

Video games



Casual gaming, especially app-based gaming has the highest growth rates

Traditional gaming still dominates the video games market by market revenue share



E-Sports as a business innovation will have a major influence on gaming in the future



Segment definition

The video games segment comprises consumer spending on video games software and services (not hardware or devices), including both traditional and social/casual gaming, as well as revenue from advertising via video games. All sub-categories are exclusive of each other.

Traditional gaming includes revenues associated with PCs and games consoles (both TV-connected and portable). This covers physical (disc-based) game sales at retail (both bricks-and-mortar and online retailers), digital game sales (including Steam, Good Old Games and Origin for PCs, and the PlayStation Store and Xbox Games Store for consoles), and additional downloadable content (DLC) and subscription services. Traditional gaming also includes online/microtransaction revenue associated with free to play multiplayer online games but does not include spending on social and casual browser games.

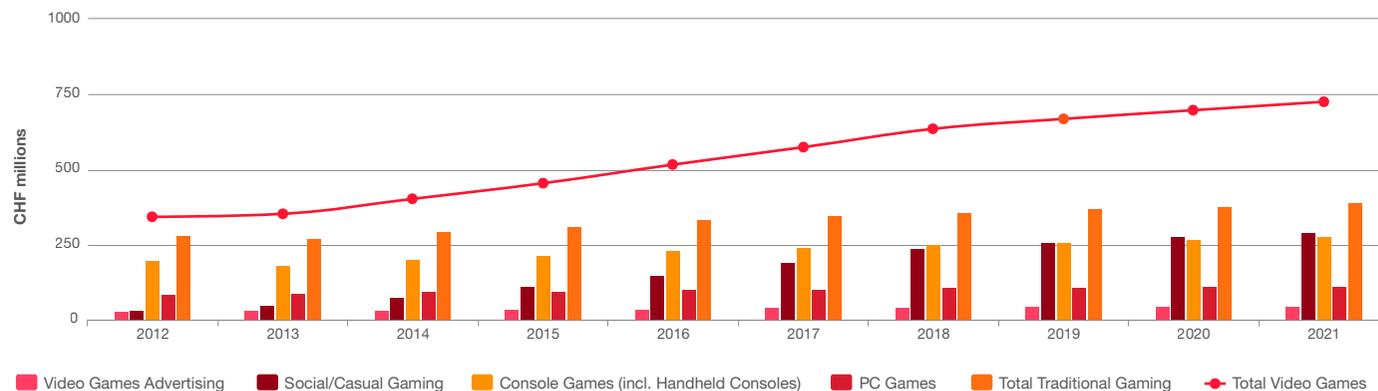
Social/casual gaming includes consumer spending on and in app-based games on tablets and mobile phones, and browser games aimed at casual users. This includes revenues associated with the purchase of social and casual game apps, subscription services for social and casual games, and purchase of virtual items within social and casual games. This also includes revenues associated with 'hardcore' mobile games.

Video games advertising revenue includes only static advertising in video games. It does not include dynamic advertising inserted into or displayed alongside the game in an app or browser during play.

Business innovation

As innovation affects the way we play games (social/casual vs. traditional), the types of games we play (cooperation, survival, **PvE**, **PvP**) and the technology we use (console vs PC, cross-

Video Games Market
by component (CHF millions)



Analysis by PwC

Please note that the research process applied in compiling the relevant data has been revised and updated since last year. Therefore, year-on-year comparisons of the absolute figures may differ substantially.

platform). One business-model innovation has the potential to bring gaming to the next level and even create a whole new global industry where gaming and real life meet: E-Sports.

E-Sports is a shining example of what successful business innovation means: trends and innovations of the gaming, telecommunication, sports and broadcasting industries are combined to create something unique that has not existed before. Something that is new and that many believed will fail. It is driven by the collective allure of those industries and will create a growing multi-billion business in the years to come.

The E-Sport business is growing year by year at double-digit growth rates in terms of revenues and has reached millions of spectators, even outpacing traditional sports such as ice hockey. E-Sports live events fill stadiums around the globe with 20,000-30,000 fans watching and thousands streaming the event live.

Very important to the success of E-Sport are live events in big stadiums that have a lasting impact on the perception of this gaming concept.

While the global market is huge and the potential even bigger, the E-Sports market in Switzerland is still in its infancy. According to Heinrich Zetmayer, the potential for E-Sports is huge since Switzerland constitutes the perfect location for a live event, due to suitable stadiums, open-minded people, great telecommunication infrastructure, well-established broadcasting services, and a geographically optimal location in the heart of Europe.

E-Sport live events have shown a significant and enduring spillover effect on the gaming industry. Analyses have shown that the gaming traffic of the game played at the live event spikes and remains at a higher level after the event.



The Swiss video games market

Market overview

The video games market continues its dynamic and innovative growth pattern. Total revenue in the gaming segment in Switzerland reached CHF 516 million in 2016, a 13.8% increase over 2015. The main contributor within the traditional gaming segment is console gaming, which generated CHF 231 million revenues in 2016. As a new generation of Xbox-One S that allows HD Gaming, Fidelity-VR and **4K**-Ultra-HD will be launched by end of 2017, this segment is expected to grow further. Of no surprise is the ongoing decline in retail sales of games in the area of traditional gaming due to the continuous rise of downloading and streaming.

In reflection of the changed data gathering process and the realignment of sub-segments, casual gaming also contributes substantially to the market revenues. Social/casual gaming contributed CHF 147 million in revenues to the total amount in 2016. The significant increase in social/casual gaming, largely attributable to app-based gaming, is reasonable considering the immense changes last year that accompanied **AR** app-based gaming such as Pokémon GO.

Advertising also recorded a moderate growth compared to 2015 year, reaching CHF 37 million in 2016. Advertising remains a key source of revenues, especially in the social/casual gaming segment with its free-to-play app-based and browser games. This figure only includes static in-game advertising and does not include dynamic banner advertising on an internet page. Advertising in E-Sports offers a vast advertising playground with huge potential – it can reach target groups (e.g. large audiences of young people) which are becoming more and more difficult to access through traditional media.

The dominant topic in this industry remains E-Sports, as already addressed in last year's Swiss Entertainment and Media Outlook.



“With E-Sports a whole new ecosystem of gamers, marketers, broadcasters, TV channels, developers and fans came together, which evolved into an unbelievable success story for Turtle Entertainment and ESL. Developers today design, integrate and improve specific features such as spectator views that enhance the experience of E-Sports. Games played at E-Sports events or in E-Sports leagues are clearly attracting more gamers.”

Heinrich Zetlmayer
Member of the Board, Turtle Entertainment

The success of E-Sports is relevant for all stakeholders in the gaming industry. It will affect not only the gaming industry, but also the TV broadcasting industry.

An important prerequisite for this growth is given: namely, the technological foundation for gaming in Switzerland is among the best in Europe, with a very high smartphone and tablet penetration superior telecommunication infrastructure, and the availability of ancillary equipment (console, PC, TV). Furthermore, the **4G** mobile connectivity standard as well as fibre-to-the-home (**FTTH**) have spread constantly in recent years, thereby making it possible to offer new opportunities for gaming, especially in the traditional gaming segment. In general, the industry is gaining more importance not only economically, socially and technologically, but also from a political point of view. This year, the Swiss Federal council will publish an official industry report.

The limited market size remains the largest obstacle for the gaming industry in Switzerland. Developers within Switzerland



need to succeed internationally – a big challenge indeed. Digital and gaming innovations are the drivers of major markets like Asia, USA, the UK and Germany. Nevertheless, organisations such as Pro Helvetia have recognised these issues and are launching initiatives to improve the situation for local small and mid-sized companies and start-ups.

The Swiss video games market is quite fragmented, but several dominant multinational firms hold the lion's share. There are many small and mid-sized companies that get piece of the pie; some even have an international profile (e.g. Giants Software, Miniclip, Nothing Agency). In general, though, the key players can be categorised as follows:

Multinational firms

International giants still dominate traditional video gaming due to the considerable resources needed for game and console development. The biggest players in the Swiss gaming market are Sony, Electronic Arts and Nintendo, along with a number of other well-known companies.





“The number of fans is the measure for comparing E-Sports with other sports. E-Sports reaches around 386 million fans, of which some 191 million can be considered true enthusiasts. Ice hockey reaches 90 million fans. The market growth of 40% per year is stunning. The biggest financial potential today is still to reach the monetisation of classic sports. So far, E-Sports is just at the beginning of being professionalised and monetised like other classic sports.”

Heinrich Zetlmayer
Member of the Board, Turtle Entertainment

Sony is the leader in sales of video game hardware, with an estimated share of around 15% in 2016. Nintendo is the number one in the hand-held consoles segment, and substantially increased its market share in 2016.

Organisations and institutions

Pro Helvetica supports the industry with its online platform game-culture.ch, where trend topics in the game industry can be found as well as a directory of active companies. The portal's content is prepared in collaboration with Zurich University of the Arts (ZHDK), Zurich University of Applied Sciences (ZHAW), the International Game Developers Association Swiss Chapter (IGDA), and the Swiss Gamers Network (SGN). Pro Helvetica also organises the Swiss presence at international gaming conferences.

Developers

Game developers and designers in Switzerland have enjoyed increasing government and media attention lately. There are around 60 small to very small companies mostly located in the Zurich area. They tend to offer integrated solutions, in which gaming only a component is. Game development is expensive and risky, and competition is aggressive, so Swiss investors are still reluctant to fund video game makers. Their reluctance may lessen as they see some international developers opening offices in Switzerland, and once they start to realise interesting connections between gaming and other industries.

Principal drivers

E-Sports

A key driver of the industry is E-Sports, as it requires an array of investments and the development of suitable consoles and game environments, including spectator mode and different competition modes. Developers are working on making their games fit for E-Sports since several analyses have shown that the gaming traffic during the live event increases and remains at a higher level after the actual game. It can be expected that such events will be organised more frequently on a global scale, and this would also be an interesting opportunity for Switzerland, regardless of its domestic market size. The discussions surrounding whether E-Sports should be part of the Olympic Games reflect the importance and further growth potential of this segment, not to mention the spill-over effects it can have on the entire gaming industry. However, in Switzerland, E-Sports is still not getting much publicity yet.

UPC positioned itself as an early mover in the E-Sports market. It has been very active in promoting the new format via their information platform (www.esports.ch) and supports several professional gaming teams. Also, Swisscom is considering the option to broadcast E-Sports via their pay-TV Teleclub.



Technological developments/infrastructure

Not only is internet **bandwidth** and mobile connectivity improving; the computing power of mobile, consoles and PCs is increasing even as prices decline. These factors enhance cloud gaming, collaboration and the application of VR and AR games.

Gamification

The **gamification** of services remains a key trend that is propelling the gaming industry. A melding the gaming industry and other industries will strongly influence the future development of gaming as a whole. Not only in-app gaming and online gaming, but also traditional gaming will be affected in the years ahead.

New customer segments, 'Silver Gamers'

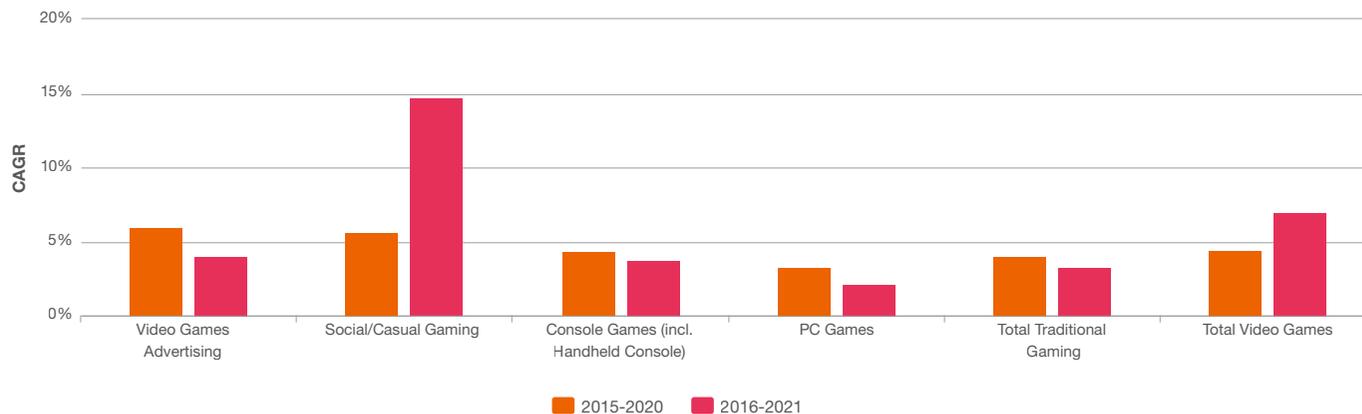
Video games are attracting a broader customer base, particularly older generations and women. So-called 'Silver Gamers' are usually not seeking a high-speed action game, but rather a strategic puzzle or a classic board or card game. Their connectivity is increasing: most own a computer, and their use of smartphones and tablets is on the rise. As opposed to classic (young male) gamers, the Silver Gamer is usually well-to-do and does not mind in-game purchases. The second group that should be focused on are female gamers. Most video games very openly address a male audience. Makers and distributors may need to adapt so they can avoid scaring away a huge potential client base.

Changing consumer behaviour

The role of users in games is changing to a more engaging and active way of participation. This creates a new kind of experience and involvement and attracts a wider range of potential users. Another aspect of tomorrow's changing customer behaviour will be the increased interaction between consumer and developer. Developers need to find an efficient way of unlocking this potential.

Comparison of CAGR

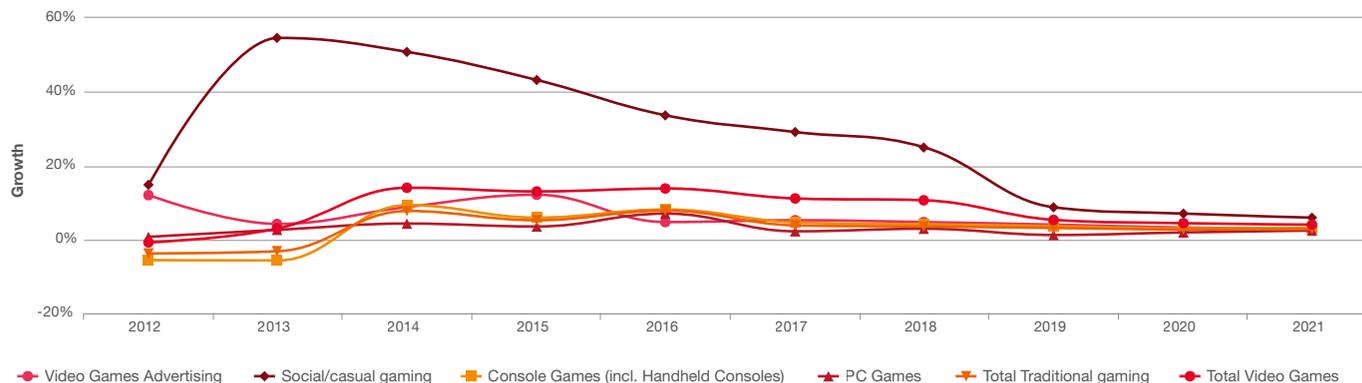
by component (%)



Analysis by PwC

Video Games Market Growth

by component (%)



Analysis by PwC



Market growth

The Swiss video games market is expected to grow at 7% CAGR through 2021. The substantial variances with last year's growth predictions are mainly due to changes in the underlying methodology. With double-digit growth expected in the social/casual gaming segment, this is remarkable but not surprising when one considers the latest developments in this area.

The main driver of the video games market remains social/casual gaming with an expected CAGR of 15% over the next years.

Comparison to Western Europe

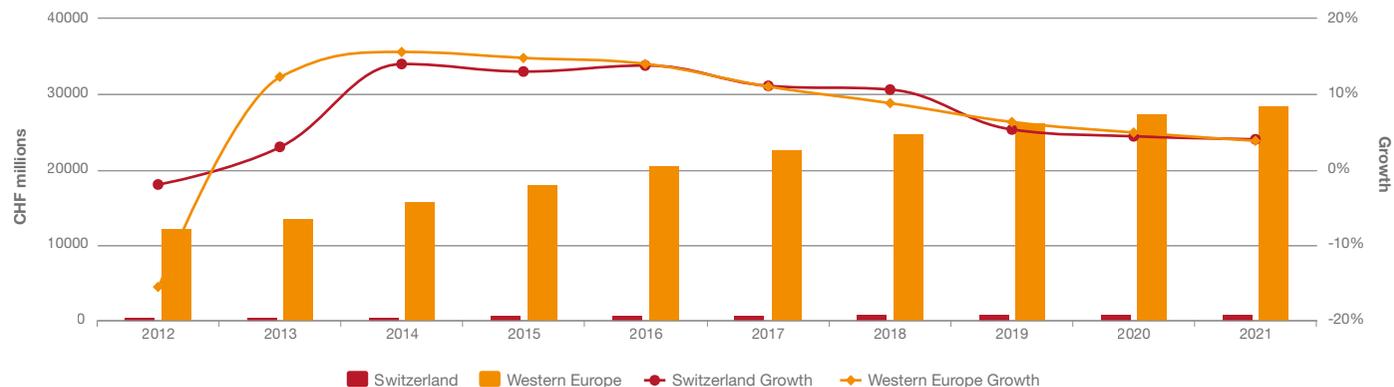
From a global perspective, the gaming market grew to CHF 91 billion in 2016. The casual and gaming segment is the major growth driver, whilst traditional gaming defends its leading position in terms of revenue. The fundamental trends do not differ between the global and the Swiss market.

The changes versus last year are moderate in terms of Western Europe comparisons. Switzerland accounted for around 2.5% of Western Europe's video games segment in 2016. Measured against the largest gaming markets in Europe, Switzerland is still a midget, which is not surprising when one considers the county's total population. Germany's gaming market totalled CHF 4.2 billion in 2016, France's around CHF 3.9 billion. The largest market in absolute terms is still the UK with revenues of more than CHF 5 billion in 2016.

Switzerland's video games segment is expected to grow at a 7% CAGR between 2016 and 2021, similar to the European average. Trends in sub-categories, such as physical game sales, have roughly the same patterns in Switzerland as in the rest of Western Europe. From a growth perspective, Greece, Ireland and Italy are expected to outpace the rest of Europe.

Video Games Market Comparison

Switzerland and Western Europe (CHF millions)



Analysis by PwC

