



Driving the Networked
Games Market
Networked Games Trends

June, 2001



Purpose



The purpose of the presentation is to:

- Demonstrate a powerful high level point of view regarding how the emerging networked games market will develop
- Articulate how and where value will be created in the near term for both games makers and delivery platforms at the industry level
- Characterize the online gamer and highlight some key examples of new games by platform



BACKGROUND

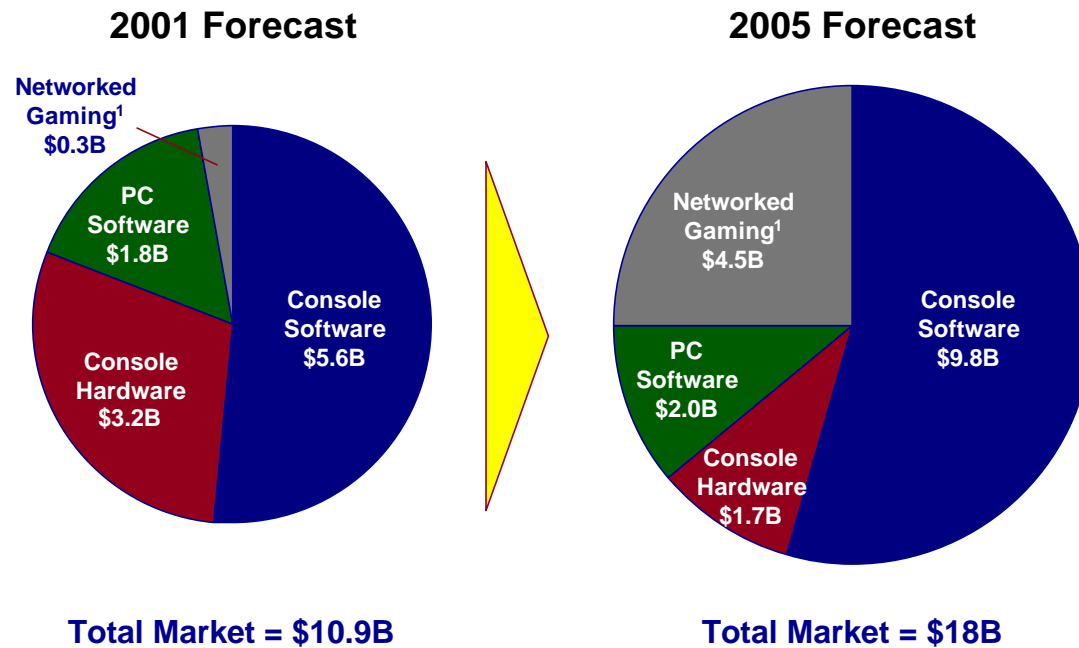
INDUSTRY LEVEL FINDINGS

CHARACTERISTICS OF ONLINE GAMERS & NETWORKED GAMES

Networked gaming is expected to become a large and increasingly important market.



U.S. Interactive Entertainment Market Forecast (\$ Billions)



Market Growth Drivers

- Rapid penetration of broadband-enabled console hardware
- Higher software sales due to larger PC and console installed base
- Increased adoption of new gaming platforms such as ITV and mobile gaming devices
- Greater consumer acceptance of online gaming, broadband services and underlying business models

1- Networked gaming includes video games played over the Internet or other online networks, and excludes gambling.

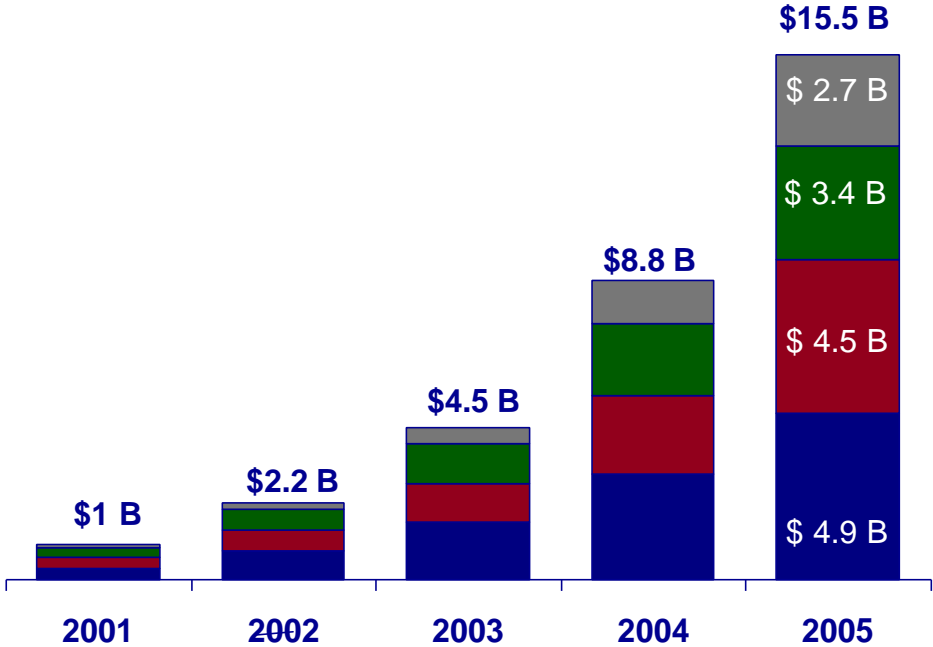
Source: Veronis Suhler/IDC, PC Data, Forrester, Accenture analysis

Networked gaming is expected to take off globally in the next two to three years, reaching over \$15 billion in revenues in 2005.



Global Networked Gaming Forecast

By Geography



Country	Revenue CAGR	2005 Population
ROW	140%	6 B
Japan	83%	130 M
US	98%	290 M
Europe	89%	390 M

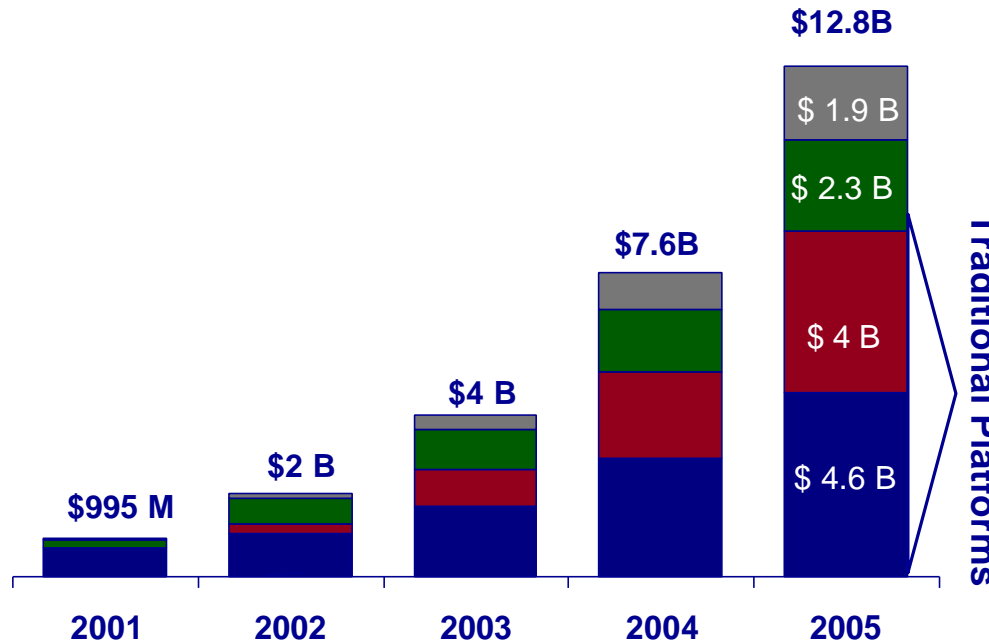
Source: IDC, December 2000; IDG, January 2001; Jupiter Communications, October 2000; DoCoMo, 2000; BNP Global Media Update, CPR Finance, Accenture analysis

Traditional games platforms are expected to capture the the most revenues in the near term.



Networked Gaming Forecast

By Platform in US, Europe and Japan



Note: US, Europe and Japan only

Gaming Platform	Revenue CAGR	No. of Gamers In 2005	2005 Annual Rev/Gamer
ITV	177% ¹	162M	\$12
Wireless	75% ¹	305M	\$7
Connected Consoles	251% ¹	136M	\$31
PCs ²	61% ¹	182M	\$28

Traditional Platforms

Source: IDC, December 2000; IDG, January 2001; Jupiter Communications, October 2000; DoCoMo, 2000; Accenture analysis

Note: Online gaming revenues are composed of online advertising/sponsorships and subscriptions paid by online gamers.

¹ Revenue CAGR calculated from 2002-2005

² PC Numbers include both broadband and narrowband PCs

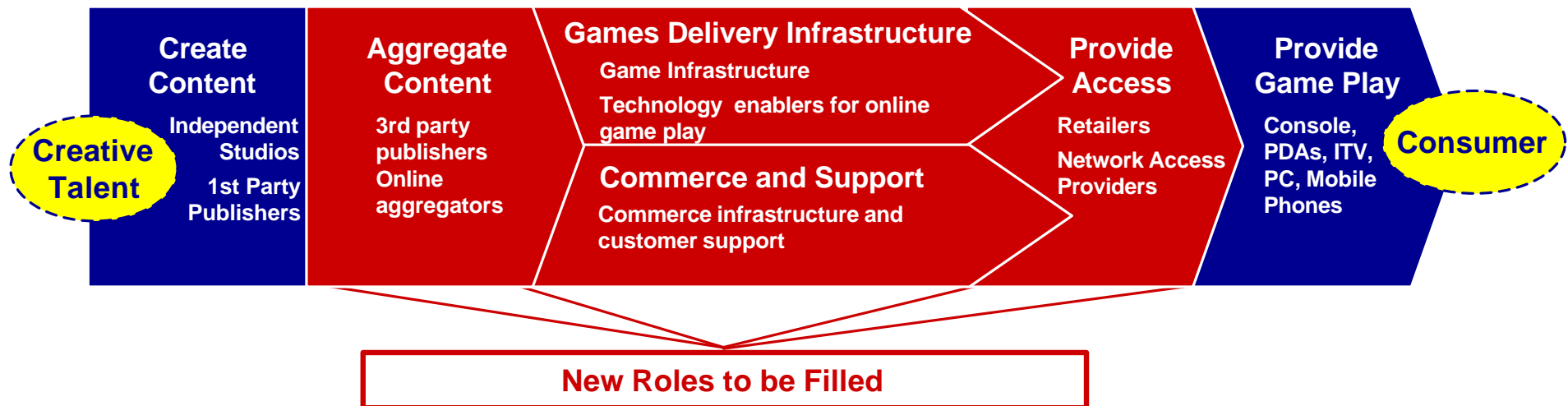
As games go online, a new value chain will emerge with new roles that will be filled by incumbents, new entrants and network providers.



Traditional Games Value Chain (Retail)



Emerging Networked Games Value Chain



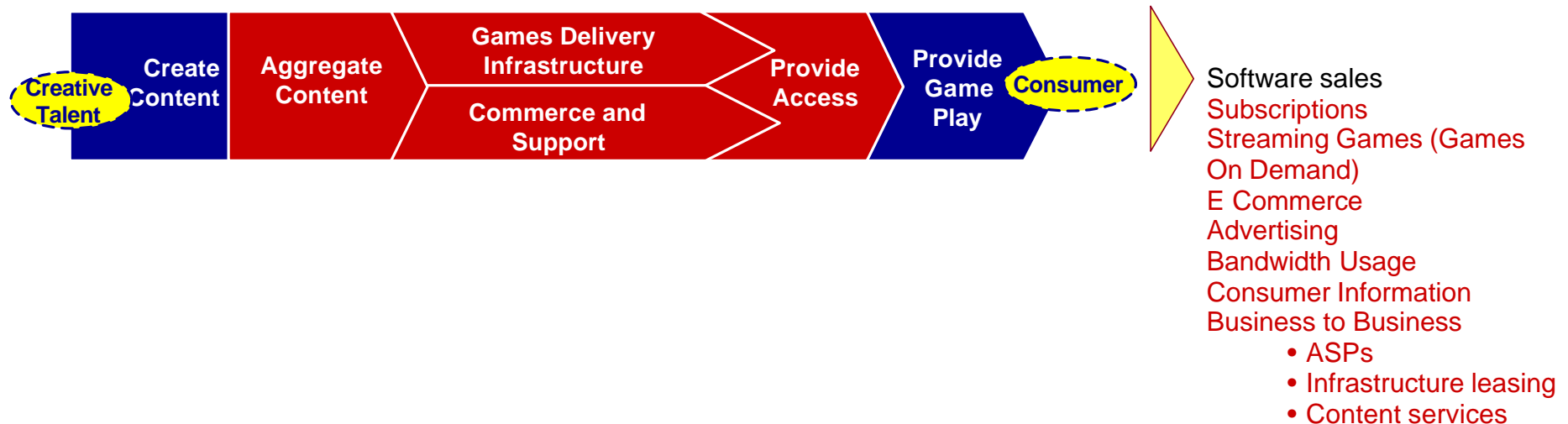
Networked games opens multiple new revenue streams.



The traditional games value chain offered content creators and distributors a single revenue stream...



...but the emerging networked games value chain offers content creators and network providers multiple revenue streams





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CHARACTERISTICS OF ONLINE GAMERS & NETWORKED GAMES

Key Industry Level Messages



- **Two distinct markets will evolve: PC/console and ITV/mobile.** These markets will be distinguished by access to the consumer, consumer profiles, and the costs of creating and delivering content.
- **Unique strategies will be necessary to capture maximum value in the market place.**
 - PC/console makers should seek to build empires and lower costs
 - ITV/Mobile content makers should create barriers to entry and seek product differentiation.

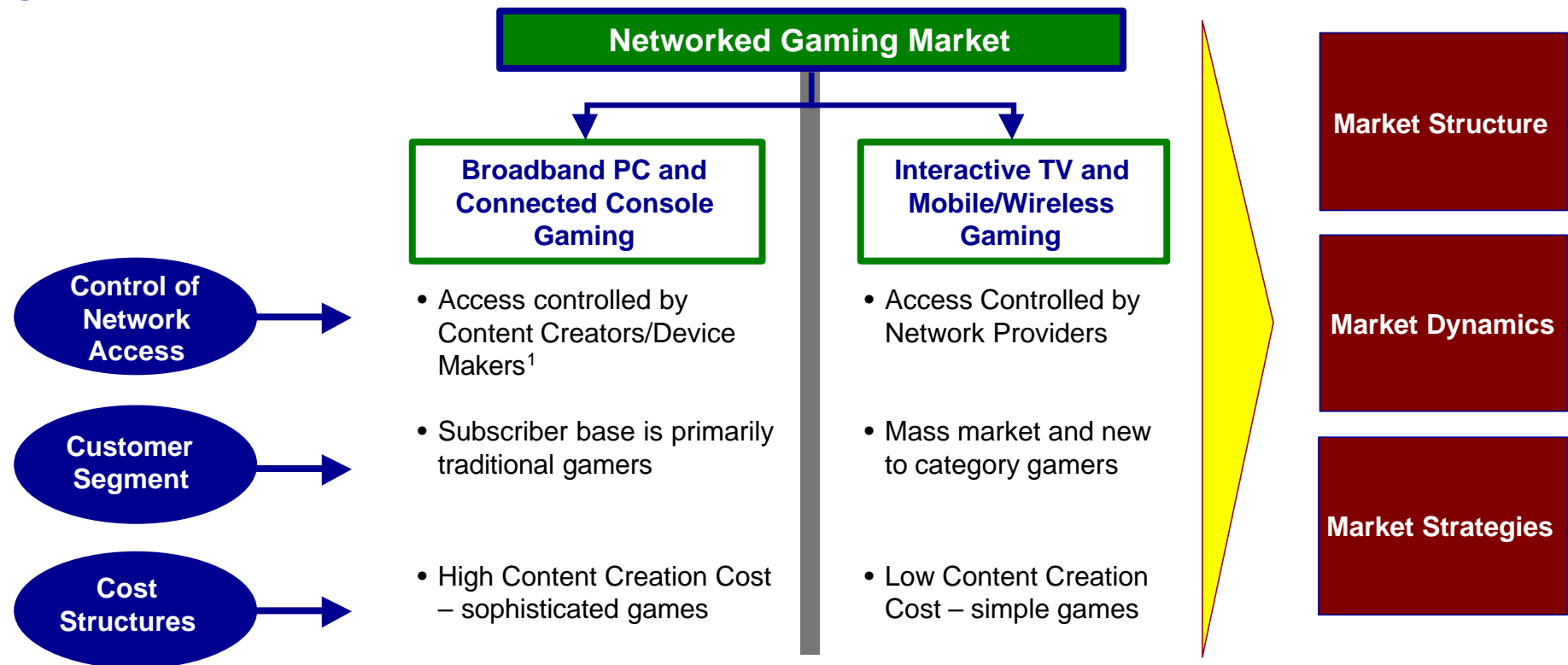
Two distinct networked games markets will emerge, requiring content publishers and network providers to tailor their strategies ...



Primary forces of demand and supply will vary across games platforms...

... creating two distinct networked games markets...

... resulting in different market implications.



¹-Broadband PC is an open access platform; Connected Consoles are a closed platform.

These markets are already taking shape.



**Broadband PC and
Connected Console
Gaming**

**Interactive TV and
Mobile/Wireless
Gaming**

Market Structure

- **A few strong incumbents are leading the market**
- **New entrants are leading the content market**

Market Dynamics

- **Content companies and console makers are creating the capabilities to control the consumer**
- **Network providers are creating the capabilities to control the consumer**

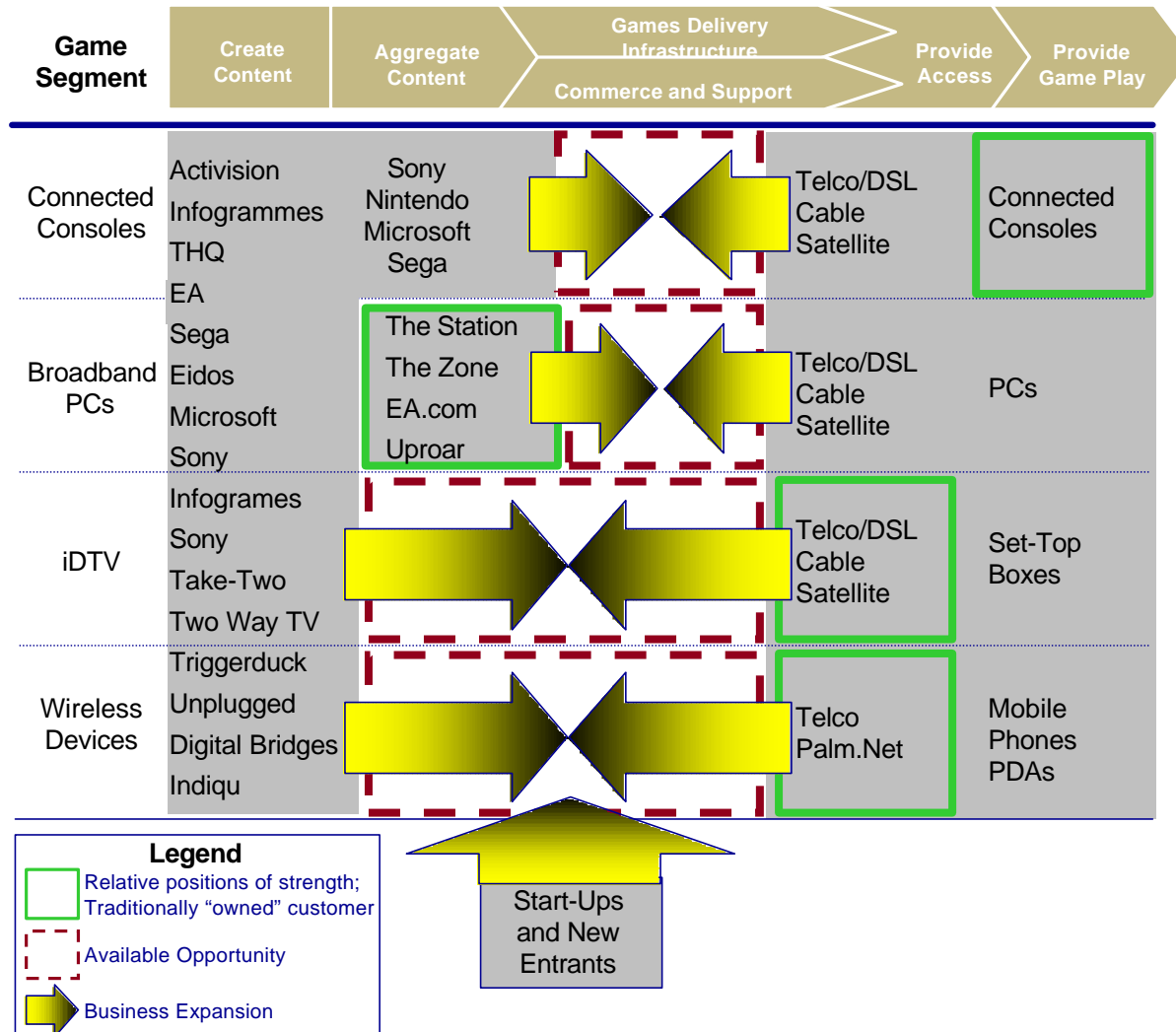
Market Strategies

- **Content companies are creating platforms and consolidating to maximize economies of scale**
- **Content companies are exploiting first mover advantages with network providers**

New partnerships and new entrants will drive key activities in the networked gaming market.



Online Gaming Value Chain



Key Points

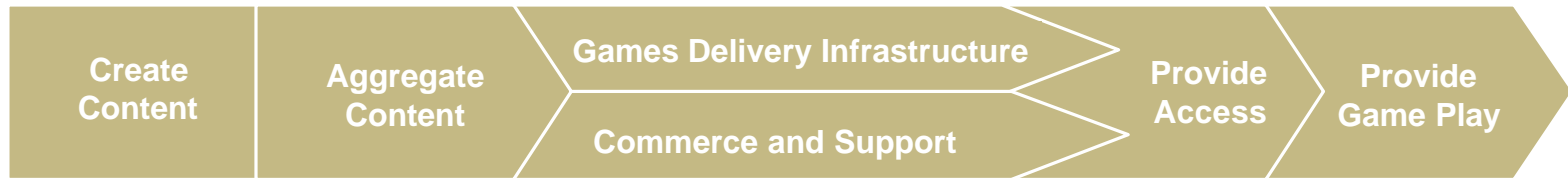
- New partnerships are now being formed by network providers, and content and infrastructure providers that may lock-out competitors.
- Network providers are the incumbents that, at a minimum, will provide network access.
- Opportunities for moving beyond access still exist for various gaming segments.
- Content providers and new entrants are also pursuing these opportunities.
- Sony and Microsoft are already partnering and building their own connected console online infrastructure.

Key partnerships and strong new entrants are already emerging...



ILLUSTRATIVE

Emerging Networked Games Value Chain



PC
US example



Console
UK example



Mobile
US example



ITV
UK example



■ Incumbent games companies ■ New Entrants ■ Network Providers



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Avid gamers are early adopters of online gaming while casual gamers are typically mainstream consumers.

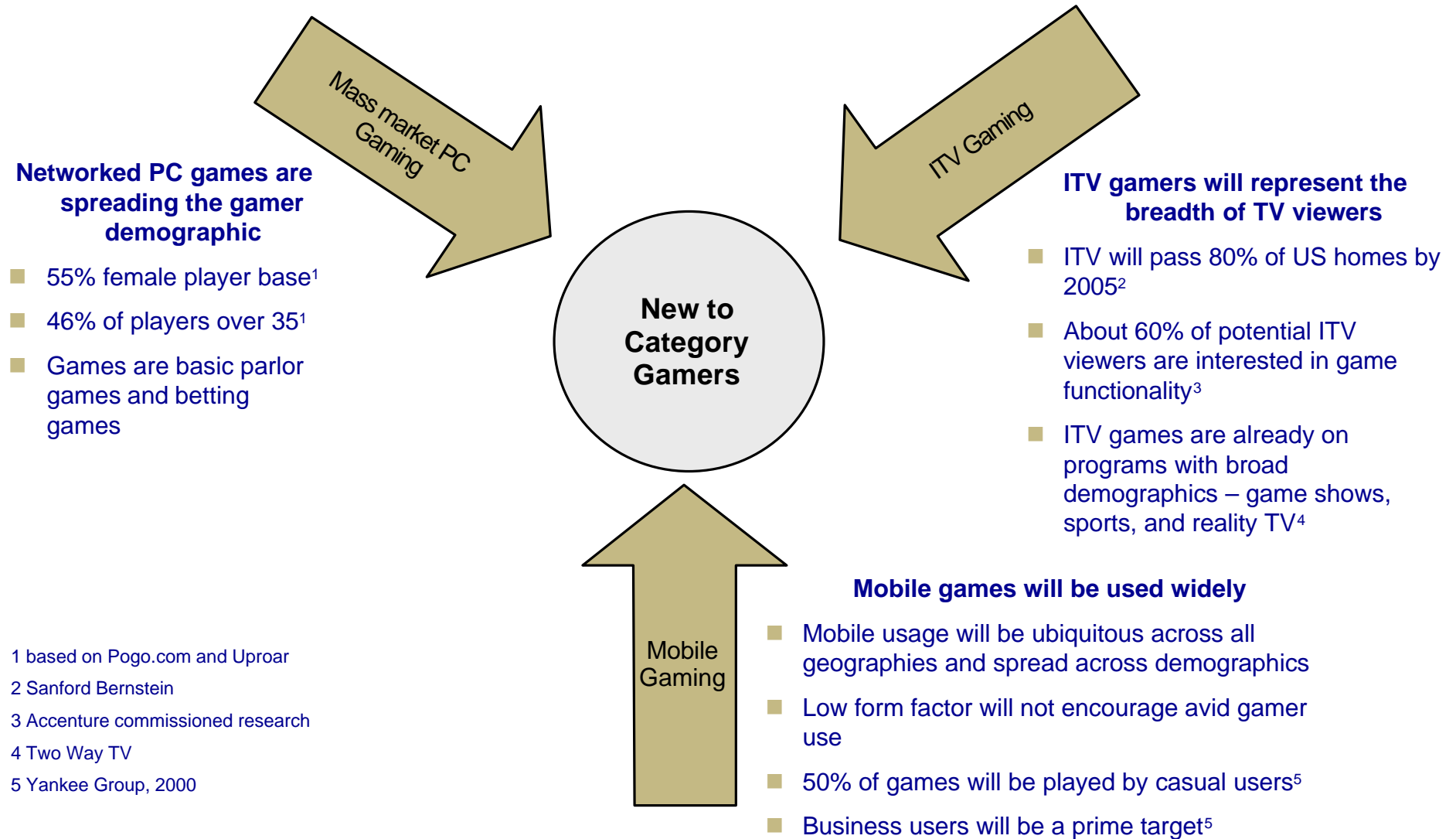


Characteristics of Online Gamers

	Casual Gamer	Avid Gamer
Description	<ul style="list-style-type: none"> ▪ HTML and Java based games ▪ Multiplayer on advertising-based games Web sites 	<ul style="list-style-type: none"> ▪ Played on packaged retail software ▪ Multiplayer through advertising or subscription-based matchmaking site
Demographics	<ul style="list-style-type: none"> ▪ Age 25-65 years ▪ 50% male / 50% female ▪ Play up to 5 hours per week 	<ul style="list-style-type: none"> ▪ Age 18-29 years ▪ Mostly male ▪ Play up to 30 hours per week
Genres	<ul style="list-style-type: none"> ▪ Trivia/Puzzle ▪ Card/Parlor ▪ Casino ▪ Game Shows 	<ul style="list-style-type: none"> ▪ Role-playing games ▪ Sports ▪ First-person shooters ▪ Real-time strategy
Game Examples	<ul style="list-style-type: none"> ▪ Bejeweled ▪ Chess ▪ Blackjack ▪ Wheel of Fortune 	<ul style="list-style-type: none"> ▪ Everquest ▪ NFL2K1 ▪ Half-Life: Counter-Strike ▪ Starcraft
Connectivity	<ul style="list-style-type: none"> ▪ Browser with server-side processing ▪ Low bandwidth requirement 	<ul style="list-style-type: none"> ▪ Most processing done locally with positional data transmitted via network ▪ Generally requires lower latency and higher bandwidth

Source: "Pervasive Gaming Goes Mainstream," Forrester, 8/00; Accenture analysis

Networked PC, ITV and mobile games are increasing the number of gamers.



1 based on Pogo.com and Uproar
2 Sanford Bernstein
3 Accenture commissioned research
4 Two Way TV
5 Yankee Group, 2000

New forms of online gaming have emerged for PCs in the past few years, including persistent world games, episodic experiences and consumer-driven modifications.

Examples of Broadband PC Gaming

	Everquest	Majestic	Counter-Strike
Description	<ul style="list-style-type: none"> Massively multiplayer persistent world role-playing game where players embark on various quests Large community base outside of actual game Created by Sony Online Entertainment 	<ul style="list-style-type: none"> Cross-platform episodic gaming adventure where players are involved in a conspiracy thriller Uniquely tailored for web pages, e-mails, faxes, voicemails, and text messaging Created by Electronic Arts 	<ul style="list-style-type: none"> Players join Terrorist and Counter-Terrorist teams and compete for different goals Consumer-driven modification to Half-Life game Created by Sierra (Vivendi Universal Interactive)
Genre	<ul style="list-style-type: none"> Role-playing game (fantasy) 	<ul style="list-style-type: none"> Role-playing game (suspense thriller) 	<ul style="list-style-type: none"> First-person shooter
Statistics	<ul style="list-style-type: none"> Over 300,000 subscribers paying approximately \$10 per month 	<ul style="list-style-type: none"> Subscribers pay \$10 per month fee for each episode (not released yet) 	<ul style="list-style-type: none"> Most popular first-person shooter game

Sample Screenshot



Source: Sony Online Entertainment, EA.com, Sierra web sites

Wireless games are increasing airtime usage through ubiquitous, location-based, and ease-of-use gameplay.



Examples of Wireless Gaming

Space Impact

Ground Zero

Void Raider

Description

- Classic spaceship shooter simulation where players fight against incoming asteroids, alien ships and space creatures
- Created by Nokia
- Multiplayer game where players search for physical real-world clues and compete for prizes
- Supports global positioning capabilities to create a location-based gaming experience
- Created by Ericsson
- Multi-player game that combines elements traditional spaceship shooters and Tamagotchi-like game play
- Rewards increasing degrees of gameplay
- Created by Unplugged Games

Genre

- Action/Adventure
- Action/Adventure
- Action/Adventure

Statistics

- Over 50% of Nokia Model 3310 purchases play at least once per week; Over 16% play once per day
- N/A
- Over 250,000 minutes in first week on two U.S. wireless providers

Sample Screenshot



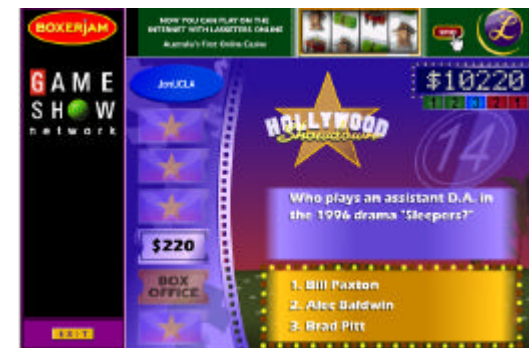
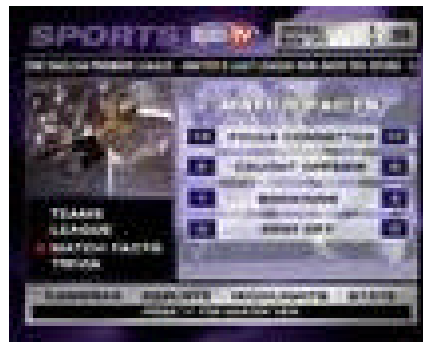
Source: Nokia, Ericsson, Unplugged Games web sites

Interactive TV is focusing on simple, casual games as well as games overlaid on television programming, such as sporting events.

Examples of Interactive TV Gaming

	Treasure Hunt	Rugby League World Cup	Hollywood Showdown
Description	<ul style="list-style-type: none"> Minesweeper-based game where players uncover a puzzle board to find hidden treasure Created by Two Way TV 	<ul style="list-style-type: none"> Rugby trivia game played along with live broadcasts of Rugby League World Cup games Players can test their knowledge and win prizes, such as game tickets and merchandise Created by Two Way TV 	<ul style="list-style-type: none"> Contestants compete against one another by answering entertainment pop culture questions Game plays along with Game Show Network's Hollywood Showdown broadcast Created by Boxerjam
Genre	<ul style="list-style-type: none"> Puzzle 	<ul style="list-style-type: none"> Sports 	<ul style="list-style-type: none"> Trivia
Statistics	<ul style="list-style-type: none"> Average player on Two Way TV games channels play games for about 90 minutes per play 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Game not yet released

Sample Screenshot



Source: Two Way TV, Boxerjam, and Game Show Network web sites

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