Western World MMOG Market

2006 review and forecasts to 2011

screen**digest**

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MMOG strategies are a blueprint for the future of the online games industry

As discussed in the definitions chapter of this report, the boundaries surrounding the definition of MMOGs and which games to include in the sizing of the market are blurring steadily. The driving forces for this trend come from two directions:

- from within the market as a way of competitive differentiation
- from outside the market, where other sectors are adopting MMOG-like strategies

This trickling down of MMOG strategies into new sectors is evidence of the leading and cutting edge role that MMOGs play in the overall games market. Figure 8 shows the different sectors that are experiencing some cross-over with MMOG-like strategies. Some of these have resulted in MMOG sub-sectors, while some others are considered natural market developments of existing sectors.

We expect this dissemination of expertise, experience and strategy to continue to spread to other sectors of the market following the wide introduction of connected television and handheld consoles, and associated online platforms ready to support digital distribution, community services and online business models.

Some of the areas where MMOGs have pioneered include long term content update strategies, social networking, community management, customer service, micro-transactional business models, infrastructure management, bandwidth resource management, billing and payment systems, user generated content, content distribution, in-game advertising, interactive sponsorship, and other forms of cutting edge third-party commercialisation of games content. We expect many of the lessons learnt in these areas to shape future strategies for upcoming console and handheld content over the next few years.

Figure 9 illustrates the value opportunity available to connected content and illustrates why much traditional retail product will be adopting MMOG type business models and content update strategies to expand the market opportunity available to them.

The adoption of MMOG strategies and the blurring (or re-mapping) of content definition boundaries is expected to provide a significant opportunity for MMOG developers, publishers and operators, whose expertise will be in high demand. However, as retail game publishers build up expertise over the next few years and go on to release MMOG-like content, competition for traditional MMOG players is likely to increase, which may see many smaller publishers/ operators marginalised.

Figure 8: Games sector cross over with MMOGs
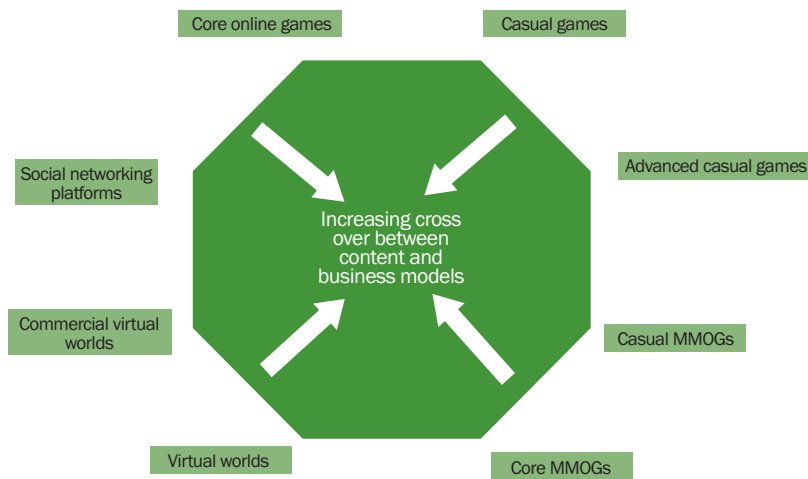
Source: Screen Digest

Figure 9: Connected content opportunity scale
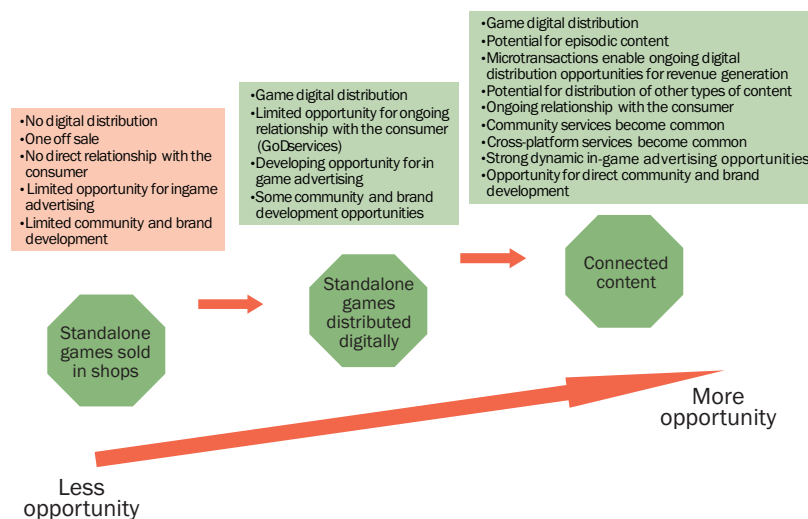
Source: Screen Digest

8 MMOG market value chain

How the value chain is changing

Developments in the Western market over the last two years have led to a series of changes and ongoing transitions within the MMOG market value chain. Primarily the cross-over between content sectors, and the development of niche MMOG markets has meant that traditional MMOG vendors have been joined by a significant number of new competitors, all seeking to access the potential of the MMOG business model. Increased competition has also been driven by the emergence of a strong Asian industry, exerting additional pressure on traditional Western companies.

Other market trends and industry factors have also led to a changing role for some stakeholders within the value chain, and there

has been some shift in power between specific groups operating in the chain.

Virtual worlds and media market convergence

Online virtual worlds and 3D social networking sites are emerging as significant platforms in the ongoing convergence of the media industry. Traditional media companies are seeking to bring their non-gaming brands into the 3D online environment. These companies aim to build online communities, increase brand awareness and gain access to key consumers that can be monetised to offset falling offline advertising revenue.

Hence Viacom's recent push into this sector, first with the acquisition of *Neopets* in 2005, and more recently with the introduction of *Virtual Laguna Beach*, *Virtual Hills* and *Nicktropolis*. Disney too runs its own virtual 3D adver-world. These developments mean that games companies are knocking up against traditional media companies in the digital market more than ever before.

Developers

Some of the largest independent MMOG developers based in the West are continuing the trend of self-publishing content or operating their own titles, especially in their home markets. Cryptic Studios is the latest high profile independent developer to confirm that it intends to operate its upcoming Marvel superhero MMOG (even though the title will be published by Microsoft Game

Figure 10: MMOG market value chain
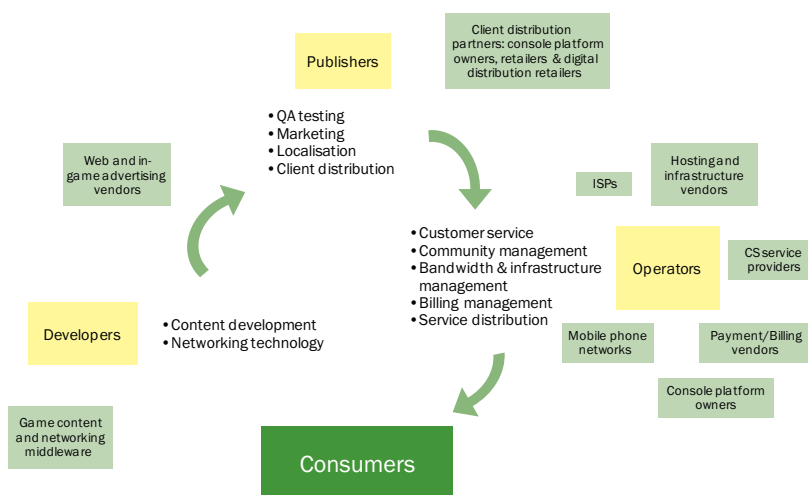
Source: Screen Digest

9 Content trends in 2006 and moving forward

We have already discussed the general trend within the MMOG sector to cross over into new content genres, gameplay approaches and business models, some of which are found within established online markets, such as casual games, virtual worlds, and social networking sites. Likewise these other markets are themselves absorbing new strategies, which are characteristic of MMOG sectors, resulting in a blurring effect between the definitions of these different sectors.

Although this has resulted in some convergence in underlying functionality, it has also driven an increasingly fragmented market with a number of new sub-sectors or niche opportunities, and many new market entrants, some of which originate from such diverse industries as telecommunications, television, and internet. With this in mind, we have built a database of information to analyse more closely some of the key trends within the market which we hope will be useful for those companies seeking to access the market, and for those established vendors that are seeking to get a handle on how the market is transitioning.

This segment of the report analyses specific content trends including content IP, platform support, language support, content origin, content genre, game type, and game setting. We have analysed these trends for all commercially available titles, the Western World top 20 titles (by subscription revenue), and also all announced titles in development or beta testing. We have highlighted where there are noteworthy changes in trends by comparing the current commercial climate with content that is in the pipeline for release over the next three years or so.
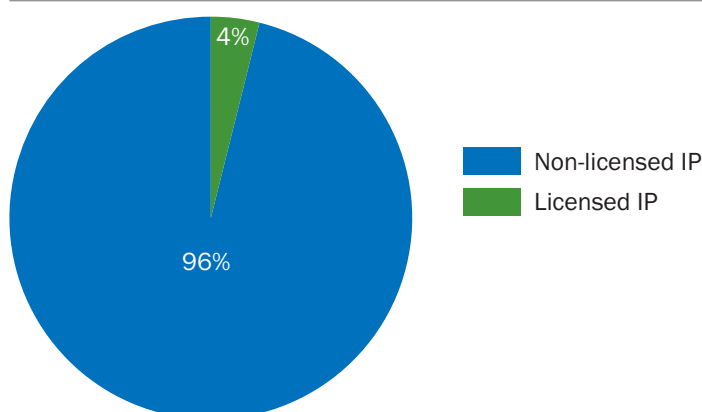
Content intellectual property trends

We have examined two specific content IP trends within the MMOG sector: those titles that use existing IP in licensed form from other media sectors outside of the games sector such as movie, TV or music titles, and also those titles that leverage existing game IP, whether it comes from previous MMOGs (and is therefore a sequel), or other types of game.

Licensed IP trends

The results in the licensed IP area of analysis showed that when comparing commercially available titles and those in development, that there is a trend towards increasing licensing of IP from other media sectors, such as film

Figure 11: Commercially available titles: licensed IP versus non-licensed IP

- Non-licensed IP
- Licensed IP

4%

96%

Source: Screen Digest