

Mobile Fun & Games III

Third Edition



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Fun & Games ~ Third Edition

Introduction

For many years mobile games suffered from the stigma of poor functionality and usability and were seen as the poor relations of console and PC games. That is certainly no longer true; the mobile games industry has now come of age and created a market in its own right built around the inherent strengths of mobile communications technology. The industry has just gone through a year of rapid growth and structural change and there is every prospect of continued strong growth in revenues through the first decade of the 21st century and beyond.

Mobile games provide a core element of the growing market for mobile entertainment products and services, despite some of the recent headlines being taken by mobile video and mobile TV services. The gaming experience provided by mobile games is improving all the time and the mobile channel brings its own advantages in terms of anytime/anywhere gaming. As David Gosen CEO of I-play put it “*mobile gaming is a snack, console gaming is a 3-course meal. They are a different user experience*”. The broader electronic games and entertainment industry is now recognising this:

- Large console games developers and publishers are entering a market they previously spurned as they begin to see mobile games as a legitimate sector of the electronic games market that they cannot afford to ignore.
- New games are being developed specifically for the mobile channel, to capitalise on its strengths.
- Opportunities to create new revenue streams within mobile games, such as in-game advertising, are beginning to be developed.
- Big media and sports brands are increasingly aligning themselves with mobile games industry products and publishers, as they see the development of a new channel for brand promotion and merchandising.

Also a sign of a maturing market is the level of merger and acquisition activity in the mobile games industry and new distribution arrangements as market players seek to position themselves to best advantage. Structural developments of this kind seek to address:

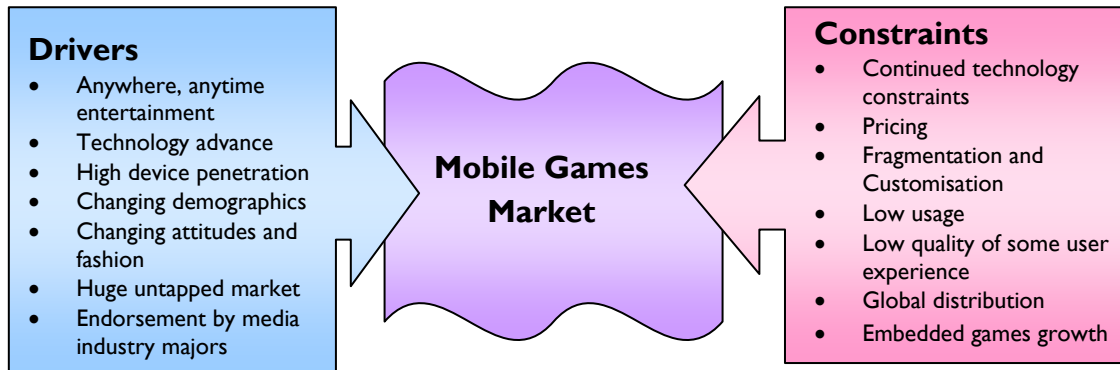
- IPR acquisition.
- Acquisition of technology.
- Acquisition of development resources.
- Development of new distribution channels.
- Opening up of new geographic or socio-economic markets.

This activity is forecast to continue over the next few years as the true potential of the mobile games market becomes apparent and venture funds seem to be being made available for investment in this sector, which is always a sign of optimism.

Market Drivers and Constraints

The market for electronic games generally is well proven and mobile games promises to provide the most pervasive channel of all. The mobile channel has many inherent advantages for the provision of games. It also has some disadvantages. Both will help shape the nature of future services and their speed of uptake. The principle drivers and constraints that Juniper has identified are summarised in Figure 1 below.

Figure 1: Mobile Games Drivers and Constraints



Source: Juniper Research

Each of the bulleted points is expanded on below. After a year of very positive market activity, the drivers are in the ascendancy. However this does not mean that the constraints have been minimised or overcome. They are still very much evident and will need to be addressed by players intending to gain, or maintain a strong market presence.

Market Drivers

Anywhere/Anytime Entertainment

This is the great inherent advantage of the mobile channel for games. Unless you are a really dedicated gamer you will not have your electronic games device with you most of your waking day – but you may well have your mobile phone. As mobile phones increasingly become accepted as multi-functional devices, a whole new market opens up for casual games playing that simply has not existed before. The attraction of being able to play an entertaining and possibly even challenging game whilst confronted with “dead time”, or when you just need to relax for 10 minutes, must be apparent to individuals from all walks of life.

Technology Advance

All mobile games benefit from the inexorable advance of mobile communications technology. Key to improvements in mobile games performance, and more to the point, the end user experience, have been improvements in processing power and memory, screen and other handset control and feedback technology and in network performance with the introduction of 3G networks. Just as important have been improvements in delivery platforms and models, making mobile games more accessible to the end user.

Increasing Mobile Penetration

Mobile penetration in most countries is now greater than fixed internet access. The challenge is to convert those overall penetration levels into active users of mobile data services and mobile entertainment services in particular.

Changing Demographics

The prospect of anywhere/anytime entertainment may not be totally all pervasive – you do have to have some disposable income. Average disposable incomes vary dramatically in different world markets, not just in absolute levels, but also in terms of percentage of total income. However, disposal incomes are beginning to rise significantly in many major developing markets, introducing a whole new section of the population who are attracted by the products and services offered by the mobile communications industry. In the case of mobile games the pervasiveness of mobile technology is also changing the demographics of mobile games playing in terms of socio-economic and gender grouping. Mobile games really are now beginning to reach out to the mass market.

Changing Attitudes and Fashion

Linked to changing demographics are changes in attitude and fashion. What was cool ten years ago, is not cool now. Playing electronic games was once the province of young males. This is no longer the case, with many games titles aligned to TV shows, films, fashion, personalities etc the appeal is broadening all the time. A number of developers are focusing very specifically on the casual, mass market in their games development and Juniper Research is convinced that this will be the major mobile games battlefield of the future.

Huge Untapped Market

Despite advances in technology, and ever increasing mobile subscriber numbers, penetration levels for mobile games remain relatively low, leaving a huge untapped market.

Big Brand Endorsement

Developing industries always gain traction when big brands bring their brand image and marketing clout to play in the market place. In its infancy the mobile games industry was populated mainly by specialist development and distribution companies. Some of these have merged, or grown organically, to create powerful brands in their own right. They have also been joined by large electronic games brands, which are developing mobile games and/or licensing the mobile rights to their games, and global media and entertainment brands including major TV networks and film studios using the mobile games channel as part of a broader merchandising strategy.

Market Constraints

Continuing Technology Constraints

Mobile games will always be a different user experience to console games. There will always be serious gamers who will only want to play games on the best available platform. The mobile channel will probably not attract them, although some may draw a distinction between “serious” and “casual” games play and take the plunge. In the serious game player’s eyes the mobile channel will always have technology constraints, mainly due to the form factor, but the gap is closing. However, the casual games market represents the real future for mobile games and in this sector these technology constraints are less of an issue.

Pricing

Pricing is an issue of much discussion in the mobile games industry. There are conflicting pressures on the price of mobile games. The development and maintenance costs for mobile games are significant and developers and publishers want pricing to reflect their true value. However, the mobile content market is very price sensitive and many in the industry feel that the only way to achieve the usage volumes that will achieve the mobile data revenues that operators require, is to reduce prices.

Fragmentation and Customisation

At the moment there is a tremendous development and maintenance overhead for mobile games associated with customising them for different handsets. This can be turned to competitive advantage by those developers that have the best games execution engines. However, even for these companies fragmentation remains a tremendous overhead and the industry is at last working on standardised interfaces.

In addition to the issue of porting to different handsets, many games have to be adapted for different markets and cultures. This is both a constraint and an opportunity. Some games have global applicability; some address a particular regional preference, some need tailoring for different markets. The key to success is knowing which is which!

Low usage levels

Whilst the huge untapped market indicated above is a tremendous opportunity, the fact remains that current usage levels are still considered by many to be relatively low. But are they? Juniper Research is of the opinion that very few mobile content services, ringtones apart, have usage levels that much higher at the present time. Juniper sees mobile games for the mass market as a significant contributor to raising these levels and predicts substantial increases in mobile games penetration and usage per user, over the next five years.

Quality of User Experience

Accessibility is an issue for most mobile data services and a lot of industry effort is now going in to facilitating easier search and retrieval for mobile data services. Once found, the service, or software product, has to be intuitive and easy to use. Accessibility and usability will be vital in developing the casual games market. “One Thumb” approaches like many of the I-play and Digital Chocolate games aimed at casual gamers must be the way forward for this market.

Global Distribution

The wider the applicability of a game and the associated brand, the better the chance of achieving mass market volumes. Global distribution remains a challenge for many games developers, particularly those addressing mobile games market niches. For all developers and distributors success requires robust partnerships with others in the distribution chain, including distribution partners, operators and regional brands.

Embedded Games

This is not a constraint on the development of the mobile games market in the true sense, but it is certainly a constraint on download and subscription revenues, if more appealing games and a greater variety of games are embedded on the handset. Embedded games are a major revenue stream for some developers and with handset manufacturers and operators striving for competitive advantage, play for free embedded games will continue to have a place in the market and will always take a portion of casual gamer playing time.

Keys to Success

Taking all the above into consideration the key to success in the mobile games industry is going to be achieving the right balance for your business at a particular point in time and having a clear roadmap detailing how that will move forward. This applies wherever you are in the value chain, but particularly to developers, publishers and distributors.

According to Kristian Segerstrale, MD EMEA Glu Mobile: *“The keys to success in the mobile games market are the ability to deliver a great gaming experience on a very large number of handsets to a large number of consumers globally, access to instantly recognisable brands, and ability to reach the consumer through targeted merchandising and advertising aimed specifically at mobile consumers”*.

That probably says it all!

The Market for Mobile Games

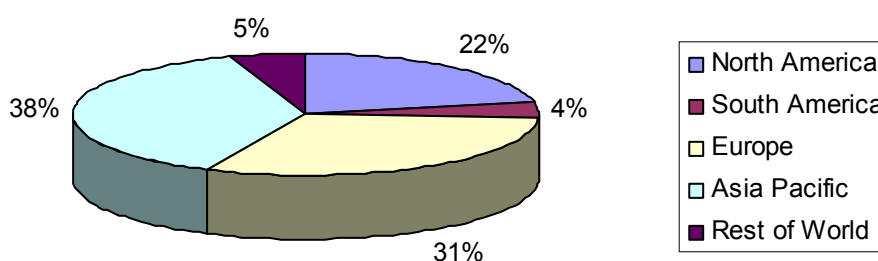
The mobile games market has now established itself as a sector of the mobile content market of some considerable substance. Following a year of rapid market growth Juniper Research estimates that annual revenues will have passed the \$3 billion mark by the end of 2006. Continued strong growth will take annual revenues to over \$17.5 billion by the end of the Juniper Research forecast period in 2011.

The largest market will be in Asia Pacific, although the revenue picture hides the true level of activity. Over the whole analysis and forecast period, 2006 to 2011, the Asia Pacific region will contribute 38% of global revenues. However, Asia Pacific has the lowest average mobile games price levels of all the regions and in terms of activity; domination of the global market by Asia Pacific is even more pronounced. Over the period 2006 to 2011, over 60% of global one time downloads are forecast to come from Asia Pacific.

The European market is estimated to be the next largest, but the slowest growing. This is not surprising as most European markets are approaching saturation in terms of mobile subscribers, so growth on the back of pure subscriber base growth is limited. North America is forecast to be the fastest growing of the more developed markets

Total global cumulative revenues from mobile games over the period 2006 to 2011 are forecast to be \$56.9 billion, with Asia Pacific contributing 38%, Europe 31%, North America 22% and the other 9% split between the South America and the Rest of the World regions as shown in Figure 2.

Figure 2: Total Cumulative Revenues from Mobile Games (One Time Downloads and Subscriptions), 2006-2011 - \$54.6 billion. Regional Breakdown (%)

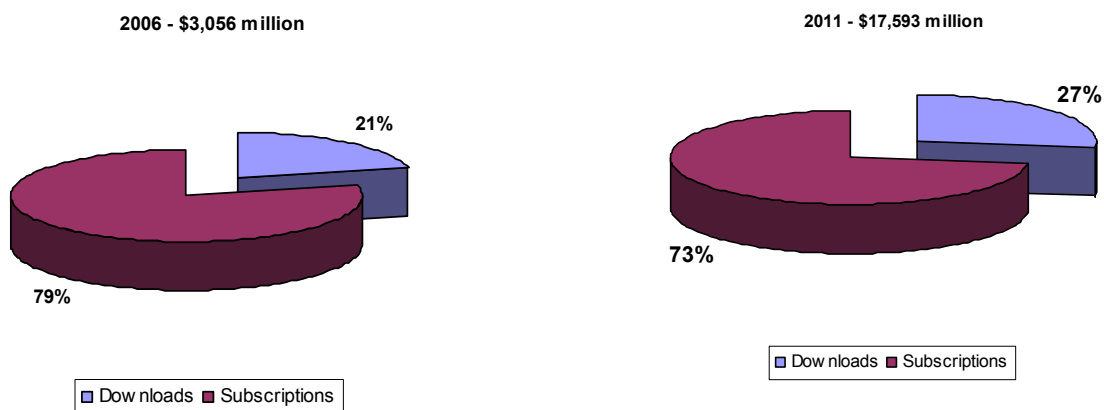


Source: Juniper Research

One time downloads will dominate the mobile games market through to 2011 and beyond. It is an easily understandable method of purchase and allows unlimited usage. However, a growing portion of revenues are derived from those games which are either rented for a specified period, usually as a 'taster' to see whether or not the customer wishes to buy the game, or else access is provided to a site on a subscription basis. Juniper Research believes that this format will increase in popularity as service providers experiment with charging schemes to achieve maximum ARPU and as server-based multi-level and multiplayer mobile games become more attractive in the medium term. These games are better suited to the subscription model and will attract more "serious gamers" from other platforms as their availability and usability improves.

Figure 3 shows the change in the proportion of revenues estimated to come from one time downloads and subscriptions between 2006 and 2011. In 2006 subscriptions are estimated to contribute 21% of revenues, but by 2011 this proportion will have increased to 27%.

Figure 3: Total Revenues from Mobile Games (\$million) 2006-2011.



Source: Juniper Research

Mobile Games: Subscription & Downloads 2006-2011

This white paper is taken from the authoritative study **Mobile Games: Subscription & Download 2006-2011** which provides a detailed analysis of the evolving market opportunity for mobile games, split by subscription and download. With over 204 pages this report considers the next five years and is packed with market opportunities, forecasts and technology comparisons. With extensive research supporting in-depth quantitative forecasts, this report covers market drivers and constraints, including technology advances increasing mobile penetration, changing demographics, untapped markets, and global distribution, pricing, customisation & usage levels.

For more details on this report visit the website www.juniperresearch.com or phone +44 (0)1256 830002.

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About the Author

Bruce Gibson is Research Director of Juniper Research Ltd. He has worked in the IT and telecom industries for over 20 years, providing consultancy services and information products to telecom service operators, application developers/service providers and to industry investors.

Prior to joining Juniper Research, Bruce was Managing Director of Zetetic Consulting, where he provided consultancy services to telecom operator and solution supplier clients in Europe, the Middle East and Africa on IT-lead business process improvement and market strategy.

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