Mobile Gaming report 2011

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January 2012

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1. Executive Summary

Tablet and Mobile devices Market

- **Android dominates the smartphone operating system market worldwide**, with a 52.5% of the share, followed by Symbian, with 16.90, and iOS, with a 15%.
- **iOS will dominates the tablet operating systems market** at the end of 2011 with a 59 % of the share, followed by Android with a 40.3 %, and last, Blackberry which just cope the 0.7% of the total market.
- **There are more 250m iOS and 190m Android devices activated.**
- **55% of users play games on their phones or handheld device in 2010.**
- **Games represent the 25.6% of the total downloads in the Android Market**, more than twice the percentage of the second category, which is entertainment, with a 12.2%.
- **Games represent the 17.24% of the total active applications in iOS**, followed for the category Book with the 11.03%.

Mobile Gaming

- **The mobile gaming market in 2011 was worth 8 billion dollars** of the 56 billion of the global video game market.
- **Mobile gaming share of the total revenue of portable game software in US was the 58%.** From a share in 2009 that was the 19 %.
- **Freemium has become in 2011 the most important business model reaching a 65% of the revenue in June.** In January 2011 only account for the 39% of the revenue.
- **The average money spent for people who finally buy in-app is 14$.** But just around the 0.5 % to 6% of total players finally buy in-app.
- **The barriers to entry in the mobile gaming market are low,** in relation with the other video game markets.
- **Currently there are almost 130000 active publishers in the Apple App Store.**

Mobile Market Demographics

- **Games are the most downloaded mobile app categories in all the application stores in the US.**
- **Mobile games are playing on average more by females and the average player age is 28.2 years.**
- **18-24 years is the group of age which expend more time playing and 25-34 is the one which expend more money in freemium mobile games.**

2. Introduction

The release of the iPhone in 2007 by Apple meant the born of an application market through the App Store. A year later, android was launched in order to compete with iOS, the operative system that all the mobile Apple devices use, launching his own application store called Android Market. As well, Apple would make wider this market in 2010, with the release of the iPad, a Tablet device. Today iOS and Android share by far the smart devices market, both smartphones[1] and tablets[2].

In both, App Store[3] and Android Market[4], the most successfull category is Games, which is the one that generates the bigger amount of applications and downloads, the one which obtain the bigger revenue and the category where the costumers are more willing to pay. Besides, in 2011 the mobile video game market worth 8 billion dollars of the total 56 billion of the global video game market[5].

All the facts exposed above reflect the importance of a market that has not reached yet all its potential development. The Market has been forecasted to reach 15 million dollars by 2015[6], a growth rate that will be only beaten by the online gaming, a platform which is intimately linked with mobile gaming, because in many cases games can belong to both, and this will be even more common in the future.

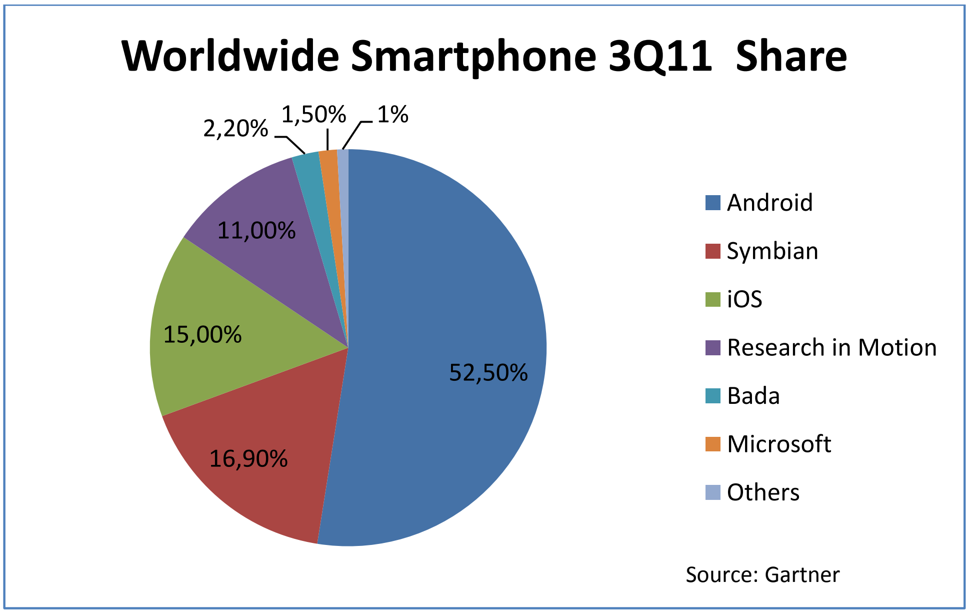
This market report has the aim to show how the mobile gaming market performed in 2011, trends, business model, and market volume. This will be done through the analysis of the four key players in the mobile gaming device, platform, content and consumers. In order to analyse the last one of them, some consumer demographics will be studied. The market report will provide some key data, current developments and future forecast that will give to game developers and advertisers an exclusive insight of this industry in order to identify new business opportunities.

3. Mobile Devices and Application Stores Market.

Mobile gaming is referred to all those video game which are played in smartphones and Tablets. As can be seen in the graphics below iOS and Android are the biggest players in the mobile market.

Android clearly dominating the smartphone market and doubling his registers of the same period last year[7], this huge growth is in part because Samsung became in the third quarter of the year the first smartphone manufacturer worldwide. Apart from that Android is the smartphone operative system which is used for the bigger amount of manufacturer as Samsung, LG, Motorola, HTC or Sony Ericsson, with a share of the 44.2%. Meanwhile iOS is carried only in the Apple devices, but just by itself apple have the 15% of the market. If compared with the same period of last year, Symbian has lost almost a 20 % share in a year, and it is matter of time that the operative system will be out of the market after Nokia, main manufacturer using Symbian, announced in February that for so on it would use Windows Phone as operative system for the new releases of the company. As a consequence of this, during 2012, a further decrease in the Symbian share could be expected and, in contrast a rise in the windows figures.

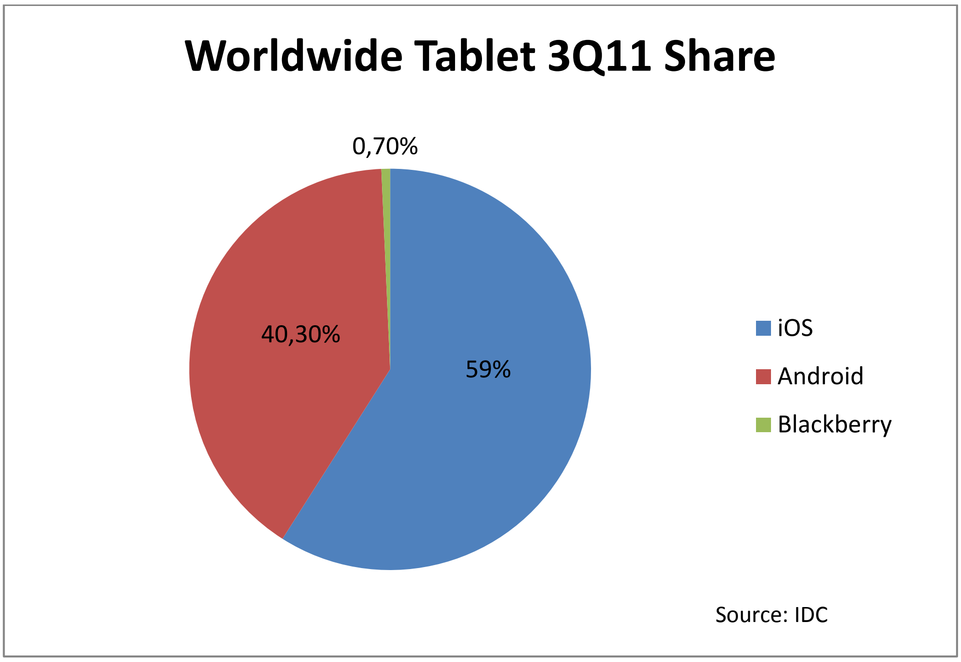
Figure 1



In the Tablet Market the figures are quite different, with iOS clearly dominating the market with a huge 59 % of the share this because Apple once again (after what it did with the iPhone) open a Market releasing the first iPad in 2010, having a 73% share in the end of the year[8]. This year Apple release the 2nd generation of the iPad in order to consolidate its dominant position, but the entrance of new players in the market, as Amazon and Barnes & Noble, which released in this quarter its own tablets, both companies using Android as operative system for their devices. This made Android to rise from the 32.4% of the share to a 40.3%.

All this data show that the two main operative systems in mobile devices are Android and iOS. That is, the 67.5 % of the smartphones and the 99.3% of the tablets have one or the other.

Figure 2



In their latest public statements of 2011 regarding installed base, Apple and Google reported a total of 250 million iOS devices and 190 million Android devices activated, respectively.

In the smart devices controlled by iOS or Android, the way to obtain programs its trough the application stores. The App Store is the program to buy any application in the Apple devices meanwhile the Android Market is the homonymous for all the devices that use Android as operative system.

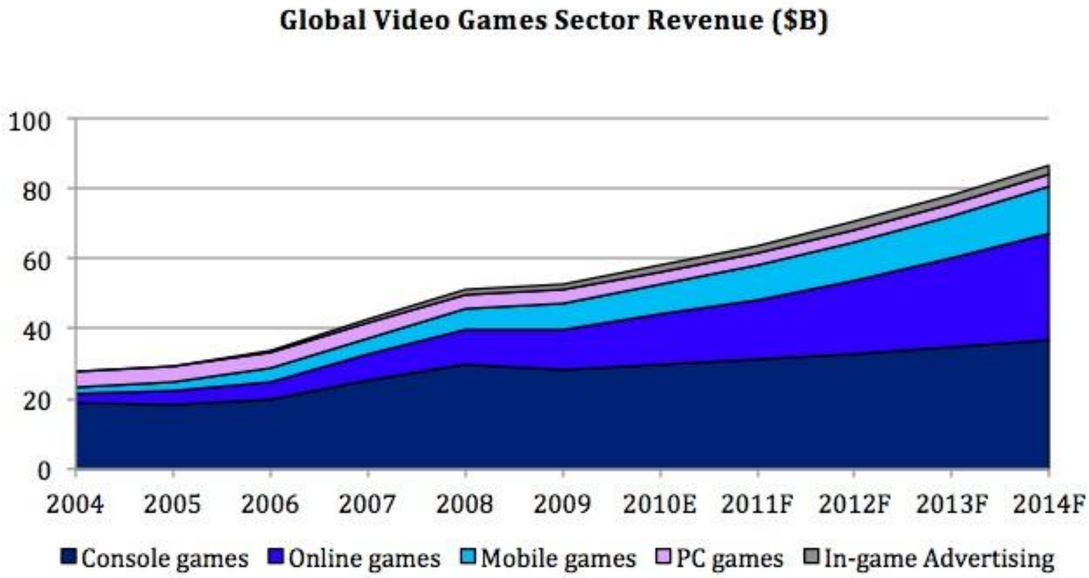
In the App Store, the category "games" account for the 17.24% of the total active applications, followed for the category Book which gather the 11.03%. Last month, December of 2011 the 18% of the apps submitted were games. 16 of the top 20 grossing applications in the App Store are games. 8 of 10 and 9 of 10 are games of the top paid applications for iPhone and iPad respectively. And something similar happens with the top free applications.

On the other hand the numbers of the "games" category in the Android Market are not that different. The 25.6% of the applications downloaded are games, followed by far by the "entertainment" category which share the 12.2% of downloads. 65, of the top 150 free apps were games, as well as 69 out of the top 150 paid download[9].

All this data prove the great importance of the videogames in the total mobile device market, a market that seems will grow at a rate of 8%, and in 2014 mobile and online gaming will account for the 50% of the global industry revenue.

4. Mobile Gaming.

Figure 3. Source: Digi-Capital

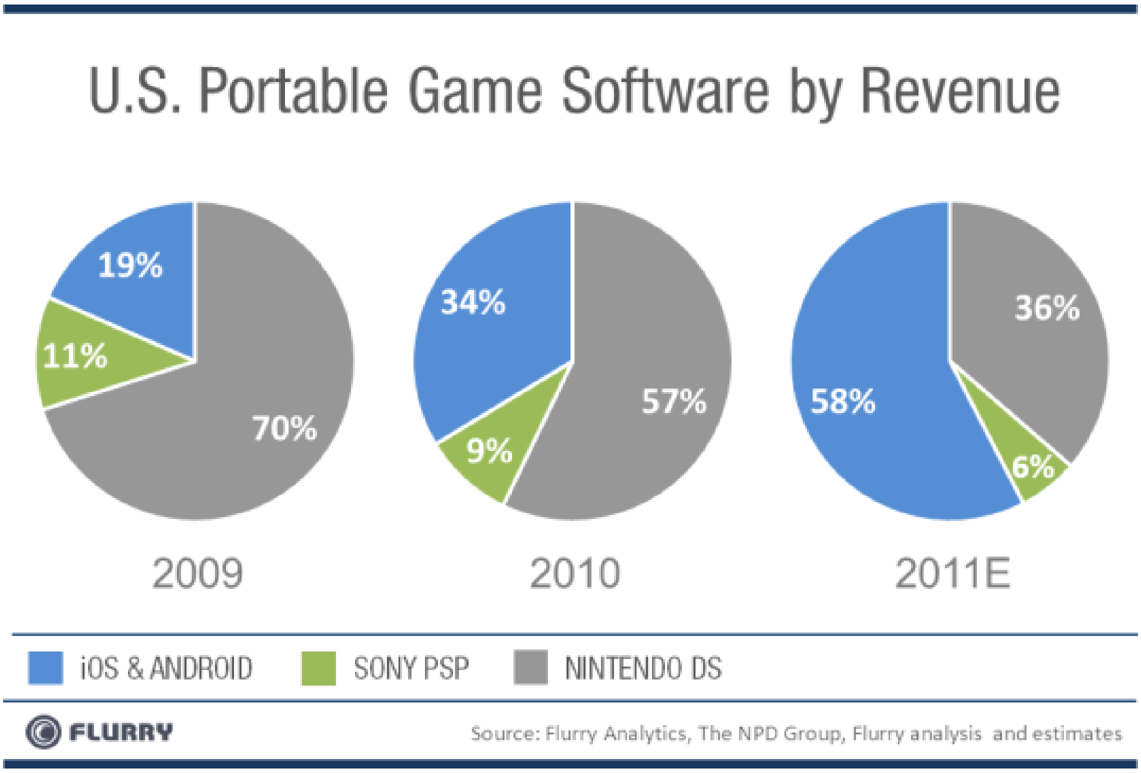


According to *The Economist*[10] the mobile gaming market in 2011 was worth 8 billion dollars of the 56 billion of the global video game market. This means a growth of the 12.5% respecting 2010 and has been forecast that in 2014 the mobile market size will be between 14 and 15 billion dollars.

It could seem that the market is not that big but should be taken in consideration the average price per game in the App Store is 1.00$[11] meanwhile the average price of a release in the traditional game market between 50 and 60 $. In fact, sales for boxed games in UK in 2011 were down a 7% in 2011, including console and PC games[12].

Another fact to take in is that mobile gaming is actually gaining the battle in the portable game category against the handheld consoles, Nintendo DS and Play Station Portable. The share of revenue generated for mobile gaming has risen from a 19% in 2009 till a 58 % of the share in 2011 (Figure 4). That means a growth of almost 70% each year.

Figure 4



4.1 Business Models and the consolidation of the Freemium Model

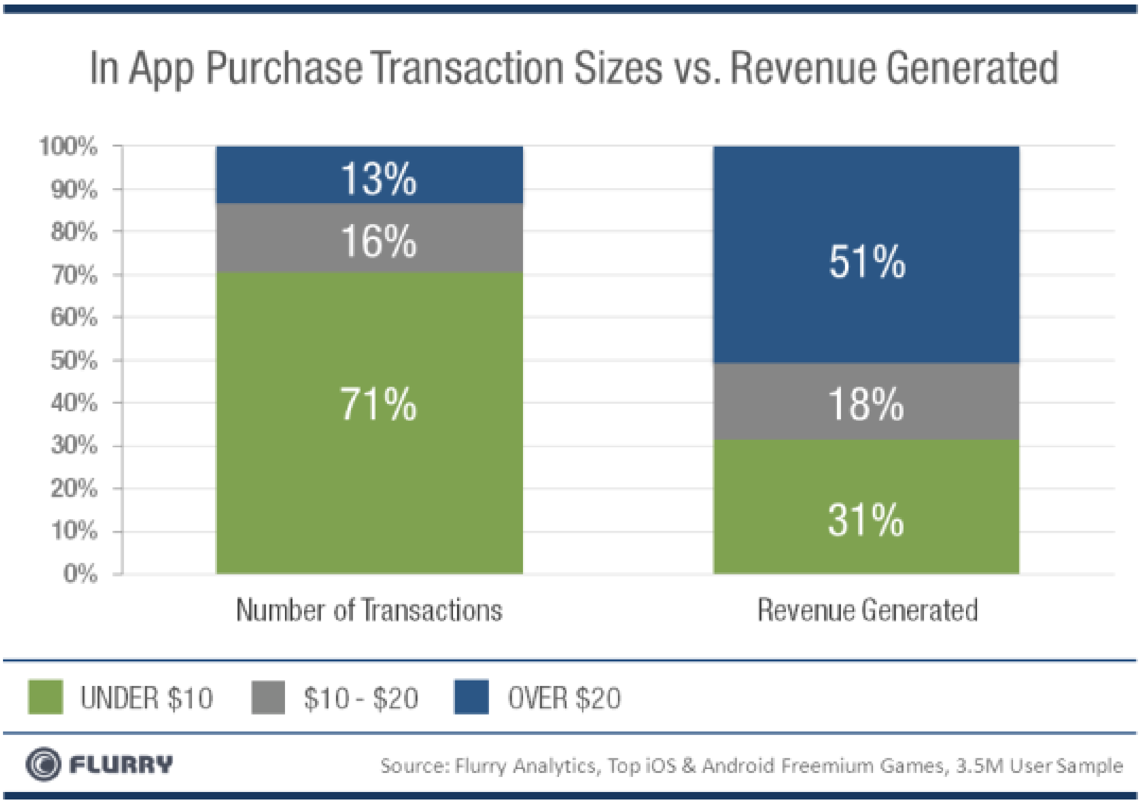
If there has been any trend inside the mobile market in 2011, this has been the consolidation of the freemium model. This model is one of the three business models that the developers have in order to make some profit with their apps. The other two models would be: the free model which obtains the revenue through the advertisement, and the paid model which would obtain it revenue from the price that charge to every single costumer to buy the application.

In autumn 2009, the App Store allows developers to use the in-app purchases as well known as the freemium model, that is, the cost of the game is for free, but the game content can be enhanced with the purchase of additional virtual good, as spells, weapons, new levels, etc. Almost everything can be object of an in-app purchase.

According to Flurry, in January of 2011 freemium revenues account for the 39% of the US App Store top 100 grossing games. Just five month later, in June, this percentage has risen till the 65% in June, what has made the freemium model the most dominating business model in the mobile apps industry today.

As well, people who spend money in a free game go from 0.5% to 6% depending on the quality of the game and its core mechanics. But giving the game for free rise the potential amount of users, and those who finally spend money in-game, spend an average of 14 dollars, the same amount that costs the most expensive game in the App Store.

Figure 5



As well, as can be seen in the graphic above (Figure 6), of the total number of in-app purchases, those who are under 10$ are the 71% of the purchases, but they just generate the 31% of the total revenue, meanwhile the 13% of the transactions are over 20$ generate the 51% of the total revenue that the freemium application generates. As Flurry says, freemium games is based in another kind of consumer behaviour, where is the costumer, or in this case, the player, who decides when and in what to spend the money.

4.2 Barriers to entry

Another essential feature of the mobile gaming market is the low barriers to entry that a new company has to face, which are probably lower than in the whole video game market. Meanwhile in the traditional video game market the prices to develop a new product are around six digits on average, the cost of producing a mobile game ten thousand dollars on average according with Digi-capital. Another fact is that app stores enable direct sales, bypassing network operators, and like this reducing once again the cost of developing and releasing mobile games.

Currently there are almost 130000 active publishers in the Apple App Store. This gives an idea of how fragmented is the app market.

An example of all of this can be Rovio, the developer behind “Angry Birds”, game that cost less than 100000$ to be produced but which has already reached a total amount of downloads of more than 500m.

All this fact has attracted the attention from big, established firms such as THQ, and Square Enix. Other traditional game developers as Electronic Arts and Rockstar are in the business since long time ago. But today the question is if Nintendo and Sony are already thinking in starting to develop for mobile devices.

5. Demographics of Mobile Gaming

In this part of the report some demographic data will be given in order to support the importance of the data exposed above.

3.1 Mobile Applications Consumption

Figure 6

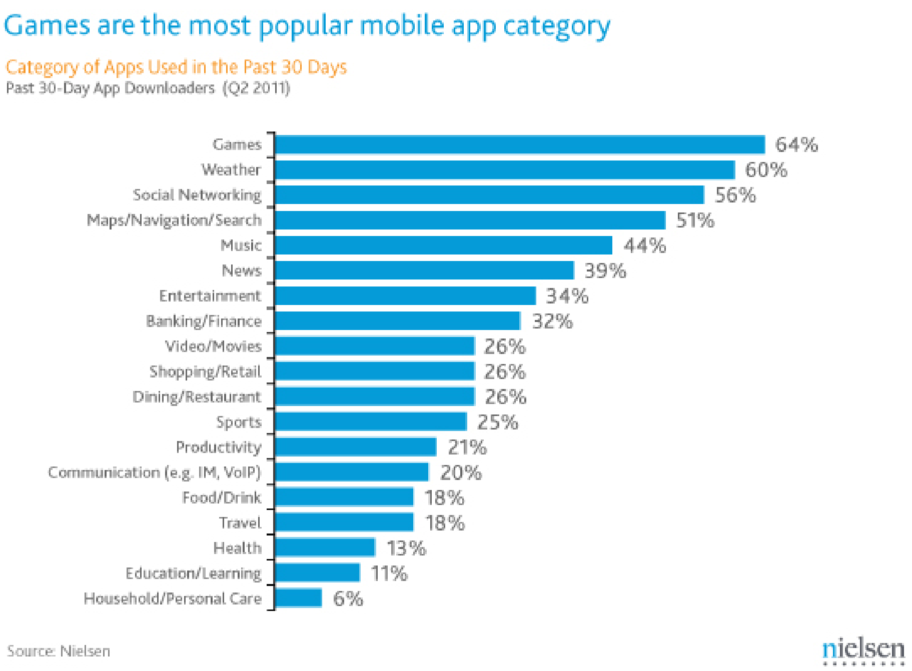
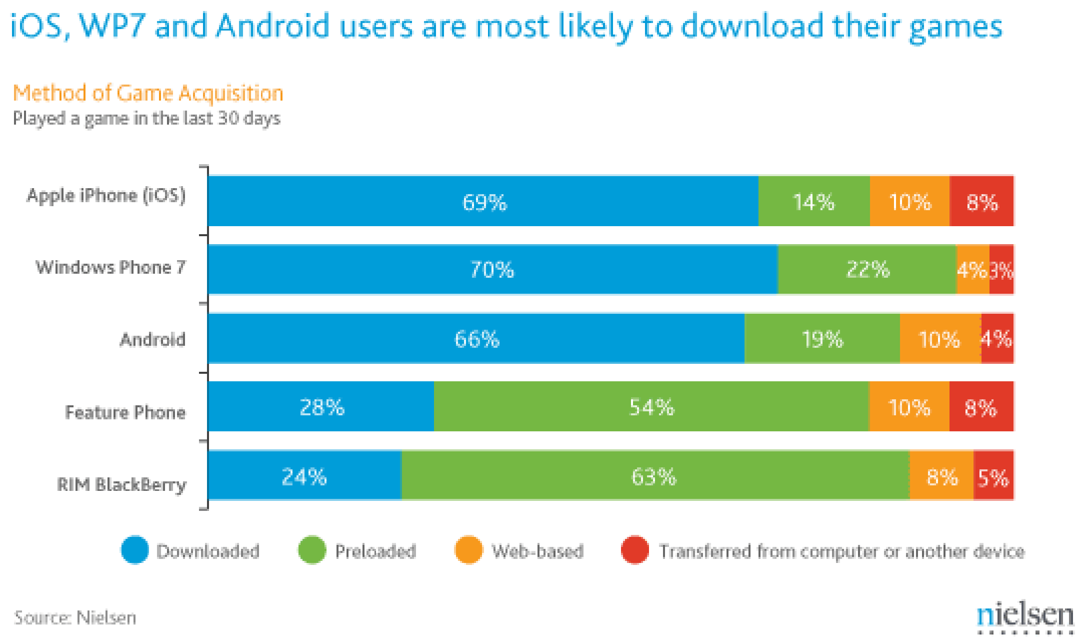


Figure 7

Figure 8

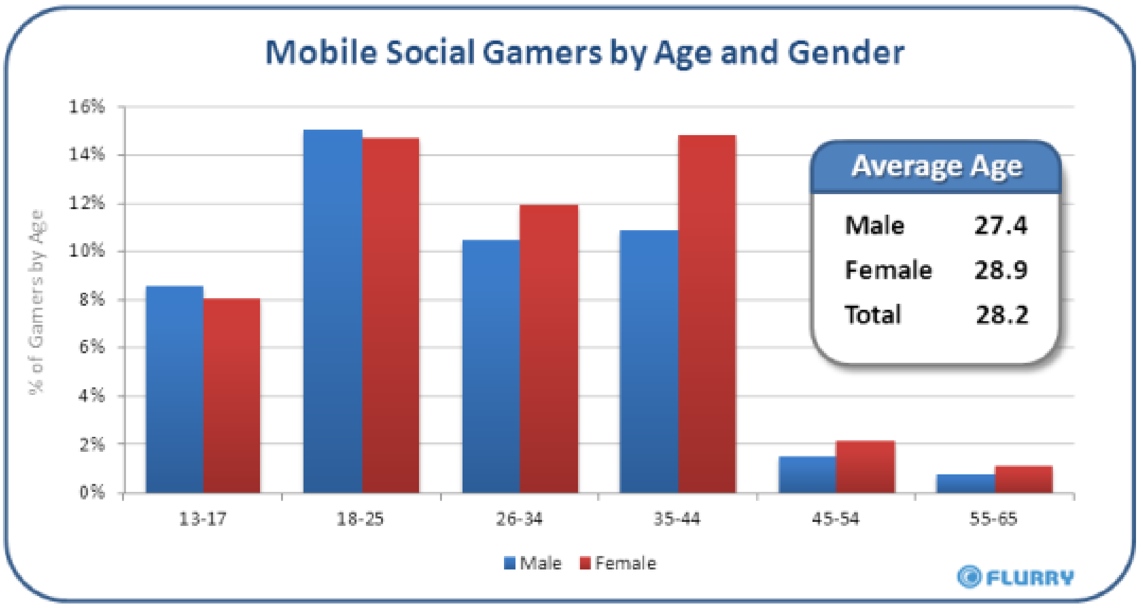


As we can see games are the most downloaded mobile app categories in all the application stores in the US the most important global market of mobile devices and applications. Those who downloaded a game are the most important group who are willing to pay for such application being the 93% of the total. Besides the users of IOS, Windows Phone 7 and Android are the most likely to download their own games.

5.2 Age and Gender

As can be seen in the chart below (Figure 9), things are changing, the profile of the worldwide mobile gamers does not correspond with the regular hardcore gamer, male between 18 and 35 years old, in fact males just lead the categories 13-17 and 15-25 slightly, meanwhile in the rest of the four age groups females lead the statistics. The average age is 28.2 years meanwhile the average game player in the US is 37. After analyse all this data we can see that mobile gaming is reaching target groups that has not been reached in the past, as is the female group, who obviously play games, but not with those strong figures, even rising beyond the male percentage.

Figure 9



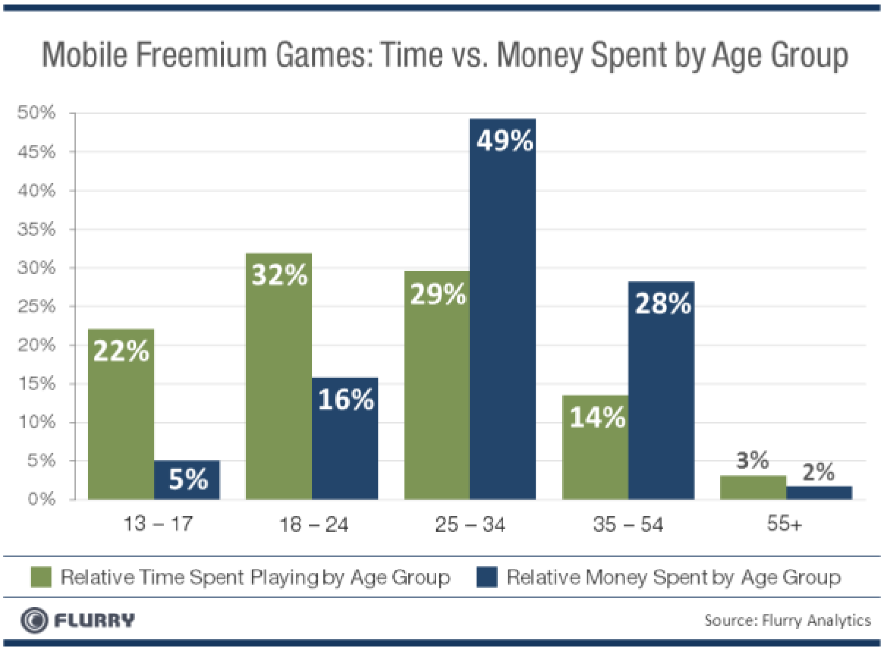
Source: Flurry Analytics, n = 63,727

5. 3 Freemium Mobile Games

There is a duality inherent to any freemium game, time and money. In order to progress inside the game the players can spend time and be patient to arrive to the goal, or simply pay for some of the features that will make the game progress faster. Obviously it is not that easy. The graphic below (Figure 10) shows the time and the money spent by age group as we can see the group that relatively spend more time is the ages 18-24 with a 32%, followed by ages 24-34 with a 29 % of the usage. By contrast the group that expend more money on freemium games is the age 25-34 which generates a total share of the spending of 49%, followed by the 35-54 with a 29%.

The analysis is clear enough: youngers spend more time playing due the average economic resources of this age group meanwhile the older groups have more economic resources, but maybe not the time and do not hesitate to pay to have more resources in order to progress faster in the game.

Figure 10



6. Conclusion

As has been seen through this report, mobile games is a young market which is still consolidating its undoubt value inside the global video game market. Still mobile games market share some propierties with the traditional media market, that is, it is defined by economies of scale and economies of scope. Economies of scale because the marginal cost of selling a new product are almost near zero. And economies of scope because the low barriers to entry make easy for a company of another industry to enter in the market, like has happened with companies as Electronics Arts, one of the most important developers of traditional videogames or even companies as Disney, less related with the sector.

The low barriers to entry, mostly as a consequence of the relative low investment needed in order to develop a game, means that there are many players inside this market, which has risen the numer of M&A inside the industry. One example of that would be the acquisition for Electronicts Arts of Firemint, the developer of Fligth Control, one of the most popular games of 2010. So, with this facts in views is more than possible than in the next years the concentration rates will be high.

As I said before 2011 is going to be remembered as the year of the consolidation of the freemium business model in the industry, which has being a revolution in the mobile market changing the trends. This fact and the implicit lower price war that operates inside the market has had as a consequence that the developers have not started yet to develop hardcore games for this market, as well because the mobile devices hardware would not run a videogame of that characteristics. But after the release in last Christmass of the first tablet with a quadruple processor by Asus, and the future inclusion of those in the most common devices as Samsung and Apple ones, the future its open for this kind of videogames which are still the most profitable inside the global video game market . The most important question now would be to find what its going to be the business model and how they going to sell and be profitable this high cost production product in a market that, as has been said before, is clearly dominate by the freemium business model and the 0.99$ apps.

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7.1 Figures

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