



Report

Roland Berger



Video Games

AN INDUSTRY OVERWHELMING
UNPREPARED MARKETS

SUMMARY

This paper aims to raise awareness around video games as an investment topic, while shedding light on why gaming stands alone compared to typical tech products.

The video games industry is currently the biggest among entertainment verticals (television, music, movies, etc.), valued at USD 200bn +¹), and enjoys a very attractive user base of 3bn people. Interest from governments and private sector investors is at an all-time high, especially with disruptive tech continuously on the horizon, such as AI, web 3.0, and AR/VR.

However, it remains difficult for new entrants to succeed, including entrepreneurs, investors, and entire markets or hubs. Barriers to entry are among the highest in tech, and the talent issue at the core of the industry can be misunderstood by newcomers.

Nevertheless, investment opportunities are numerous, spanning a wide set of topics from publishing to esports and beyond. What is needed first is a conversation on the investor's aspiration, and how video games can fit their strategies.

1) Mordor Intelligence:
The gaming industry's
market report (2022),
Hyderabad

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1 / Setting the Stage: Gaming's Rising Popularity

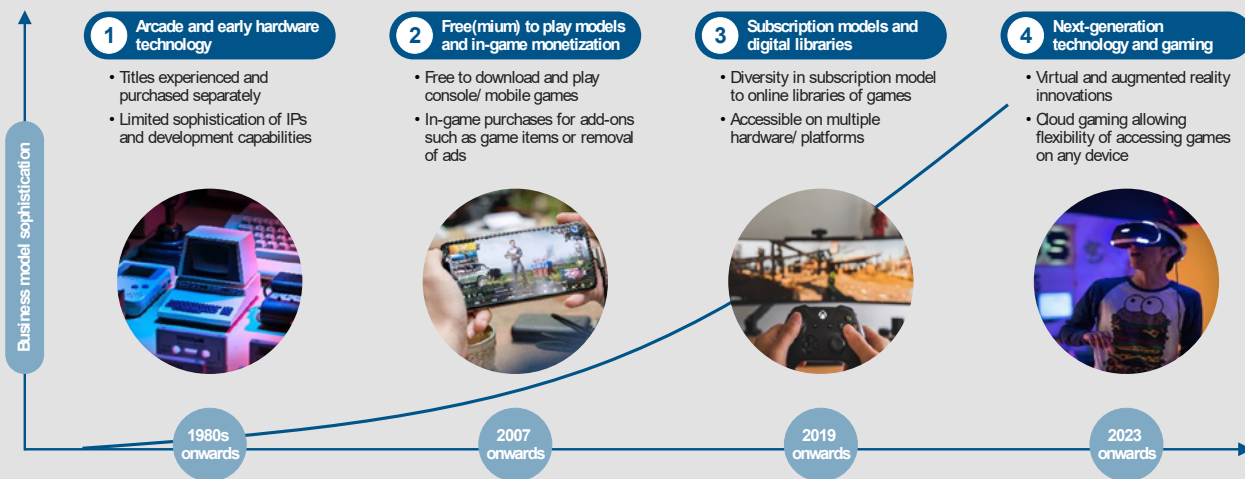
In the late 1980s and 1990s, gaming as a sector materialized thanks to hardware and coding innovations, which introduced the first success stories of the ecosystem. From arcades, followed by the first household consoles, gaming has since grown into a USD 200 bn² industry that reshapes social interaction, artistic expression, and media consumption.

Nearly 40% of the planet's population plays video games³), whether on mobiles while commuting or climbing competitive ranks with groups of friends. Both at home and within school culture, younger generations are increasingly accustomed to video games, with more than 50% of gamers claiming they play online, but also consume content and media such as streams or esports events. → A

2) Mordor Intelligence: The gaming industry's market report (2022), Hyderabad

3) Newzoo Global Games Market Report (2023), Amsterdam.

A / Timelapse of business models in the gaming industry



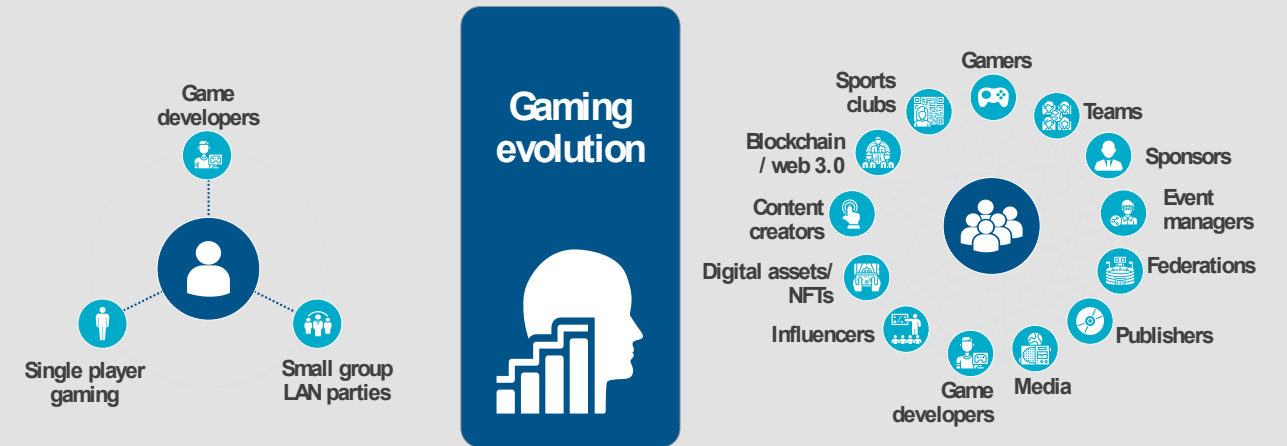
Source: Roland Berger

The gaming industry has historically piggybacked on technological innovation, evolving from 8-bit software coding to the integration of the internet and online services, and now venturing into cloud, Artificial Intelligence, Web 3.0, and VR/AR gaming. It is a continuously disrupted space that reshapes how people design, consume, and interact with Intellectual Property. → B

B / Transformation of the gaming experience

From the classic video games experience...

... to a highly engaged social and community experience



Source: Roland Berger

By crosspollinating tech know-how and creative planning, gaming is reshaping the process of delivering an experience, as observed across multiple disciplines, such as:

- **Music:** Hosting virtual concerts and interactive shows with singers and DJs
- **Sports:** Extending sports competition beyond the playing field (e.g., racing, football, basketball)
- **Education:** Educating through gaming as seen in medicine, history, urban planning, etc.
- **Training:** Simulating real-world or on-the-job scenarios, often through VR and immersive sims

2/ Setting the Record Straight: What Is Gaming and Why Is It Borderline the Rocket Science of Tech?

Recent success stories, fueled by media hype and bold marketing, often lead to misleading guidelines on what defines successful blueprints for ventures. In certain cases, it can also influence investments and market-building efforts towards unfit decisions.

A prime example is the boom of esports, where investors flocked to establish franchises, sign talent, and onboard sponsors, only to realize down the line that esports has limited monetization means and high costs when operated at scale. Another example is publishers attempting to position their IPs as “Experiential Super-apps” where gaming is provided as a live service with features that push monetization and engagement.

Essentially, gaming ventures possess a DNA comprised of three key parameters: Technology, Art, and Entertainment, with each IP leaning more heavily on a particular parameter based on the use case: → C

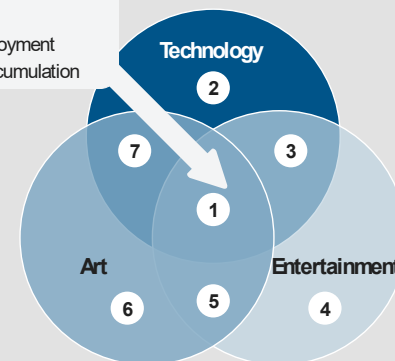
C / Example of products and ventures from the gaming ecosystem

- 1**
- AAA titles
 - Indie games
 - Mobile games

- 2**
- Game engines
 - Dev. assets stores
 - Web 3.0 tech

Sweet spot for:

- IP valuation
- Consumer enjoyment
- Know-how accumulation



- 3**
- Streaming channels
 - Esports platforms
 - Influencer platforms

- 4**
- Publisher conventions
 - Esports festivals
 - Game conferences

- 5**
- TV series adaptations
 - Music albums
 - Comic books

- 6**
- Music labels/ studios
 - Metaverse/ virtual exhibitions

- 7**
- Audio software
 - Digital sculpting and rendering

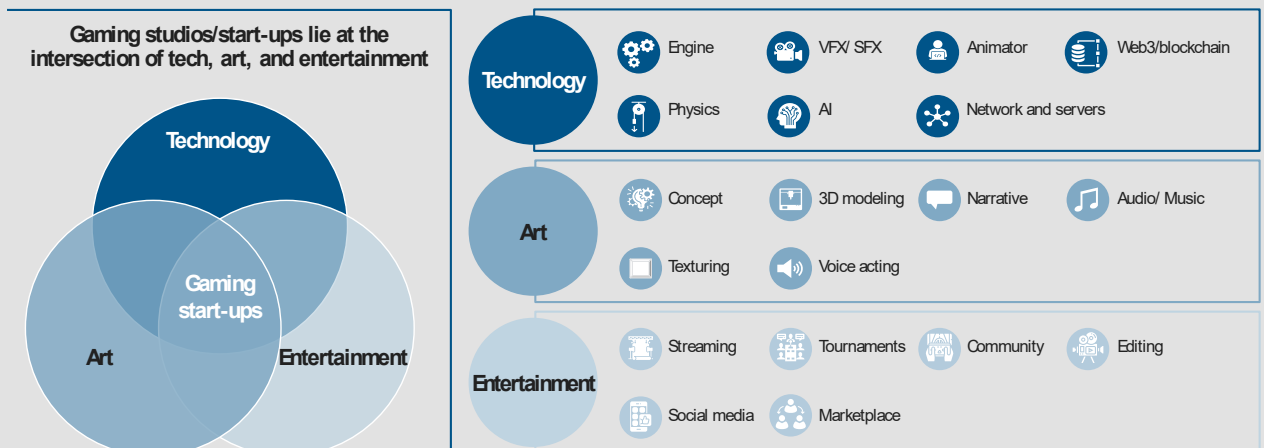
Source: Roland Berger

Large-scale gaming projects are particularly challenging due to the need for expertise in the required tech stack. Each project component carries its own know-how implications, highlighting the talent issue and skill ceiling within the industry. Developers frequently specialize in specific areas, such as engine development, level design, or character animation.

Additionally, there are instances where talent from other disciplines needs to be sourced to meet specific project requirements. For example, literature majors may be needed for scriptwriting, audio engineers for sound effects, or architects for map and level design.

This multidisciplinary nature shows that specialization is important to meet know-how demands, and that the playing field is immense when defining the borders of what counts as a gaming venture. → D

D / Outline of tools and software in which gaming talent should be proficient



Source: Roland Berger

3/ From the Investment Lens: Investing With a Purpose

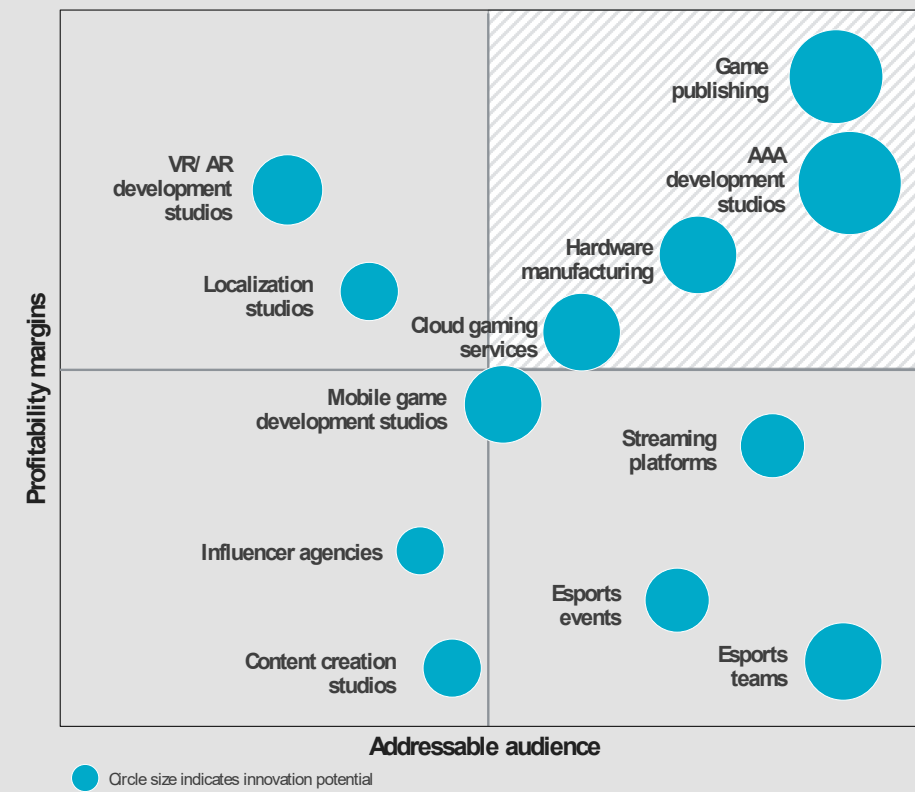
From a venture capital perspective, gaming is a riskier space than usual, especially with the latest emergence of Web 3.0 and AI applications. Elite investors are often veterans of the industry with prior experience in mature markets or as entrepreneurs themselves. A remarkable USD 6.4bn has been raised by dedicated gaming venture capitalists since 2016⁴⁾, despite this funding being geographically constrained in a handful of markets.

4) PitchBook database of investors (2022), London.

For the public sector, success stories exist on how national sectorial strategies and frameworks can systematically nurture the space. It can prove to be slightly complicated as gaming consists of dealing with several industries at once – this is as a result of the space’s DNA explained earlier.

By means of illustrating how diverse gaming investments can be, a map below showcases common business models today, measured against profitability, addressable audience, and innovation potential. → E

E / Illustrative – Mapping of present-day gaming business models



Source: Roland Berger

In fact, there are more metrics and factors that can tell the story for a gaming venture. Depending on the investor profile, some might be showstoppers, and in other cases, a guiding principle. For example:

- **Market growth:** cloud and VR applications exhibiting growth
- **Social impact:** esports as a driving force for social good
- **Scalability:** mobile game studios ability to rapidly capture market share
- **Competitive advantage:** low for aspiring hardware manufacturing players
- **User engagement:** highly thought after by influencer agencies

Each approach has its own use case, and based on the investor/ecosystem maturity, different investments can have different levels of appeal and necessity. Most importantly, having investable projects begins with having the right know-how and driving talent present in the ecosystem.



4/ Unlocking the Market Potential: Solving for Talent

Finding qualified talent to meet the market demand in gaming is difficult, with 75% of studios and startups reporting this challenge⁵). The shortage can be attributed to three main factors:

5) International Game Developers Association survey (2022), Toronto.

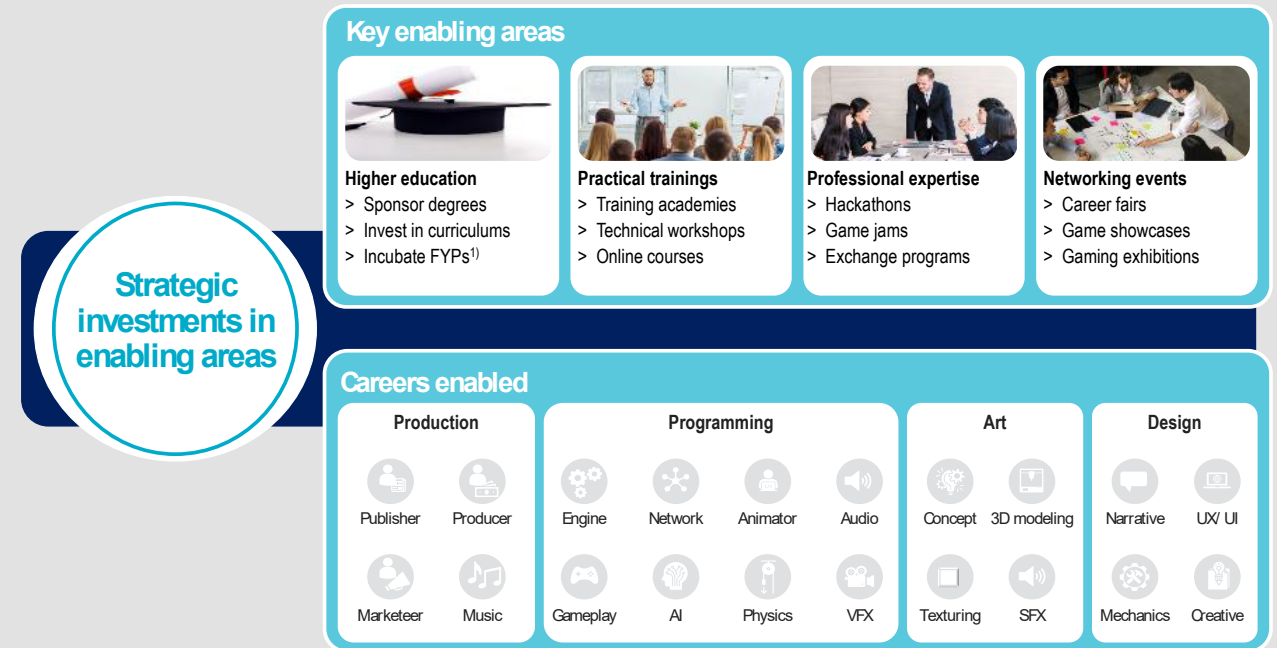
- Large publishers and AAA projects already employ the most skilled professionals in the field
- Majority of this talent is concentrated in few hubs such as USA, UK, Canada, and Japan
- Increased sophistication of the tech stack dictates the need for specialized expertise

While the barriers to entry may be relatively low for simpler products, the complexity of development and the specialized knowledge required can skyrocket for larger projects. This is in addition to the business acumen required to run and scale projects successfully.

It is crucial to address the issue of knowledge and skills development and to establish a sustainable mechanism for nurturing talent, from grassroots to veterans. There are two main options to consider:

- **For grassroots:** Investing in talent development programs and schools that are integrated within the ecosystem. This aims to provide talent with necessary and genuine exposure to projects and industry practices, such as interning with studios, or casters tournament matches, or content editing and marketing gigs
- **For veterans:** Investing in the cross-pollination of tech and other talent that can be repurposed and transferred for gaming applications. This can be achieved through workshops, mentorship programs, and dedicated courses that provide training and guidance for developers to become proficient in gaming jobs → **F**

F / Overview of investment strategies that nurture gaming talent



1) Final Year Projects (Capstone projects)

Source: Roland Berger

5

Looking Ahead: Who's Next?

It is extremely important for new gaming hubs to further mature and join the few legacy markets. Gaming is an industry that cannot be fast-tracked to maturity, and is heavily reliant on experimentation, research, testing, and grassroots breakthroughs.

Few gaming hubs recognize the importance of sustainable planning and strategic approaches for a healthy gaming market as much as South Korea does. Yet, it is encouraging to see that certain countries are now recognizing gaming as a serious and investable market.

Aside from the talent topic, which has been discussed at length, maturing the video games space is also heavily dependent on:

- **Regulations:** A necessity to govern the flow of information and data management across the space. This is needed to safeguard concerns on privacy, security, and other ethical practices pertaining to monetization measures and beyond
- **Culture and awareness:** Gaming preferences and trends are not homogenous across cultures and regions. Cultural factors shape content and player expectations. Diversity and inclusion as design principles enrich the gaming experience and broaden the player base
- **Ecosystem synergy and orchestration:** Collaboration among stakeholders is crucial, including industry professionals, policymakers, and consumers, to foster innovation and establish fair and transparent practices that uphold consumer interests

A region to keep an eye on is the Middle East, a blank canvas where key players are realizing that gaming is a sector that cannot be overlooked. With players such as the Kingdom of Saudi Arabia and the United Arab Emirates leading the charge, they are determined to develop a prominent market that puts the region on the map. With bold initiative such as Gamers8, the largest esports convention held in Riyadh, the gaming community is eagerly on the lookout for what is yet to come.

Our team at Roland Berger possesses substantial knowledge about the global gaming industry, including the barriers to success and the necessary steps to overcome them. With our expertise, we're ready to assist tomorrow's leaders in navigating these challenges and achieving breakthroughs in the industry.

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