



Presents

The 2010 Game Industry Survey

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1. Executive Summary—

This research report is based on the results from a survey conducted by Game Connection Research in advance of the December 2009 edition of Game Connection in Lyon, France.

A wide range of topics was covered by a selection of those attending the show, and other clients and partners. This report seeks to distill and display the opinions of those actively developing, publishing, and selling video games.

Those opinions, viewpoints, and experiences may be useful for others inside the game industry.

This report finds that 2008 was not a good year for the games business, and that 2009 was even worse for half of the industry.

This report further finds unbridled optimism for 2010. Only 3.4% of those surveyed believe it could be worse than 2009. 28.2% say it could have similar conditions. But 68.2% of the game industry believes that 2010 will be a better year than last year.

Game makers, game publishers, and game sellers also reveal their favored platforms for 2010, where they've positioned themselves to increase revenues.

When assessing the industry's experience with revenues from digital distribution, this report finds a strong increase predicted for 2010.

This report reveals the strong opinions of more than half the industry that they will gain new revenues in the near future from massively multiplayer online games.

Also covered are projections on future business models, predictions on the new audiences that will provide revenue in the near future, and a look at new lines of business being pursued.

This report closes with proof that this is a very spirited industry heading into 2010.

On behalf of Connection Events, we hope that this report serves you well as you approach the business of games in 2010.

2. About Connection Events—

A leading provider of game industry events, Connection Events is best known for organizing Game Connection, which brings together publishers, service and technology providers, IP owners, investors, and independent developers from across the world to meet, pitch, and sign deals. Up-to-the-minute details and event calendars can be found at: <http://www.game-connection.com/>

3. Year Over Year—

The year 2008 was a difficult one, with the world financial crisis coming into play. Previously, the game industry was used to experiencing unlimited and unprecedented growth on a steady annual basis.

While not as affected as the global real-estate business, or automotive companies, games have nonetheless suffered unexpected setbacks alongside other industries across the world.

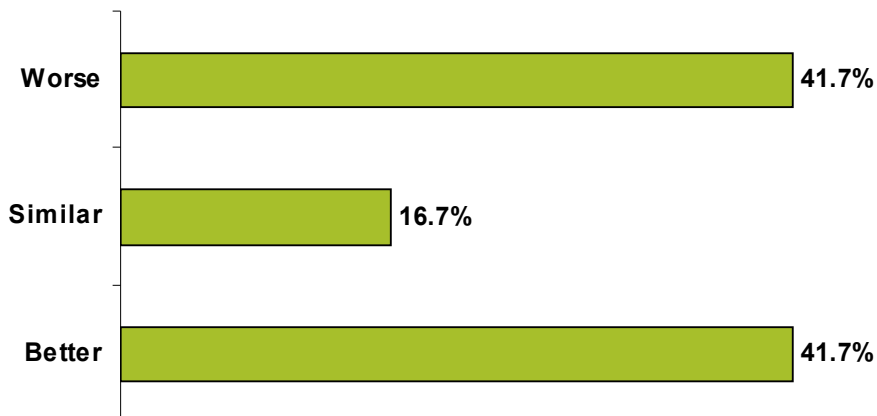
Some have been optimistic about the prospects of games in a recession while the industry has witnessed major losses from publicly traded publishers, massive layoffs, and closures of independent studios.

A host of factors is involved in each specific case, but there is a general feeling that things have been hard.

When surveyed about whether 2009 had been a better year than 2008, the game industry responded.

Service providers and outsourcing companies had a mixed reaction. 41.7% found 2009 an even worse year than 2008. 16.7% felt it was a similar year. And an equal group of outsourcers and service providers, some 41.7%, felt 2009 was a better year than the year before.

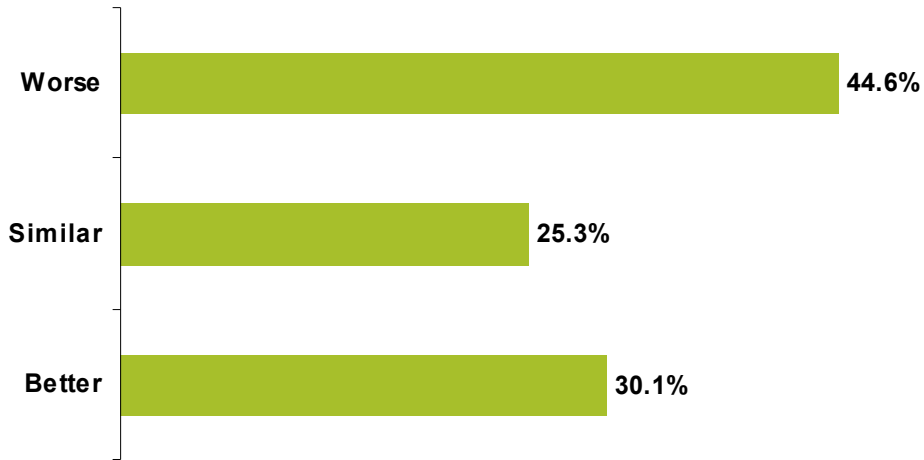
**Outsourcing and Service Provider Assessment of
2009 vs. 2008**



Some 44.6% of game developers felt 2009 was a worse year than its predecessor; 25.3% found it to be a similar year, while 30.1% found it to be a better year than 2008.

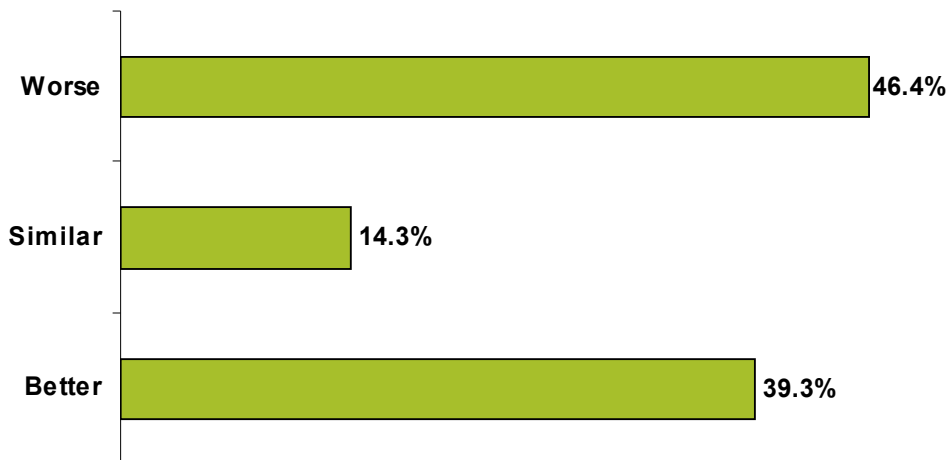
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Developer Assessment of 2009 vs. 2008



For publishers, 46.4% found 2009 to be a worse year than 2008. Only 14.3% felt it was the same. And 39.3% of surveyed publishers found better conditions in 2009 than the year before.

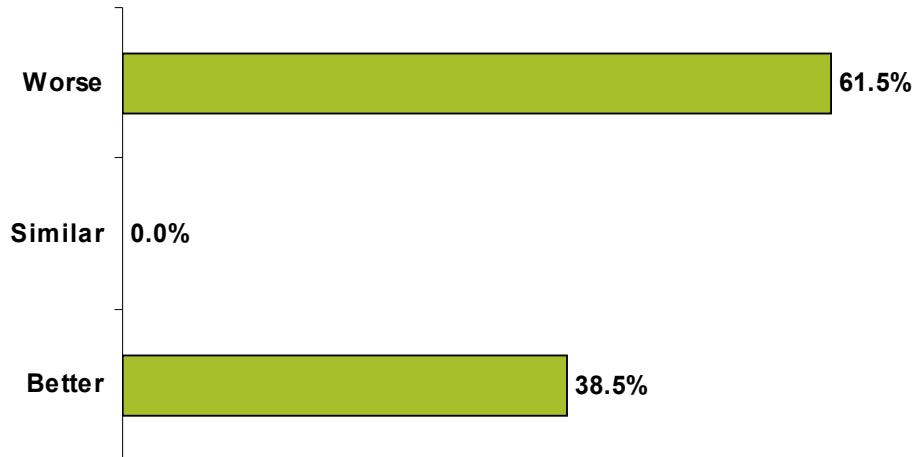
Publisher Assessment of 2009 vs. 2008



Retailers and online distributors found the most adversity in 2009. 61.5% felt it was an even worse year than 2008. Interestingly, no retailers experienced the same conditions. And 38.5% actually found the market stronger in 2009.

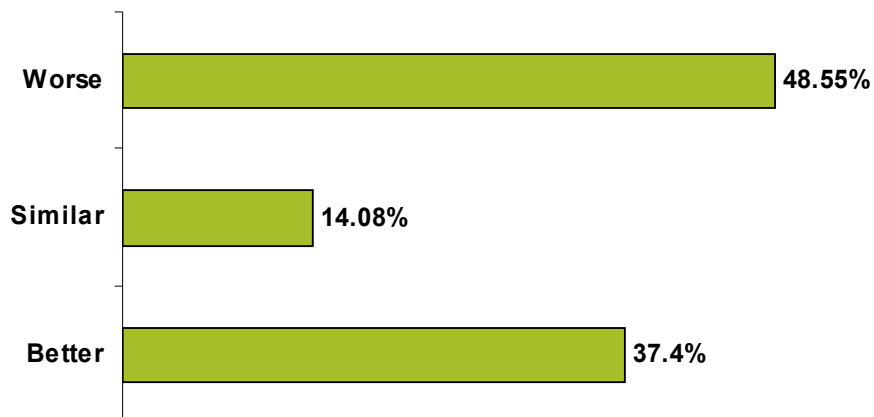
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Retailer Assessment of 2009 vs. 2008



The conclusion is that, for half of the game industry ecosystem, 2009 deteriorated further over conditions in 2008. Some 14% were able to hold on to the status quo. And 37.4% of the industry was able to improve over 2008 conditions.

**Average Assessment of 2009 vs. 2008
(Services, Developers, Publishers, Retailers)**



4. The Year Ahead—

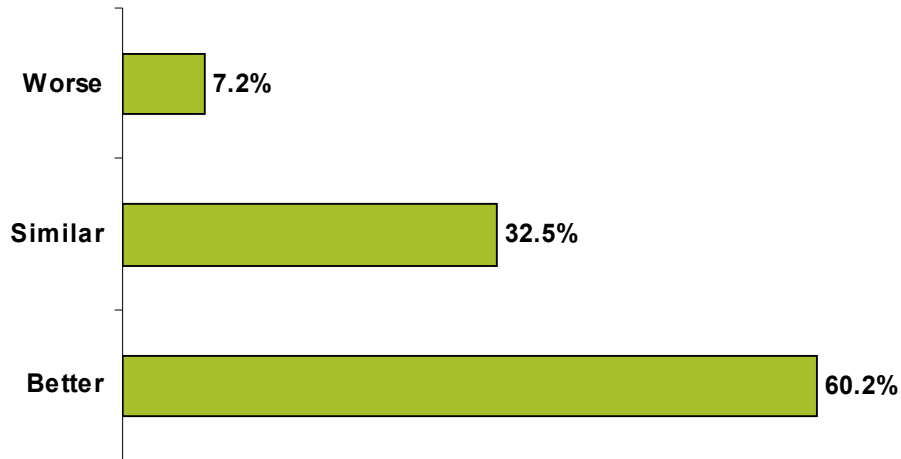
World economic conditions may be changing. Experts can be found for either side of the equation. But what appears true of the world at large is specifically true of the games business – things are starting to thaw, and people are ready to get back to work.

Looking into 2010, the game industry responded to the question of whether 2010 could indeed be a better year for business than 2009 had been.

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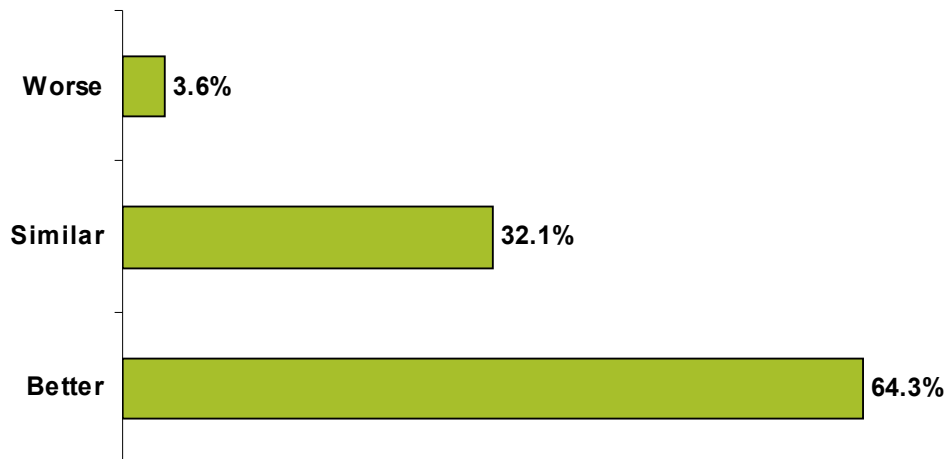
Game developers were the most guarded in their optimism. 60.2% felt 2010 would be better. 32.5% felt it would be a similar year. But only 7.2% felt the upcoming year could be worse than the one that has just finished.

Developer Projections for 2010



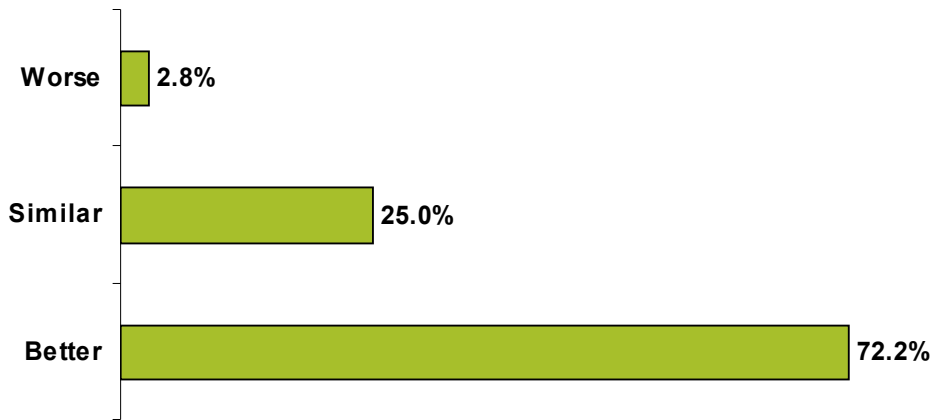
Game publishers project that 2010 will be better, according to 64.3% of those surveyed. 32.1% of publishers feel 2010 will be the same climate as 2009. And only 3.6% publishers expect next year to be even worse.

Publisher Projections for 2010



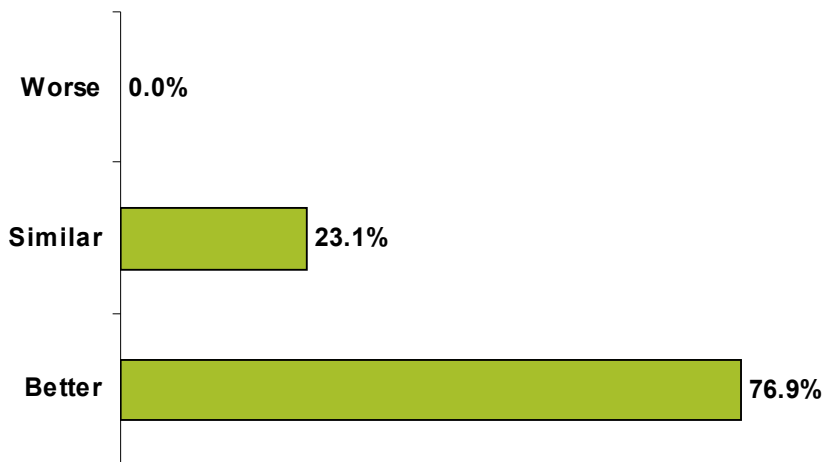
Service providers and outsourcing companies have higher expectations. 72.2% of those surveyed believe 2010 will be a better year than 2009. 25% expect it to be a similar year. And only 2.8% of service and outsourcing companies believe things could be worse in 2010.

Outsourcing and Service Provider Projections for 2010



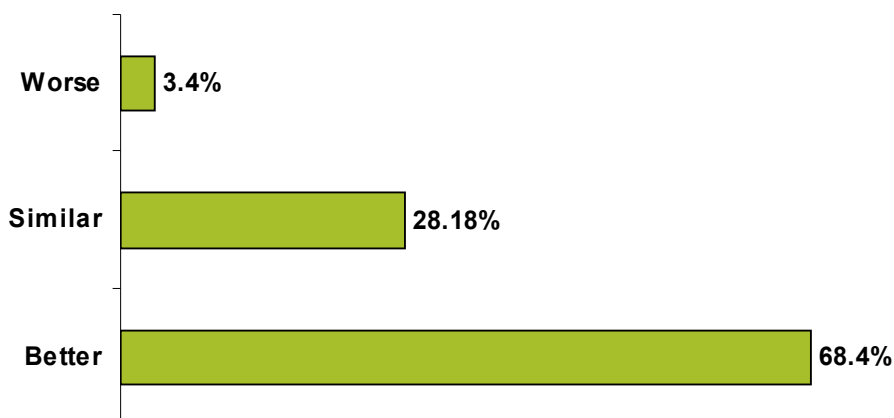
But the retailers and online distributors, who suffered the most during the last year, return the brightest outlook for 2010. 76.9% believe it will be an up year. 23.1% believe 2010 will be similar. And most strikingly, no retailers believe that anything could be worse than 2009.

Retailer Projections for 2010



The overall conclusion is that more than two-thirds of the video game ecosystem expects 2010 to be better than 2009. 68.4% are positive towards the future, 28.18% believe it will be a similar year, and only 3.4% believe that 2010 could be worse than the year before. And while these are the just the estimations of those who work in the interactive entertainment industry, it should be noted that they are actively working towards these goals.

**Average Projections for 2010
(Services, Developers, Publishers, Retailers)**



5. Platform Perspectives—

One of the most challenging aspects of the business behind games is deciding to develop for a specific platform, or across platforms. Those bets then pay off based on the rise or fall of the platform, and how closely aligned the product is.

When surveyed about their view of the most important platforms in 2009, the game industry responded. Interestingly, different sectors had different views.

58.3% of outsourcing and service providers surveyed believe the iPhone is a key platform. 39.8% of developers surveyed think the same.

39.3% of publishers see boxed and downloadable PC games as key to their business for 2009.

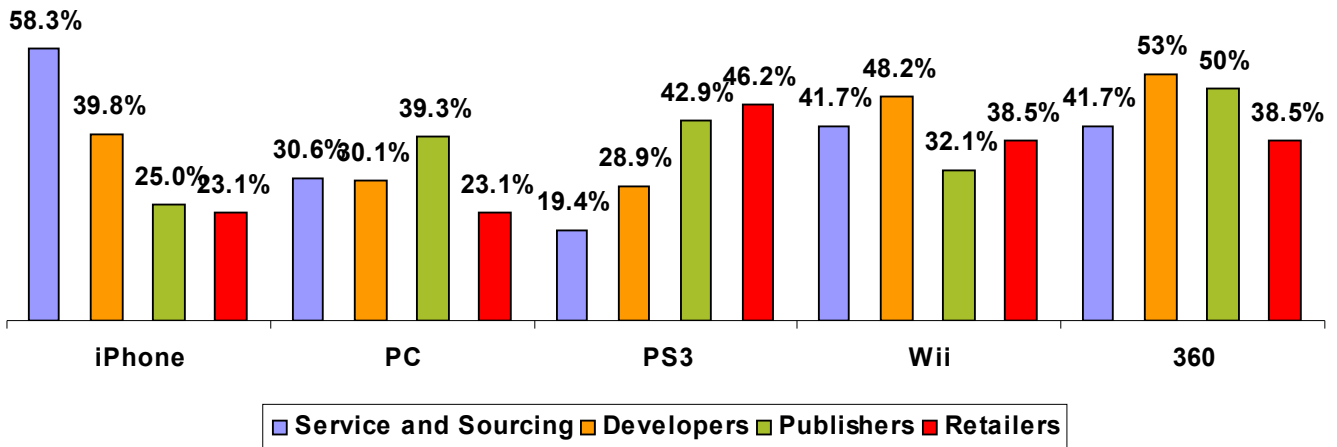
Sony's Playstation 3 is seen a key platform by less than half of publishers (at 42.9%) and retailers (at 46.2%). Only 28.8% of developers see it as key platform in 2009.

The Nintendo Wii receives differing levels of support, with 41.7% of outsourcing and service companies seeing it as a key platform. 48.2% of developers agree, and 38.5% of retailers see Wii as key. In 2009, only 32.1% of publishers look to the Wii.

Each sector sees Microsoft's Xbox 360 as an important platform. Indeed, it's among top three of each surveyed sector of the game business. The Wii and the iPhone were also seen as important to the market in 2009.

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View of Key Platforms for 2009



So the conventional wisdom shows that the industry believes the main next-gen platforms, 360, PS3, and Wii, rank among the key platforms of 2009.

However, when surveyed what the key platforms will be for 2010, the game industry returns different results – as conventional wisdom shifts.

Only service and outsourcing companies believe in the iPhone as key platform, and now only 50% of them believe in the platform, compared to 58% in 2009.

The PC has more support in 2010, with 42.9% of publishers believing it will be a key platform for 2010, over the 39.3% that reported the same the year before. And 30.8% of retailers and sellers list PCs as a key platform. Developer and outsourcing support is waning, however.

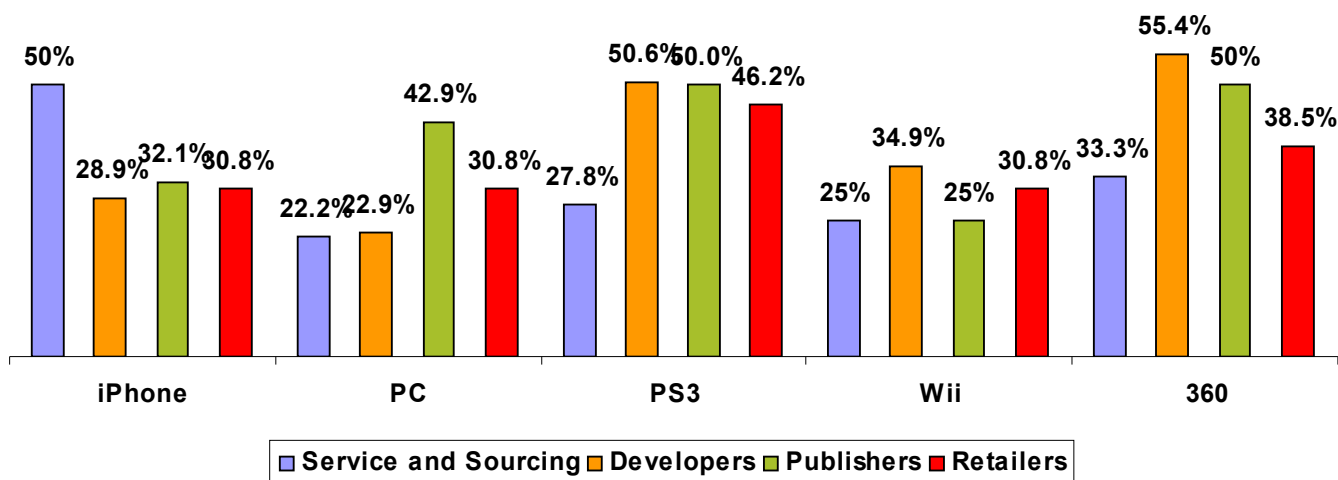
Most surprisingly, PS3 is seen as key by more than half of developers (50.6%). And now 50% of publishers believe in the PS3, over the 42.9% who thought it was key the year before. Retailers remain steady with their 46.2%.

The Wii loses it's top-three position with retail and outsourcing for 2010, and while 48.2% of developers felt it was a key platform in 2009, only 34.9% of surveyed developers think Wii is key for 2010.

The 360 receives increased support from outsourcing companies and developers: 33.3% and 55.4% respectively see the 360 as a key platform. Publishers and retailers maintain their previous view of the platforms at 50% and 38.5% respectively.

The 360 and PS3 are the most popular platforms in aggregate, followed by the PC. The collective wisdom seems to say the importance of the Wii is in decline.

Preview of Key Platforms for 2010



The question that gives insights into what strategies companies might pursue for 2010 comes from the answers they give to a survey question regarding which platforms they believe will increase their market share in the near future – not generally for the industry, but their companies specifically.

55.6% of service and outsourcing companies chose the iPhone as one such platform. 44.4% of outsourcing firms believe PC browser games will increase their market share soon, while 36.1% of these companies believe networked PC games will give them more market.

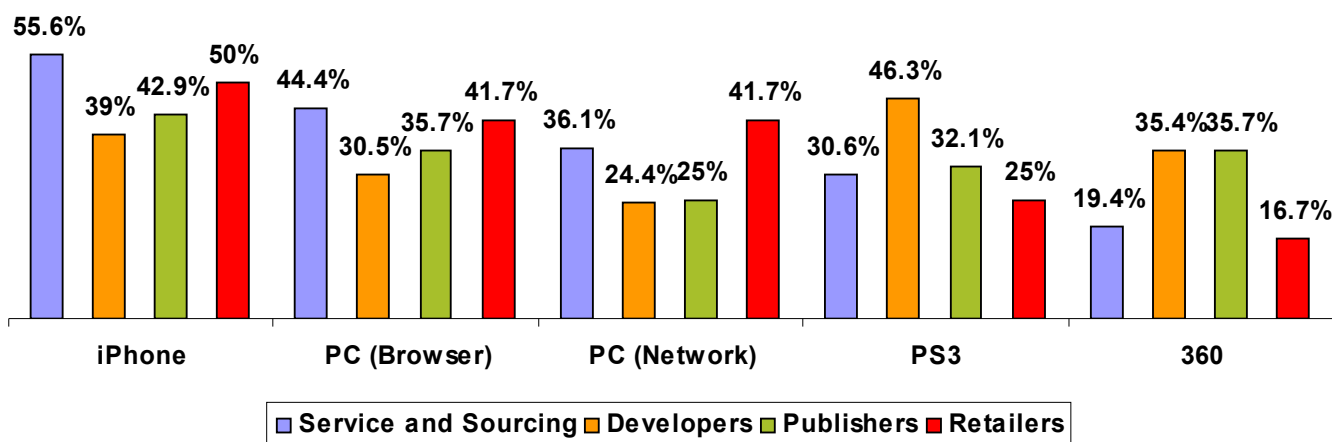
46.3% of game developers surveyed said the PS3 would give them more market, 39% said iPhone, and just 35.4% of developers think they'll gain market with the 360.

42.9% of game publishers see the iPhone as their secret strategy. 35.7% of publishers surveyed believe they can grow with PC browser games. And 35.7% of publishers plan to grow with 360 titles in the near future. Only 32.1% of publishers plan to grow along with the PS3.

Retailers and online distributors believe they can increase market share with the iPhone (some 50% say so), and 41.7% are looking at networked PC games and another 41.7% are trying to leverage PC browser games.

The iPhone is the most popular in average, followed by PC browser games, and the PS3, all of which the industry expect to give them larger market share in the near future.

**Platforms Projected to
Increase Market Share in 2010**



6. Digital Distribution—

One of the most talked about subjects in the games business is the shift away from discs, with customers getting their games through digital downloads. There is a consensus that digital distribution will be a key factor to the future of the business, but specifics are always under debate.

Each segment of the game industry ecosystem has a different perspective. Retailers and online distributors agree the industry will slowly move into digital distribution. “That is our future,” writes one survey responder. “It will completely change the distribution channel in three to six years,” writes another. And a third responder notes that digital distribution gives a chance to smaller players – both publishers and developers – to enter the industry. “It will deeply change the way we consume games and the content we can find: no stock, limited catalogue, long tail,” surmises one seller, to be replaced by the “Permanent account with its downloads, digital bonuses, ecological purchase channel, etc...”

Developers surveyed believe digital distribution allows smaller companies to survive. One developer reports: “We’ll do smaller, shorter games that cost less for the customers.” Another warns, “Creativity and fresh gameplay will be more important than ever to succeed.” Digital distribution will also kill the second-hand market and physical retailers, developers believe. It also means “more profit to developers than publishers,” writes one developer. This hypothesis, however, has not been proven by time and measurement.

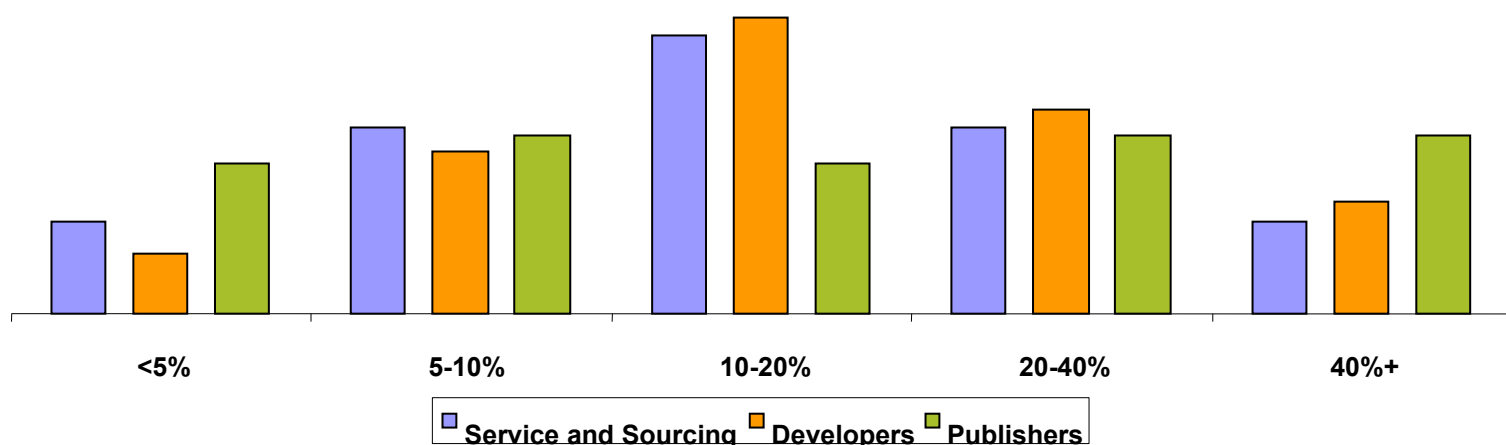
Publishers pragmatically suggest that retail will need to rethink their role in the value chain. “Smaller shops will die out, bigger chains will continue to dominate the retail market even more,” suggests one publisher. Another says, “Brick-and-mortar companies will move online.” But there’s more involved, according to another surveyed publisher. “I think the ‘visible’ part of digital distribution will be legal

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download and will grow bigger, but item selling, ad-based games and other micro-transactions will generate more than 50% of the total revenue of the industry soon.”

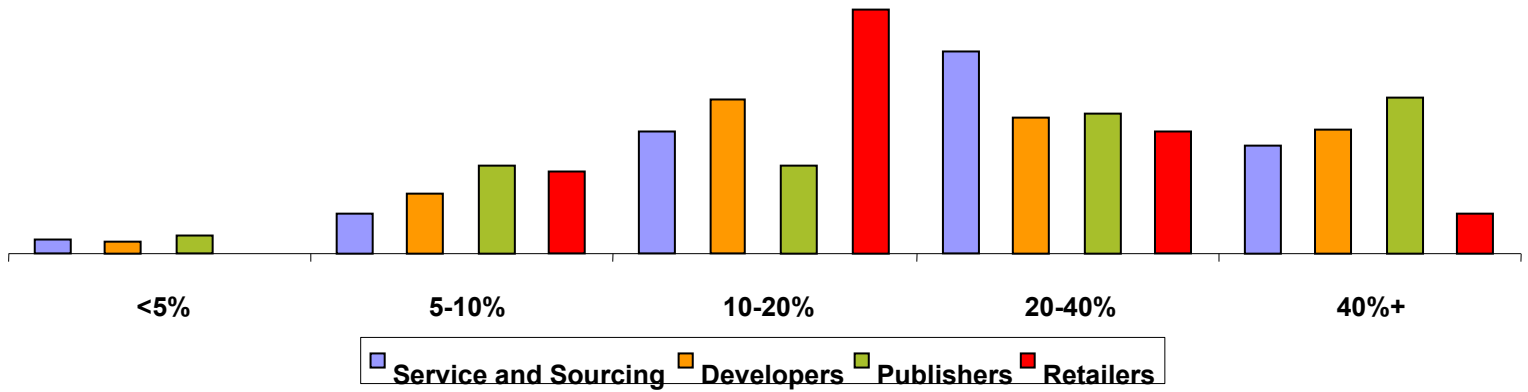
Proving most interesting are internal estimates of 2009’s share of revenues from different segments. Outsourcing and service companies, developers themselves, and publishers are all seeing digital revenues, with the most activity between 10-20%.

Estimated of Share of Revenue from Digital Distribution in 2009



And when surveyed to find what share of revenues might be made from digital distribution in 2010, the estimates begin to rise, swinging toward revenues above the previous average between 10-20%.

**Projected Share of Revenue from
Digital Distribution in 2010**

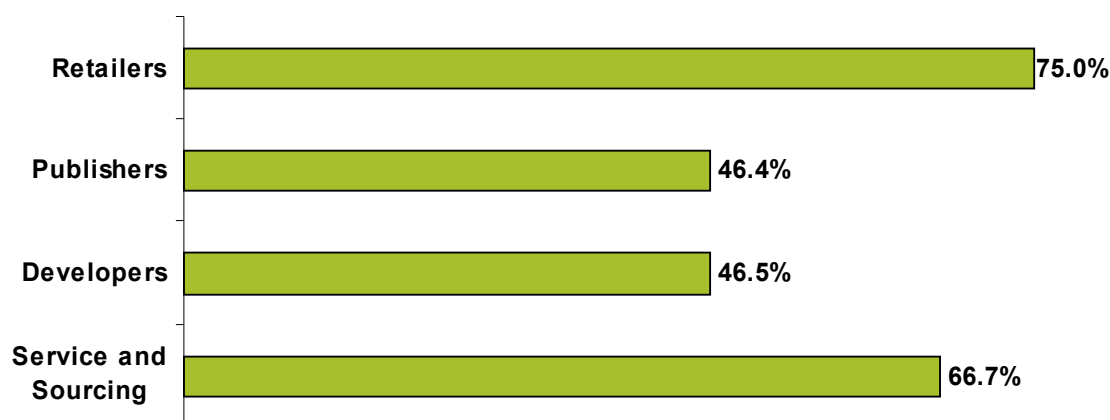


7. MMO Marketshare—

If digital distribution revenues are to rise in 2010, perhaps it's no surprise that the MMO is a genre projected to increase market share for segments across the industry in the near future.

66.7% of service and outsourcing firms believe they'll see more business from MMOs. 46.5% of game developers surveyed feel the same. 46.4% of publishers plan to employ MMOs to gain market share. And some 75% of retailers and online sellers expect to increase their sales as MMO popularity increases.

Prediction of Increased Marketshare for Massively Multiplayer Online Games in 2010



8. Future Business Models—

As game production costs increase, there is always a search for varying business models. When surveyed to choose three models they thought would grow stronger in the near future, the industry responded.

77.8% of service and outsourcing companies believe free-to-play with micro-transactions will grow stronger in the near future. 44.4% of outsourcing firms listed in-game advertising. And 38.9% suggest try-and-buy will increase its marketshare.

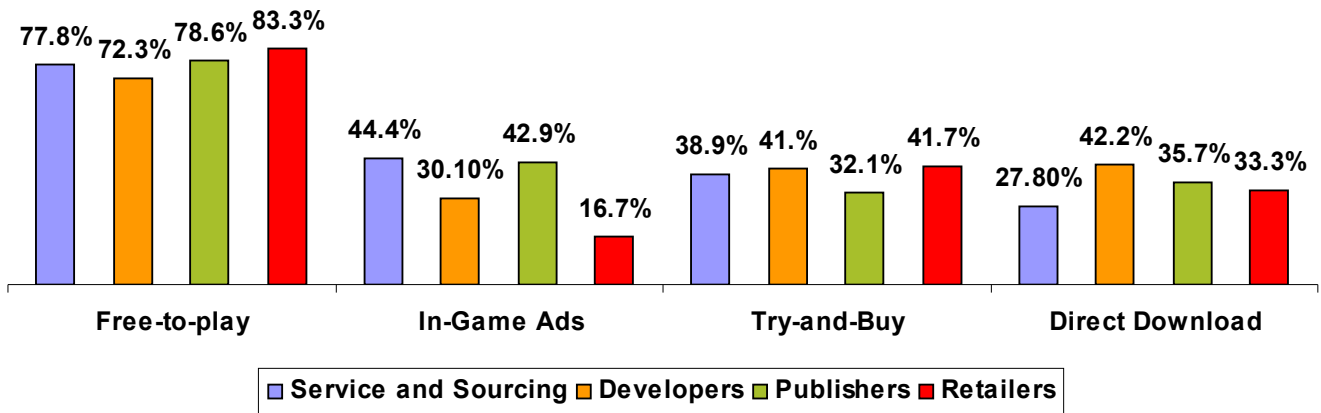
72.3% of developers see free-to-play and microtransactions as the most likely business model to gain ground. Digital download gets 42.2% of developer interest, and the try-and-buy model is likely according to 41% of developer surveyed.

78.6% of publishers predict that free-to-play micro-transaction will be the next business model to gain ground. 42.9% believe in in-game advertising. And only 35.7% of publishers surveyed see promise in direct download games.

83.3% of retailers and online distributors see the inevitability of the free-to-play and micro-transaction business model. 41.7% of surveyed retailers admit to the try-and-buy model gaining ground. And 33.3% see digital downloads increasing in the near future.

Collective wisdom shows an overwhelming belief in the future of free-to-play micro-transaction games. The market is half as much convinced by try-and-buy business models. Direct download is close, but less than try-and-buy. And the least certain business model of the future, according to those surveyed, is in-game advertising.

Business Models Projected to Increase Markeshare in the Near Future

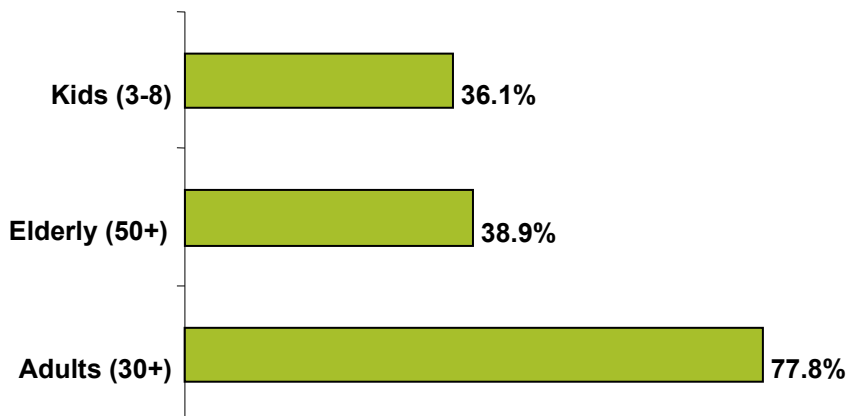


9. Future Audience Demographics—

Changing demographics also play a part in who buys the video games of tomorrow. Each segment of the game industry ecosystem takes a different view of who will offer them the most increase in market share in the near future.

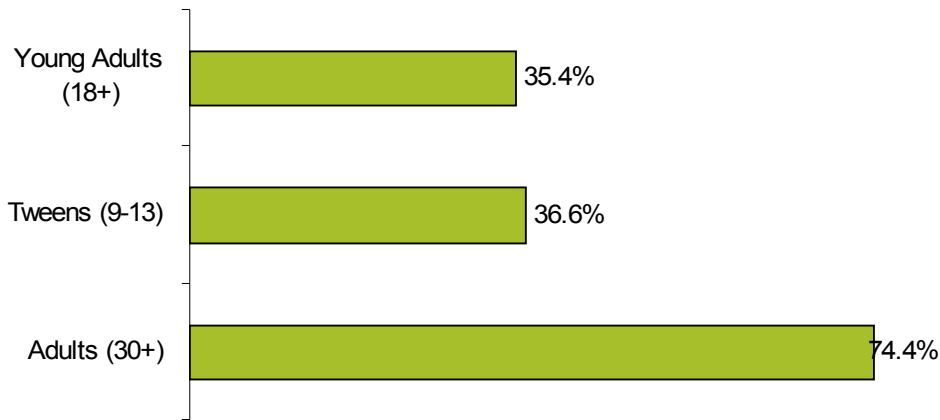
77.8% of outsourcing and service companies predict that adults over age 30 will provide a larger market. 38.9% of outsourcing and service companies see those age 50 and above as a group likely to increase

Audiences Set to Increase Market Share - Service and Outsourcing Perspective



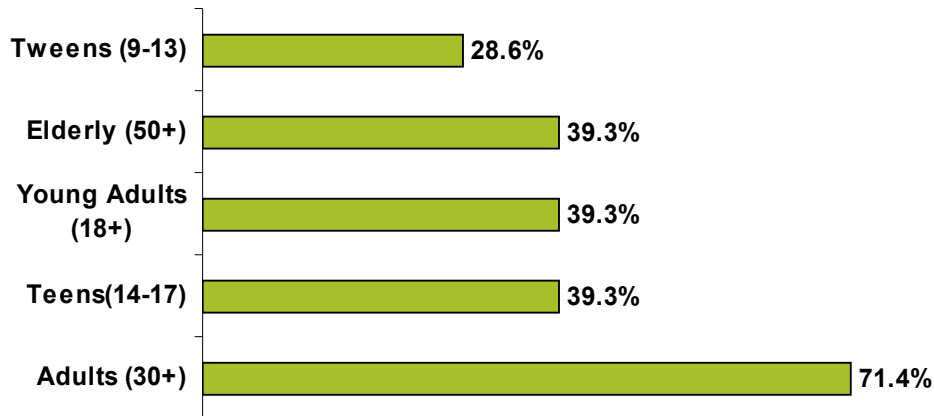
74.4% of developers believe adults over age 30 will be a larger market in the near future. Only 36.6% of developers suggest the tween market, age 9 to 13, will be a ready market. And 35.4% of surveyed developers cite young adults over age 18 as a place for future growth.

**Audiences Set to Increase Market Share -
Developer Perspective**



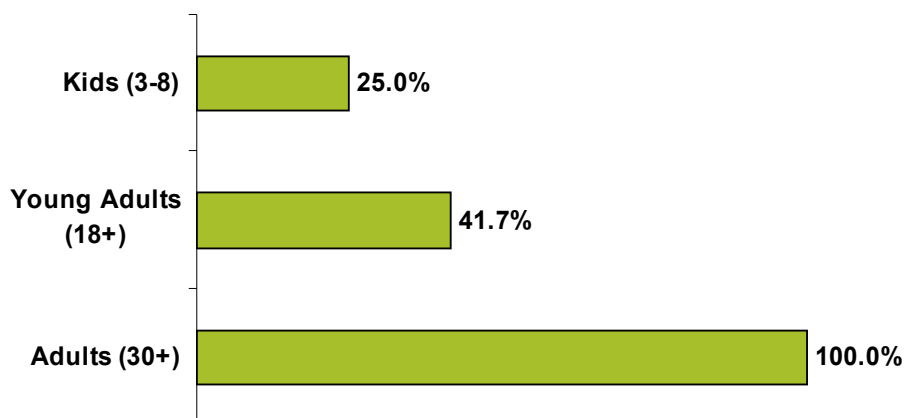
71.4% of publishers see adults over age 30 as the audience that will give them more market share in the near future. 39.3% of publishers surveyed listed teens (age 14 to 17) will increase the market. 39.3% said the same of young adults over age 18, as well as those over age 50. But only 28.6 percent of publishers believe they'll see an increase in market share in the near term from tweens, aged 9 to 13.

**Audiences Set to Increase Market Share -
Publisher Perspective**



100% of retailers and online distributors surveyed believe that adults over age 30 will form an increased market in the near future. 41.7% of retailers look to young adults over age 18. And only 25% of retailers surveyed believe in the market comprised of kids age 3 to 8.

**Audiences Set to Increase Market Share -
Retailer Perspective**

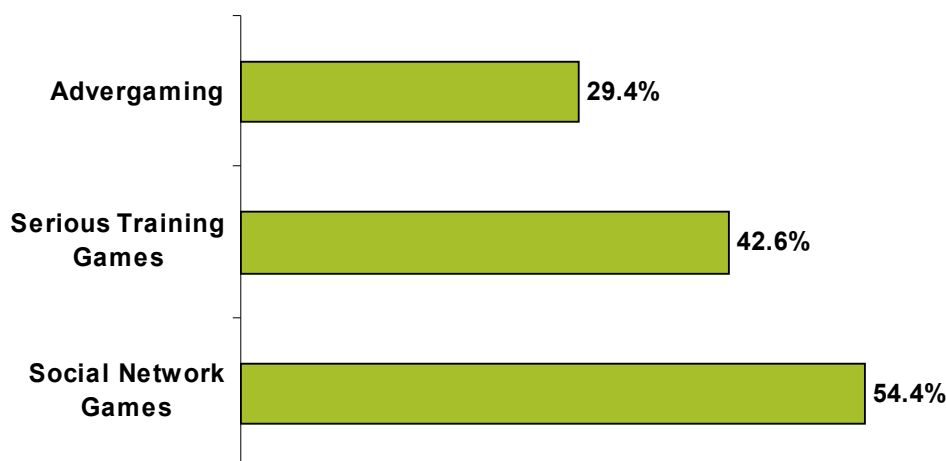


10. New Lines of Business—

The one consistent factor in the game industry is change. When surveyed to find out which sectors of the industry might be interesting for future business beyond traditional games, social network games took the lead.

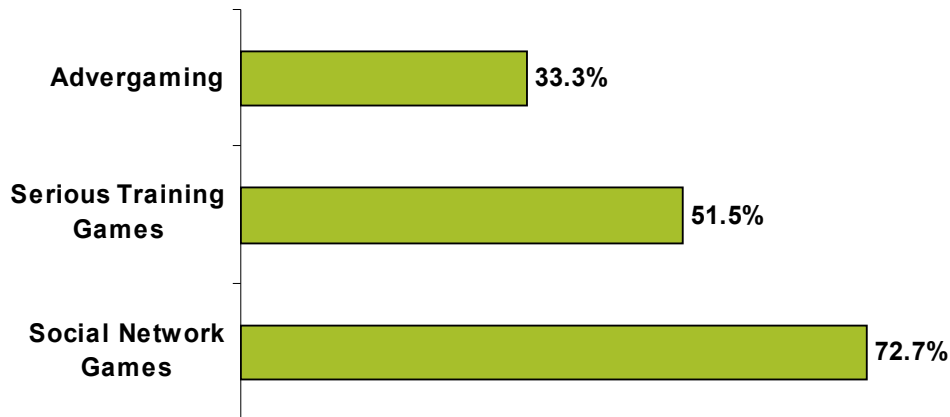
54.4% of developers listed social network games as something they might add in the future. 42.6% of developers also listed serious training games. 29.4% of developers further listed advergaming.

Developer Interest in New Lines of Business



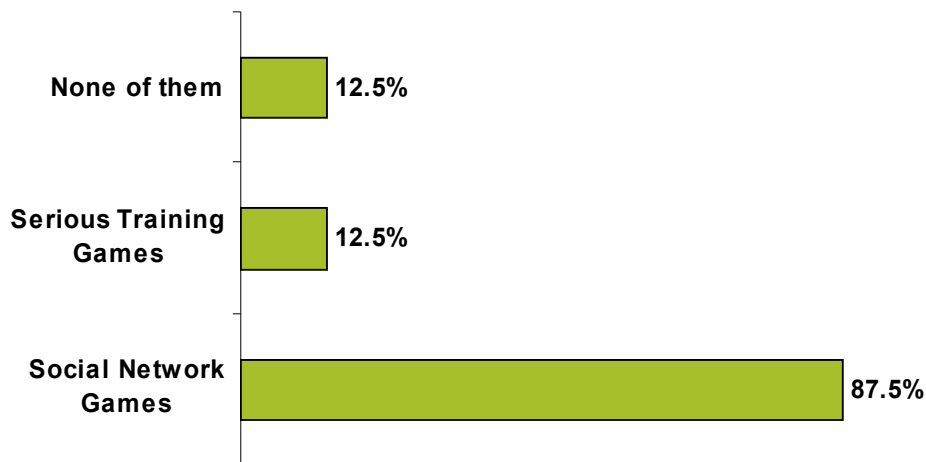
Outsourcing and service companies show stronger interest in social network games, with 72.7% of those surveyed admitting a possible expansion into the sector. 51.5% of service and outsourcing companies listed serious training games. Only 33.3% of those surveyed would consider expansion into advergaming, however.

**Outsourcing and Service Provider
Interest in New Lines of Business**



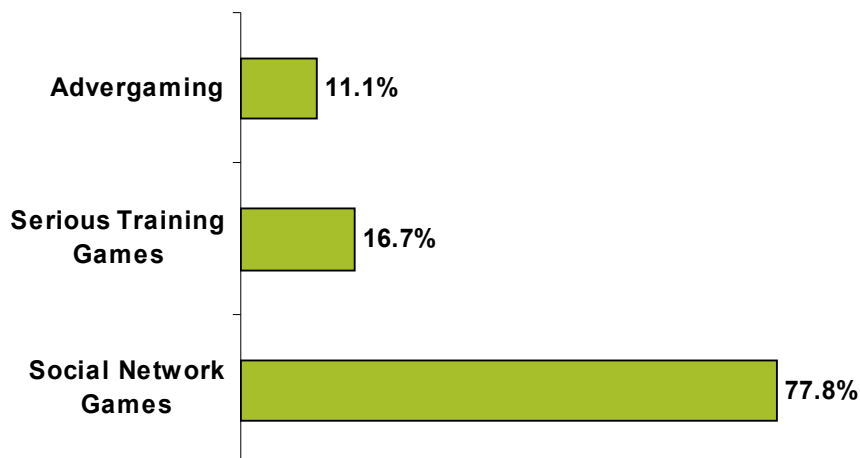
Retailers and online distributors seem to be most aware of social network games, with 87.5% of those surveyed listing them as a possible side business. 12.5% of retailers listed serious training games. But 12.5% of retailers expressed their disinterest by choosing none of the above.

Retailer Interest in New Lines of Business



Publishers are most curious about social network games, with 77.8% of those surveyed listing them as a possible interest beside traditional games. 16.7% of publishers listed serious training games, while only 11.1% of publishers surveyed would consider advergaming.

Publisher Interest in New Lines of Business



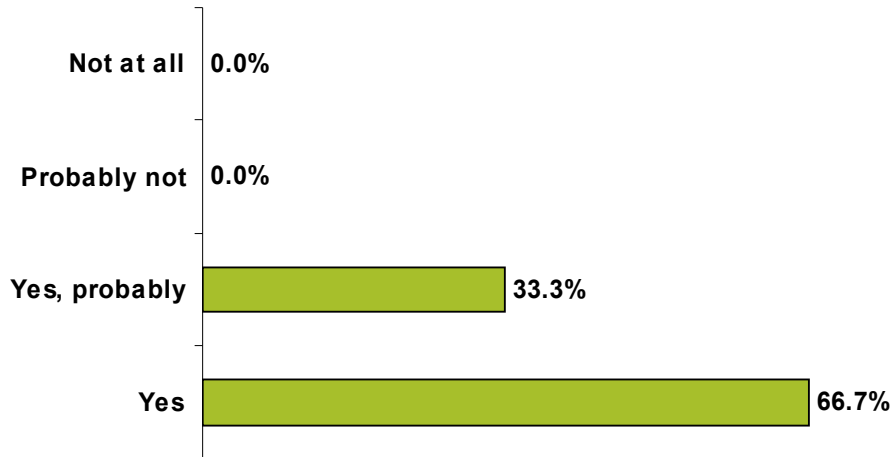
11. Preparation for the Future—

While everyone talks about changes, the next question deals with preparation. Does the game industry feel confident it's ready to face the challenges of tomorrow? It does. Each sector shows a strong feeling of confidence, one that may or may not be justified.

When asked if their company was tailored to face the evolution of the game industry, 66.7% of outsourcing and service companies answered yes definitively. The remaining 33.3% said yes, probably. No outsourcing or service firms said they probably were not or were not at all prepared to face the evolution of the industry.

"The future looks bright," said one company. Another cited strong price competition from Asia. "There is still room to grow for at least another couple of years," opined another responder. More specifically: "I expect double-digit growth for at least another couple of years." But the details of this confidence come from a philosophy of awareness and flexibility. As one responder states: "If we analyze the trend and continue to be flexible with our clients' requests, we should be all set for the future." Or this dramatic conclusion: "Without versatility, we will be screwed like the dinosaurs."

Outsourcing and Service Provider Confidence



Developers offer the gloomiest outlook on the future. 43.4% say they are ready to face the evolution of the industry. 48.2% say yes, probably. 7.2% say probably not. But a remarkable 1.2% of developers surveyed say their company is not at all tailored to evolve with the industry.

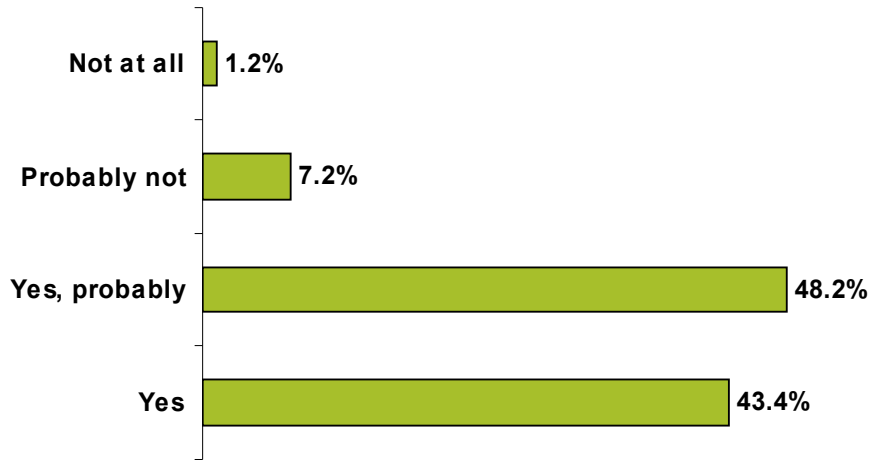
“Filled with doubts,” is how one survey responder puts it. Another developer says: “We have to move to a digital distribution method as the traditional system is broken and un-sustainable in our view.” Or: “Need to generate more revenue and access to funding is extremely important but lacking in the current climate.”

The pragmatic approach is this: “We’ll continue to run projects following the classical scheme of financing/publishing while trying to broaden income from browser-based and free-to-play titles.” One developer describes his company’s outlook as “cautiously optimistic.”

But the balanced view is this: “The future is very positive, with lots of interest, but the economic climate today represents a serious challenge as budgets are squeezed and cash flow issues are challenging for both publishers and developers alike.”

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Developer Confidence

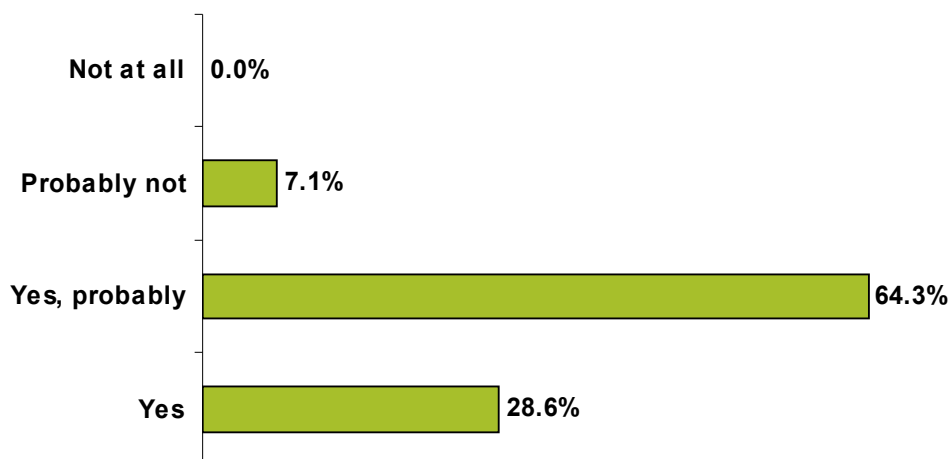


Publishers are more guarded in their optimism, but do not doubt their ability to face the evolution of the future games industry. Only 28.6% say yes, but 64.3% say yes, probably. 7.1% allow they are probably not ready, but none admit to being not at all prepared.

“As long as we keep our heads above the sand we should continue to change direction on the fly and remain pointed in the right direction,” outlines one publisher surveyed. Another says, “It’s an exciting time of price wars, opportunity and competition. It’s going to be an exciting year no matter what.”

This publisher outlines a strategy for success: “Focusing on core business, and trying new niches.” And the final assessment: “Tough, but achievable.”

Publisher Confidence

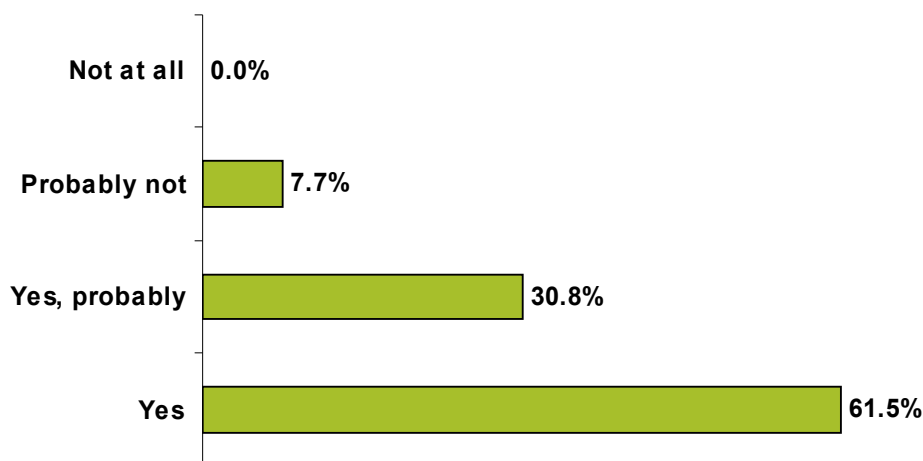


Retailers and online distributors, oddly enough, see themselves as ready for evolution. 61.5% of those surveyed answered yes, and another 30.8 answered yes, probably. Only 7.7% admit they are probably not tailored for the future. And none will admit to being not at all prepared.

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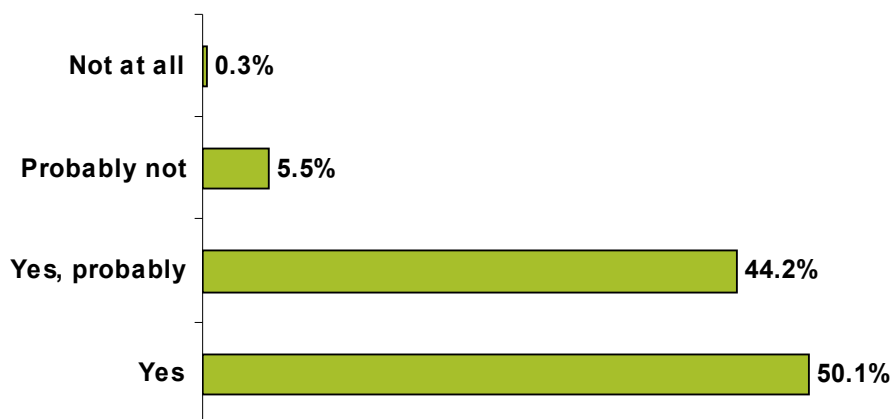
“We will find a way to help developers regardless of how market is moving,” responds one. Another mentions opening up more in Africa, while continuing to grow in the Middle East.

Retailer Confidence



When each segment of the market is combined, and averaged, these numbers show an industry that is confident it can meet the future, ever as the future changes.

Average Industry Confidence in Preparation (Services, Developers, Publishers, Retailers)



12. Conclusion—

Conventional wisdom shows that the iPhone, the Wii, and the 360 were the most important platforms of 2009. This survey further shows that iPhone, PS3 and 360 are likely to be the most important platforms of 2010.

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But when it comes to individual opportunities, people believe they can beat the system by exploiting the iPhone, PC browser games, and the PS3 to gain market share.

The industry is also confident that every demographic will offer them increases revenues in the near future.

The free-to-play with micro-transaction business model is a clear favorite for 2010, with an average of 78% of the game industry surveyed saying they believed it would increase their market share this year.

Those who responded to the survey are unlikely to believe in failure. And while this report cannot judge delusion, it does show the video game industry has a very strong spirit headed into 2010. And if optimism is backed hard work, and the desire to gain market share these answers highlight, it's perfectly reasonable to view the future of the games business as one of strong possibilities.