Business Insights

The Video Gaming Industry Outlook

Gaming segment analysis, key stakeholders, new challenges and future developments

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	Table 4: Performance of major video game publishers ($bn), 2010				
Rank	**Companies**	**Segment revenue ($m)**	**CAGR 2007–2010**	**Operating profit ($m)**	**CAGR 2007–2010**
1	Nintendo	15,462	22.1%	3,844	24.7%
2	Sony	9,063	1.9%	-498*	-37.5%
3	Microsoft	8,058	9.5%	679	-29.0%
4	Activision Blizzard	4,606*	50.6%	306	19.6%
5	EA	3,654	5.7%	-487	-332.0%
6	Square Enix	2,073	13.0%	304	10.2%
7	Konami	1,538	2.0%	232	-4.4%
8	Namco	1,483	9.8%	-74	-190.1%
9	Sega Sammy	1,311	7.7%	68	64.4%
10	Ubisoft	1,215	9.2%	-101	-229.2%

Recent fiscal year end is March, 2010.

*Estimated revenues for the fiscal year 2010.

Source: Company information   **BUSINESS INSIGHTS**

Nintendo also recorded the highest operating margin of 24.9%, largely because of superior efficiency ratios and also benefiting from favorable exchange rates. Although, the other major industry players witnessed robust growth rate in revenues, their profits declined due to intense competition and the ongoing consolidation in the industry. Additionally, in 2010, despite strong sales, EA and Sony's operating margins declined owing to higher restructuring and R&D costs.

Figure 6 below compares the major global video game publishers based on the following criteria: operating margins, revenue growth and R&D spends. Measured against these parameters, Nintendo emerges as a strong performer among all the players. Also, Activision Blizzard and Square Enix posted significantly higher operating margins and revenue growth than the other players during 2007–10. These companies capitalized on their strong distribution networks and brand equity.

Figure 27:   The emerging video gaming value chain

Hardware manufacturer

Developer

Publisher

ISP/ game portals

Distributor

Mobile handset manufacturers / operators

Retailer

Customer

→ Traditional value chain   ----→ Emerging value chain

Source: Business Insights

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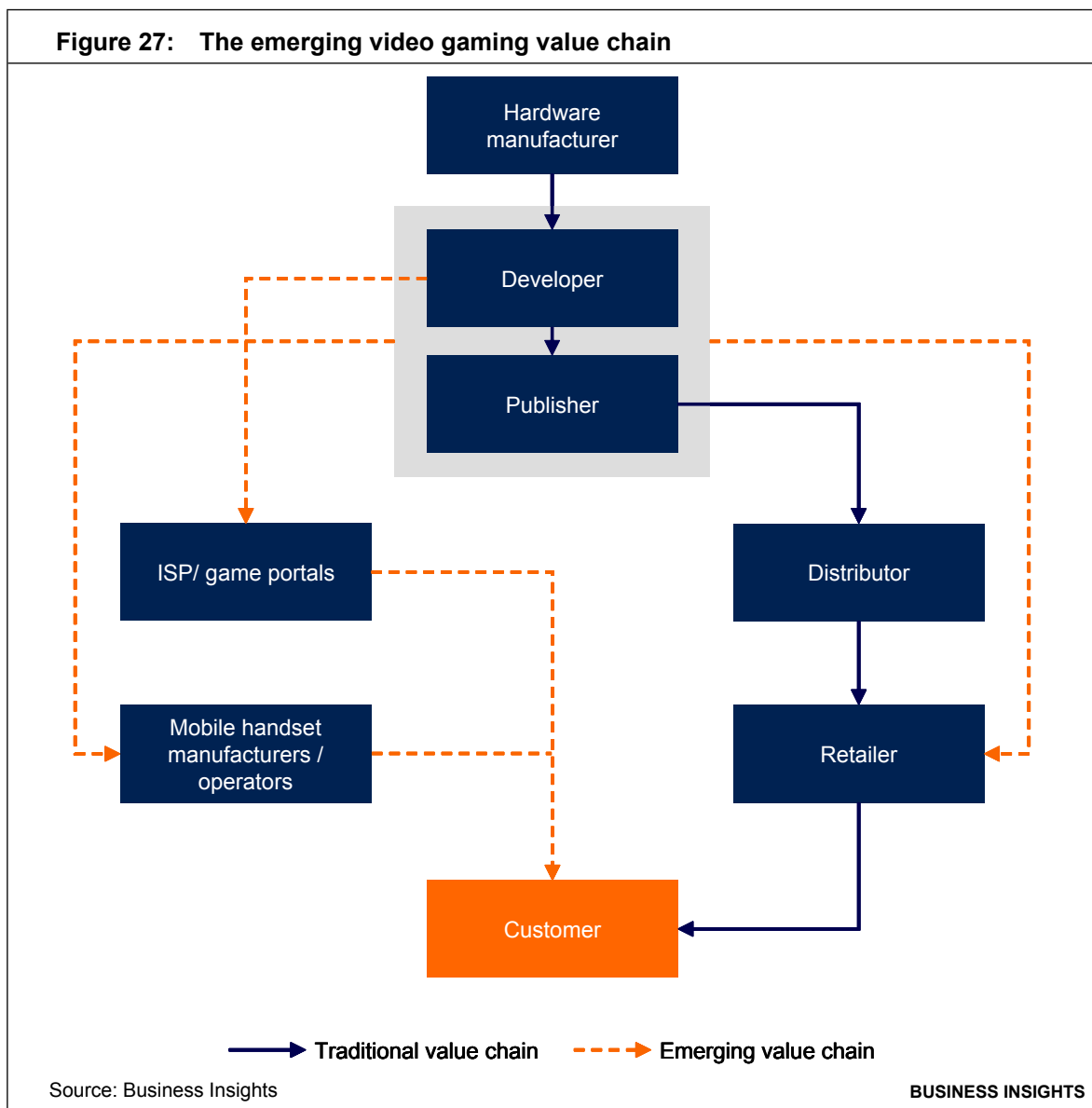
These disruptive trends, coupled with technological advances, have transformed the video gaming landscape. The battle lines are drawn between console manufacturers and publishers. Hardware manufacturers are moving on to more advanced models such as sensors and motion controls, while publishers are acquiring developers to gain traction and are shifting to digital distribution of content through

numbers, it is 150 million users ahead of the nearest competitor, China's QQ network. Another Chinese network, RenRen, is in the third position. Friendster is in fourth place, owing to its immense popularity in Southeast Asia. Microblogging network Twitter is in fifth position with a geographic mix similar to Facebook's. Orkut is sixth, again owing to a strong Asian presence.

Figure 49:   Major social networking platforms by users (m), 2010

Source: Business Insights
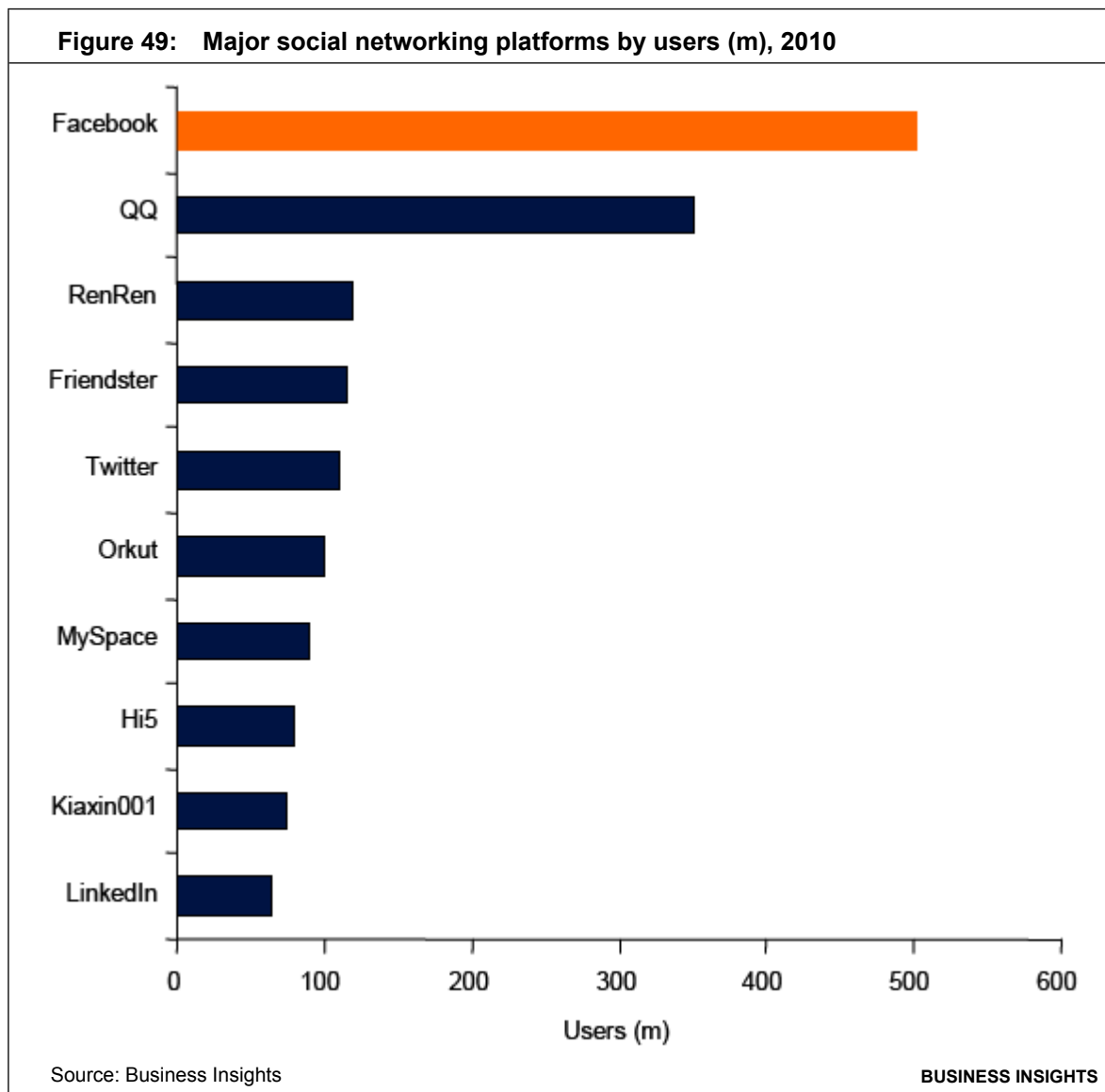
Sony Computer Entertainment

Sony Computer Entertainment is a subsidiary of Sony corp. and forms a part of its Networked Products & Services segment. The company is involved in production and distribution of video games hardware and software for its PlayStation brand. It develops titles through its subsidiary Guerilla games and through Sony online entertainment, and also contracts with third party developers. In 2010, its best selling titles included *Gran Turismo*, *God of War*, *SingStar* and *Ratchet & Clank*. The company is headquartered in Japan, and has operations spread across North America, Europe, Brazil, Oceania and Asia.

Table 45: Sony Computer Entertainment snapshot	
Headquartered	Tokyo, Japan
Founded	1993
Segmental revenues (2010)	$9,063m (JPY 840,711m)[1]
Software unit shipments (2010)	33.7m[2]
Employees (2010)	1400
[1]Revenues from games.	
[2]Vgchartz.com	
Source: Company information	**BUSINESS INSIGHTS**

The company reported gaming revenues of $9,063m (JPY840,711m) in 2010, a decrease of 7.9% over 2009. The results were impacted by decreases in hardware sales and unfavorable exchange rates.

Sony is introducing new features such as higher disc capacity, surround sound, Wi-Fi and 3G connectivity.

It acquired Media Molecule (developer of *LittleBigPlanet*) in 2010 to expand its portfolio. The company published over 28 titles such as *Heavy Rain* and *God of War III* in 2010 and is on track to publish over 25 games across all PS platforms in 2011.

To capitalize on the high growth in the online and mobile gaming segments, the company is focusing more on downloadable content than on game titles. Towards this end, the company unveiled the PS Suite range of