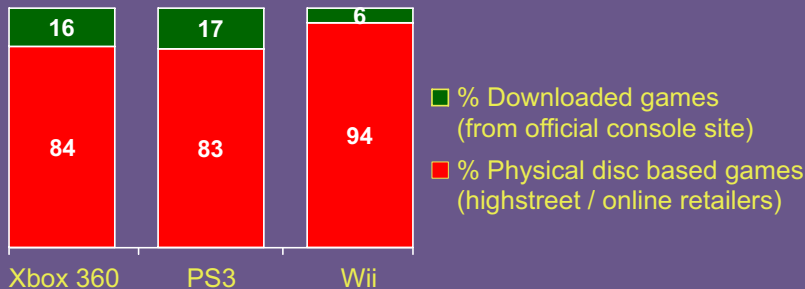
Publishers see DLC as offering multiple benefits. Distributing games via the internet not only boosts margins through efficiencies in manufacturing and cutting out physical retailing, but also helps stem the rise of the second-hand disc market which is stronger than ever with new entrants including HMV and Amazon.

Digital distribution has its roots in the PC sector, with companies like Valve through its Steam platform offering a well established downloadable content portal, which now boasts some 21 million subscribers worldwide, offering over 700 titles.

Looking at the success of companies like Valve, the console manufacturers are each developing their own online platforms to leverage direct distribution of content to a growing connected user base. Based on research conducted by Ipsos MediaCT, 31% of Xbox 360 users have paid to download games from Xbox LIVE, 27% of PS3 users from the PSN store and 10% of Wii users from the Wii Shop.

The research also reveals that compared to the overall games market, downloadable games make up a sizeable proportion of titles consumed amongst latest generation console owners. For PS3 gamers, DLC makes up 17% of current consumption, with Xbox 360 gamers at 16% and the Wii at 6%. Clearly the market has begun the shift to digital.

Proportion of games bought in last 12 months



Base: 468 Console gamers 12-18 May 2009, Source: Ipsos MORI

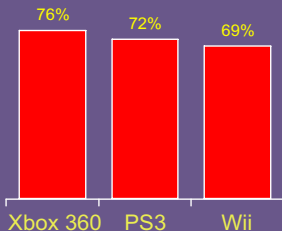
Opportunity of DLC for new release games

The future opportunity for DLC is considerable. Research from Ipsos MediaCT amongst regular gamers shows that interest in paying to download new release games from official sources is extremely high. Most interested are Xbox 360 users at 76%, closely followed by PS3 users at 72%, with Wii users slightly lower at 69%.

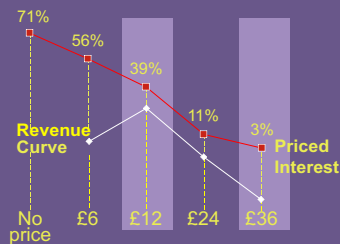
Getting the price right is critical. When downloads are priced at comparable levels to retail boxed games, around £36, interest in a downloadable version drops to below 5% for all gamer types. The optimum price, where total revenue is maximised, is around £12 - a considerable price drop from retail. And although pricing of new release titles at this level might not be realistic at the present time, it highlights the perceived value gap between physical and digital.

Interest in downloading new release games

Overall interest by console



Priced interest (all consoles)



Base: 468 Console gamers 12-18 May 2009, Source: Ipsos MORI

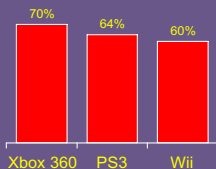
The long tail

The long tail advantage of digital is another attractive prospect for games firms. Not only will titles remain available indefinitely, publishers are also able to delve into their back catalogues and earn extra revenue re-releasing software through online platforms. It's a win-win situation. Publishers can sell old or budget games at lower risk, and without fear of being de-listed through lack of shelf space, whilst consumers get a better range of titles to choose from.

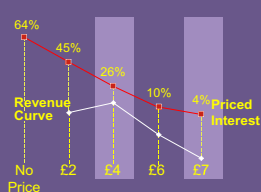
Research from Ipsos MediaCT shows that the level of interest amongst gamers in downloading catalogue titles is nearly as high as that of new release (Xbox 360 70%, PS3 64%, Wii 60%), with interest holding up at 26% at the more realistic price point of £4 - the point at which total revenue is maximised. So in the short term it is more likely that the boxed budget sector will be affected by digital, as the likes of Steam, Xbox Live, PSN and Nintendo's Wii Shop Channel re-release software titles and capitalise on this market interest.

Interest in downloading catalogue games

Overall interest by console



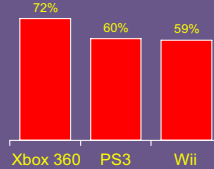
Priced interest (all consoles)



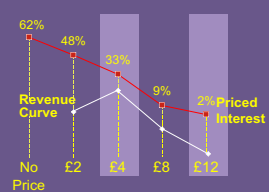
Base: 468 Console gamers 12-18 May 2009. Source: Ipsos MORI

Interest in downloading expansion packs

Overall interest by console



Priced interest (all consoles)



Base: 468 Console gamers 12-18 May 2009. Source: Ipsos MORI

Furthermore, interest amongst gamers for downloadable expansion packs (game maps, song packs etc) is considerable, led by Xbox 360 gamers at 72%. And more importantly 1 in 3 console gamers remain interested when content is priced at £4. For publishers, pushing this market forward now will be key in accelerating the mass adoption of full game downloads, as consumers trial and become familiar with the download experience.

So what's holding back adoption?

An immediate obstacle to overcome in developing the download market is the fact that a significant number of gamers don't have their consoles linked up to the internet - 55% of Wii users, 33% of Xbox 360 users and 29% of PS3 users.

Outside of connectivity issues, the key reason given by those not interested in downloading games is preferring to have the physical disc (38%), followed by 17% wanting the packaging/box. A digital copy doesn't come with hard copy instructions, can't be lent to friends, or traded in like a disc can. Since these are important to a lot of gamers, it seems unlikely that the digital format will completely replace the physical format in the foreseeable future.



Opening up the market

To push digital further into the mainstream, a combination of things need to happen which are starting to occur. It's about online distribution, it's about pushing out faster broadband speeds and it's about pricing at the right levels.

We are probably still years away from a significant shift away from disc based games but the market has the opportunity to push forward. The consumer is willing to pay to download games and embrace DLC, the market now just needs to catch them up with a realistic offering.

At Ipsos MediaCT, through our understanding of digital markets we are ideally placed to identify emerging trends and help shape future strategy for digital gaming.

For more information, please contact:

Ian Bramley
Tel.: +44(0)20 8861 8000
Email: ian.bramley@ipsos.com
www.ipsos-mori.com



Peter Duffin
Tel.: +44(0)20 8861 8000
Email: peter.duffin@ipsos.com
www.ipsos-mori.com

