Gaming Report 2024

Meet the Moment: How Gamers Are Changing the Game

BAIN & COMPANY

Acknowledgments

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Meet the Moment: How Gamers Are Changing the Game

The global audience for video games continues to surge, led by younger players who are spending more time on games and less time on video and other media.

The second Bain Video Game Consumption Survey looked at how gamers spend their time and money. Gamers told us that they like immersive games and want more interoperability across devices and platforms. They're also spending more time in game environments, socializing, shopping, and consuming other media.

These trends are upending the industry's dynamics as players identify more with the game and less with the device. Marketplaces could become the central focus for the customer relationship. Meanwhile, companies that grew out of a love for video games are now developing more mature capabilities so that they can compete with technology and media giants.

It's an exciting time for the industry, and no company can afford to wait and see if it wants to protect its spot on the leaderboard.

Daniel Hong
Leader of Bain's Global Media & Entertainment practice

Gamer Survey: Young Players Reshape the Industry

Players want more immersive games and more interoperability.

By Anders Christofferson, Anders Videbaek, Alex Egan, Tom Rowland, and Matt Madden

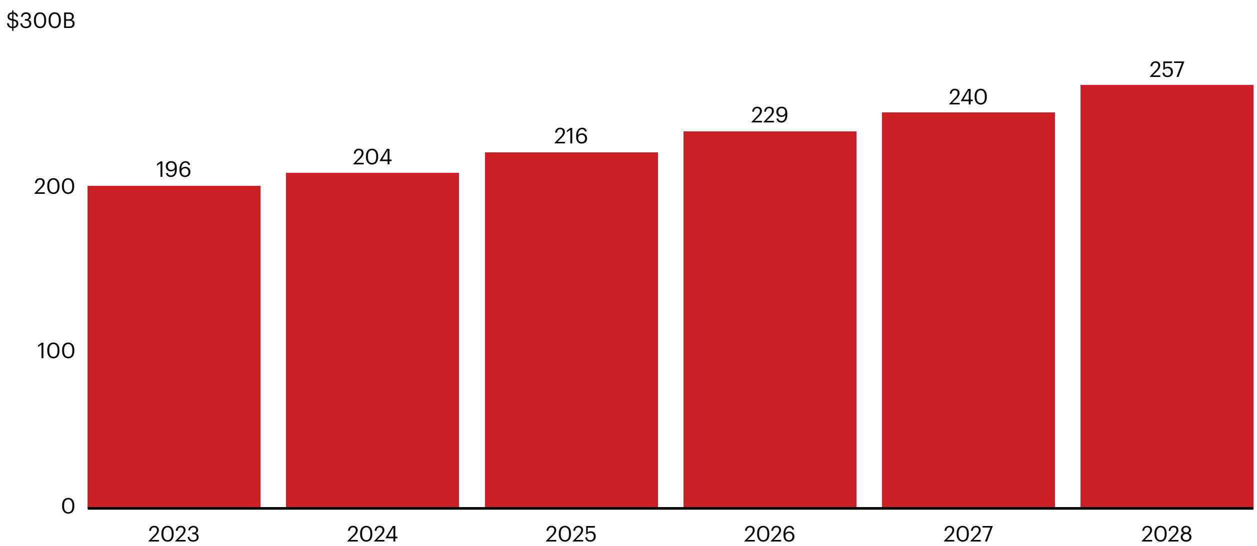
At a Glance

- The video game market reported $196 billion in revenue for 2023, outpacing streaming and box-office revenue combined; Bain forecasts 6% annual growth through 2028.
- Almost 80% of 2- to 18-year-olds are gamers, spending 30% of their entertainment time gaming, driving industry growth.
- Gamers do more than play games in the game setting: They socialize, shop, and watch video; those that do more tend to spend more.
- Gamers are co-creating the experience: 79% have played games with user-generated content, and 16% have made content for games.

Four years after what was assumed to be a pandemic-induced boost in popularity, the video game market continues to grow in all age groups, taking share of entertainment time and revenue from other media. The global market for video game revenue reached $196 billion in 2023, more than the combined revenue from streaming video ($114 billion), streaming music ($38 billion), and global box-office receipts ($34 billion). Bain estimates that the global market for video games could grow by about 6% annually through 2028, buoyed by tailwinds from mobile and stealing share from other media types *(see Figure 1)*.

Figure 1: Video games' global revenue could climb by 6% a year, reaching $257 billion by 2028

Global revenue for video games (in billions of US dollars)



Notes: Excludes hardware; 2024–2028 numbers are forecasts
Sources: IDC; Euromonitor; PwC; Video Game Insights; TD Cowen; Bain analysis

To learn more about the habits and expectations of gamers, we surveyed more than 5,000 people across six countries. From these insights, we've identified five key themes that game developers and publishers, device makers, and marketplace operators should understand in order to see where the industry and its consumer audience are moving:

- Young gamers drive growth.
- Gaming is about more than gameplay.
- Gamers are cocreating the experience.
- Gamers want to play across platforms and devices.
- Gaming IP is taking share in other media.

Young gamers drive growth

Gaming has broad appeal: 52% of people surveyed play video games on a regular basis. But the clearest source of future growth comes from the youngest players (2 to 18 years old), 80% of whom identified as gamers in our survey. Young gamers spend nearly 30% of their entertainment time in video game environments.

This isn't a new phenomenon: Our 2022 survey found that half of teen gamers preferred spending time with friends in gaming environments rather than in the physical world. For this generation, video games are the modern mall, a place to hang out, see friends, and take in a variety of entertainment options. This audience expects video game companies to allow access from any platform, provide a diversity of experiences to consume, and enable them with the ability to create.

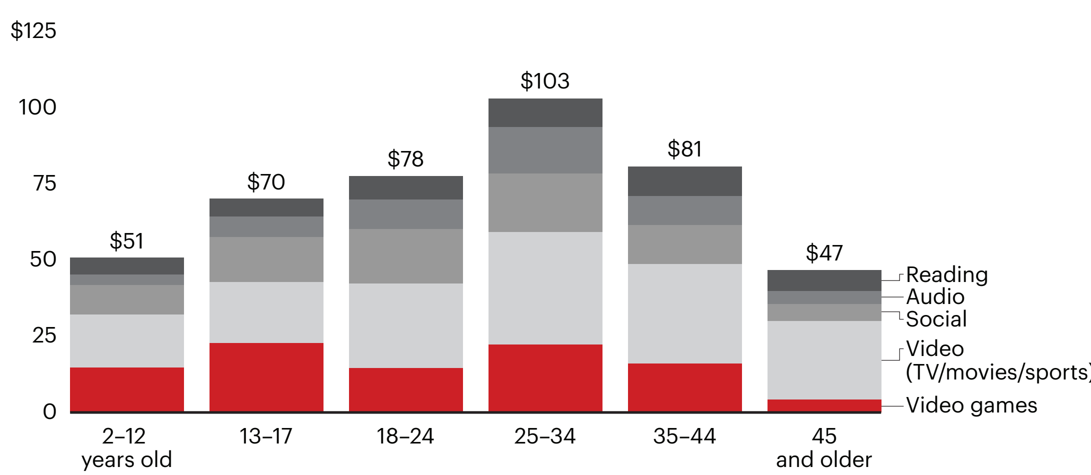
Older players (45 or older) are a smaller market with big potential, with 31% identifying as gamers. Those that do play tend to spend less time on average (2.5 hours per week compared with 9.5 hours for 13- to 17-year-olds) and mostly on mobile phones. TV remains a strong competitor for this audience, capturing almost 40% of their entertainment time. In contrast with young gamers, this cohort prefers a lower level of engagement, such as casual genres or video embedded in the game environment. As gaming becomes more accessible and consumers age, this demographic could be an important source of growth given their potential to spend more *(see Figure 2)*.

Gaming is about more than gameplay

Gamers' preference for immersive games—that is, those with expansive virtual environments, where players can socialize and play an active role in generating content—was accelerated by pandemic lockdowns, and it has continued to grow in the years since. Nearly half of the top 30 games can be

Figure 2: Younger consumers spend a greater share of their entertainment budget on video games than older players

Average monthly spending on various entertainment forms, by age



	2–12 years old	13–17	18–24	25–34	35–44	45 and older
Average share of entertainment wallet spend per month	30%	33%	19%	21%	20%	9%

Note: Bain surveyed people in six countries: Brazil, Indonesia, Japan, United Arab Emirates, United Kingdom, and United States.
Source: Bain Video Game Consumption Survey, May 2024 (n=5,153)

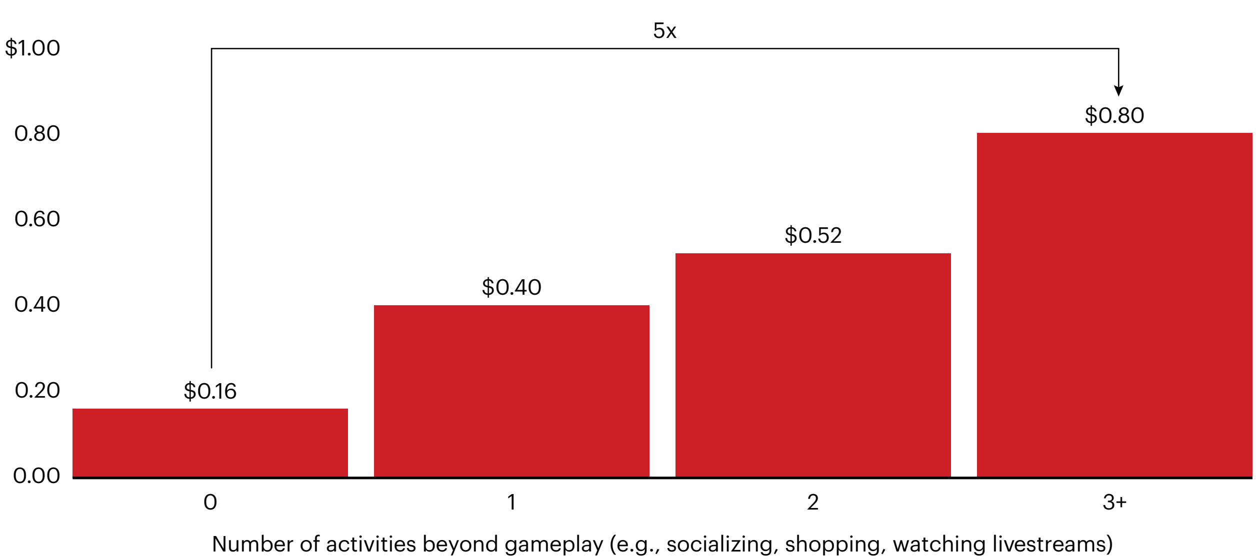
considered immersive, and a third of gamers surveyed by Bain listed an immersive game as their top game. For gamers younger than 18, that percentage was closer to half. Many of these younger players consider gaming platforms such as *Roblox* or *Fortnite* a social community, similar to the way adults view WhatsApp or Facebook.

Immersive gamers are more engaged, spending about one and a half hours more per week in the game compared with non-immersive gamers. On average, they spend about one-third of that time on things other than gameplay, including socializing, creating, and shopping. They also spend more money on games, and the more things they do other than playing, the more they spend overall and on an hourly basis. In fact, players who engage in at least three activities other than gameplay spend about five times more per hour than gamers who just play *(see Figure 3)*.

The combination of these trends suggests that this heightened engagement among young gamers represents more than just kids having more time for games. Immersive gaming environments are becoming the center of social and entertainment activity for a group of consumers that will enter adulthood over the next few years. Given the heightened importance of these environments, we wouldn't expect these consumers to abandon them as they mature—and grow richer. Instead, we expect that these gamers will continue to devote their time and spend their money and that they will demand more from the developers and publishers who provide these environments and experiences.

Figure 3: Gamers who do more than play games also spend more

Average hourly spending by number of activities beyond gameplay



Notes: Based on representative sample; excludes "other" and unclassified spending
Source: Bain Video Game Consumption Survey, May 2024 (n=5,153)

Gamers are cocreating the experience

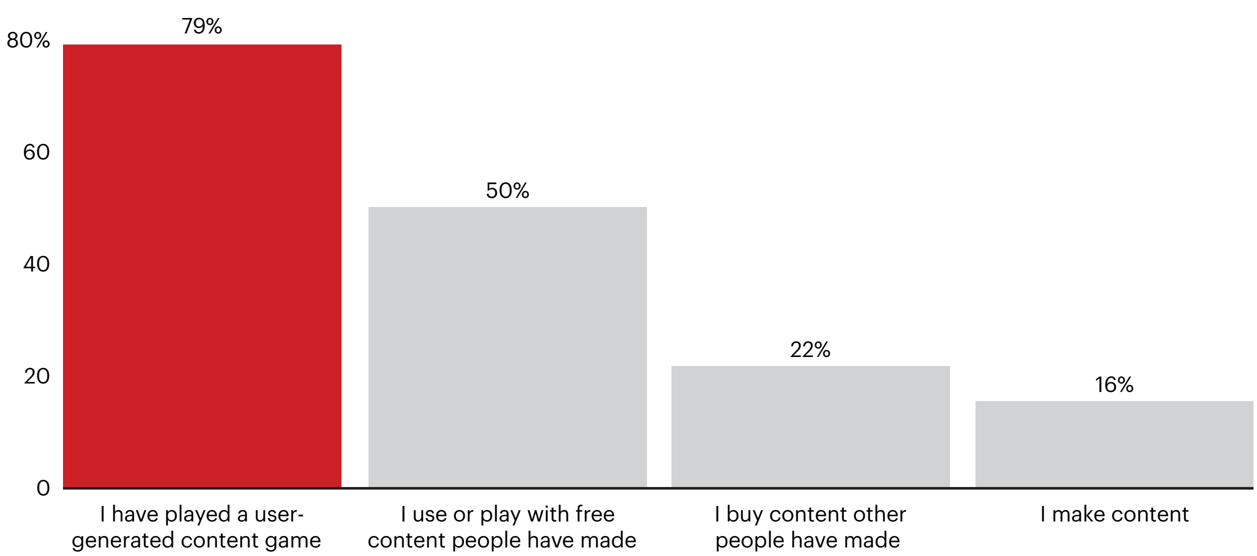
Video has been dramatically changed over the past two decades by the rise of user-generated content (UGC). YouTuber MrBeast now has more subscribers than Netflix, and video platforms that depend on user content (including Twitch, YouTube, and TikTok) capture about 14% to 19% of total entertainment time in the prime 13 to 44 age group. The same shift is well underway in video games: 80% of gamers have played a game with UGC, and one in seven have created content in a video game *(see Figure 4)*. About 80% of UGC creators say that they create content to express themselves creatively and for their friends to use and enjoy.

Games offer creators different ways to engage. *Minecraft's* objectives revolve around building and creating new parts of the world; creation is the game. In *Roblox*, gamers contribute to game development, creating new maps or games that other players can enjoy. In *Grand Theft Auto V*, gamers can personalize and customize items that they use in the game. Some games pay users to generate content, including *Fortnite's* "Island Creator."

Generative AI will accelerate this trend by empowering players with tools to fine-tune their gaming experience. Some players have become influencers or celebrities by streaming or commenting on games on platforms that rely on user-generated content, such as TikTok, Twitch, or YouTube. These influencers can generate more engagement in their gaming communities, increasing gameplay and spending.

Figure 4: Most gamers have played games with user-generated content, and 16% have made content for games

Percentage of gamers engaging with user-generated content



Source: Bain Video Game Consumption Survey, May 2024 (n=5,153)

Gamers want to play across platforms and devices

Social play beats solo play, and most gamers want to play with friends, whatever platform they're on *(see Figure 5)*. As gamers spend more time doing more in gaming environments, cross-device ubiquity becomes even more important as they want to engage with friends regardless of what device they're on.

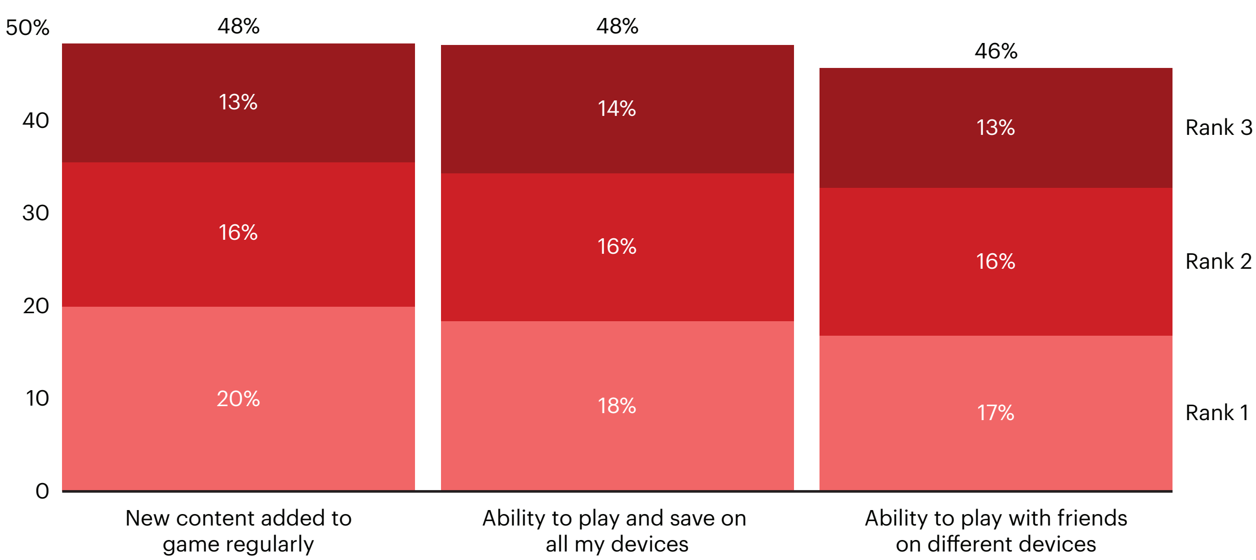
Nearly 70% of gamers play on at least two devices, and half said that they would like to see more accessibility across devices in future games. Cross-platform solutions are gaining traction: 95% of game development studios with more than 50 people are working on cross-platform games.

Gaming IP is taking share in other media

More than half of gamers watched a show or movie based on a video game over the past year, an increase of 10 percentage points over 2022, reflecting higher demand and greater supply. Game-related shows and movies have a big impact on gameplay, with an average 28% lift in average concurrent users (ACUs) six months after their release. *Resident Evil*, for example, has a longstanding game and movie franchise dating back to the 1990s. The release of a *Resident Evil* show on Netflix in July 2022 boosted the ACU of the PC game *Resident Evil 2* by 62% six months after the show's debut. The 2020 movie *Sonic the Hedgehog* brought in more than $300 million at the box office and boosted the ACU of PC game *Sonic*

Figure 5: Interoperability across devices was a factor in two of the top three features gamers wanted

Ranked order of things players want from their games



Source: Bain Video Game Consumption Survey, May 2024 (n=5,153)

Adventure 2 by 56% five months after its release. And the blurring goes both ways: Netflix says that it will bring its most popular stories to video games through its own Netflix Game Studio and that it's partnering with *Roblox* to create a digital theme park: Nextworld.

Four imperatives for long-term success

These consumer trends are tailwinds indicating strong market growth ahead for the video game industry. However, rising competition from big tech and other media, as well as funding pressures, mean that not every gaming company will share the gains. A clearly defined growth strategy is critical to ensure long-term success. Our work with leaders in the industry suggests four imperatives that will help executives define their long-term strategies:

- Understand the customer.
- Expand the in-game world, including into the real world.
- Meet gamers where they want to be.
- Create new experiences to keep gamers engaged.

Understand the customer. Every group of gamers requires its own product and engagement strategy, and game companies should be conducting ongoing research and testing to refine their understanding of them. Determine the appropriate ways to reach them—be it through prelaunch research during game development, during soft launch trials, or through live operations updates throughout the game's life cycle.

Game companies also need to consider a broader range of players as the definition of a gamer changes.

Game companies also need to consider a broader range of players as the definition of a gamer changes. Our survey results identified the important potential of older gamers on their mobiles. Some companies focus on the prime demographic of 12- to 24-year-olds, but they may be missing opportunities if they don't expand their lens to consider how their games and IP could help them reach a wider audience.

Expand the in-game world, including into the real world. Given the trend of gamers wanting to spend time in immersive environments doing more than just playing the game, publishers and developers should think more broadly about the whole game experience. While they continue to build out the game, they may want to place more emphasis on aspects other than play, including social experiences, other media, opportunities for cocreation, trading, and locker management.

They should also be looking for opportunities to extend the game experience into the physical world, including partnerships that capitalize on game IP in movies, TV shows, theme parks, or other events and experiences. This opens up new commercial opportunities, such as the ability for a gamer to buy objects or clothing in the physical world and also get a digital version in the game.

Given the trend of gamers wanting to spend time in immersive environments doing more than just playing the game, publishers and developers should think more broadly about the whole game experience.

Meet gamers where they want to be. As gamers increasingly want to play across platforms and devices, cross-platform games are becoming table stakes. Most game companies will need to make new investments in development and partnerships to make this possible. As distribution becomes more complex, it will become more important for developers to stay on top of developments in distribution so that they can stay close to their audience.

Create new experiences to keep gamers engaged. A strong core is essential, but live games need to progress to remain challenging. In doing so, they rely on new or existing IP to build out the story. Few franchises enjoy the wealth of IP that more than a hundred *Star Wars* games have had access to, with nearly 50 years of broad IP development to draw upon. But the example stands as a high-water mark for other franchises to emulate.

Beyond updates to the game itself, leading game companies find other ways for their customers to participate. Cocreation tops the list as it also keeps users deeply invested in the game. Other engagement opportunities abound, from online forums to cross-media entertainment such as shows or movies featuring gameplay or characters.

Getting to the next level

Game developers and publishers face these imperatives at a critical moment in the evolution of their industry, when game companies of all sizes are making concerted efforts to scale up and build more mature capabilities that can see them thrive in the next wave of growth. The market has grown quickly, faster than most companies have been able to keep pace with. More than in almost any other industry, many game companies have depended on passion for the product as much as professional management to deliver the goods. Now, as game companies face the prospect of competing more directly with big tech and big media players, they are rethinking their operating models to become more efficient and make the most of their intellectual property. (For more on this, read the chapter "Level Unlocked: How Video Game Companies Can Evolve Operating Models for Growth.")

The Next Big Disruption in Video Games: Distribution

Gamers say they want more interoperability across devices, and many want to consolidate all their games onto a single marketplace.

By Anders Christofferson and Yohann Plantec

At a Glance

- Gamers increasingly identify with the games they play rather than the device they play on—a trend that will force game companies to develop new growth strategies.
- Advances in technology accelerate this trend: Low-latency, cloud-based gaming allows players to access games from a range of devices.
- Game developers are taking advantage of this change, moving away from platform exclusivity in pursuit of larger player bases.
- Marketplaces that consolidate games for players, sometimes for a fee, are likely to be the future battleground for control of the customer relationship.

Imagine a not-too-distant future when gamers can play seamlessly across almost any device: Start a game on their phone on the bus commute home from work, then, once home, drop their device next to a smart TV, pick up a controller, and rejoin the action on the larger screen.

This next step in the evolution of video gaming is just about here. As technology in non-gaming devices (mobile phones, TVs, non-gaming PCs) advances quickly and as cloud gaming becomes less expensive and more common, players will access games without a console, gaming PC, or other dedicated gaming device. Years ago, video entertainment followed a similar path: Consumers once had to rent or buy content to fit their hardware: VHS, Betamax, DVD. Netflix's move away from mailing DVDs in 2007 signaled a shift to hardware-agnostic streaming platforms, and now viewers watch from anywhere, and increasingly on small phone screens.

Game console and device providers have been hearing for years that their industry will become device agnostic, but it seems, finally, to be taking shape, for a few reasons.

- **Gamers want ubiquity.** Players increasingly identify with the games they play (for example, *Call of Duty* or *Fortnite*) rather than the device they play on. Our recent survey found that 70% of gamers are playing on several devices and that 8 of the top 10 games are playable on multiple platforms.

- **Technology gets better.** Cheaper cloud infrastructure, more powerful mobile phones, and higher bandwidth networks all make it easier to serve games from the cloud to any device or screen.

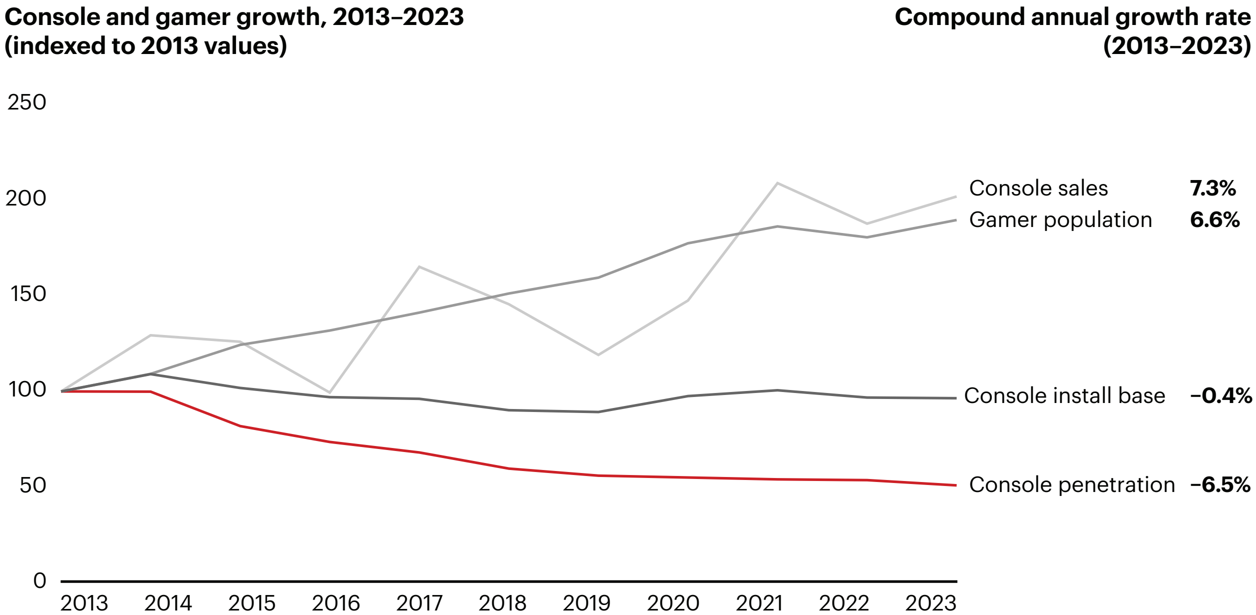
- **Developers are dropping exclusivity.** As they pursue larger audiences and need to account for rising development costs, game makers are publishing titles across devices and marketplaces. For example, *Final Fantasy* publisher Square Enix said in May 2024 that it would shift away from its long-standing strategy of developing for Sony's PlayStation and instead "aggressively pursue a multiplatform strategy" that includes Nintendo, Xbox, and PCs in addition to Sony's platform. Other publishers, including Activision and Take Two, have signaled similar shifts.

Another sign that this shift is underway may be that although console sales continue to grow in absolute dollars, their penetration level has been flat for about a decade while the global gaming population has steadily increased over the same period.

Another sign that this shift is underway may be that although console sales continue to grow in absolute dollars, their penetration level has been flat for about a decade while the global gaming population has steadily increased over the same period *(see Figure 1)*.

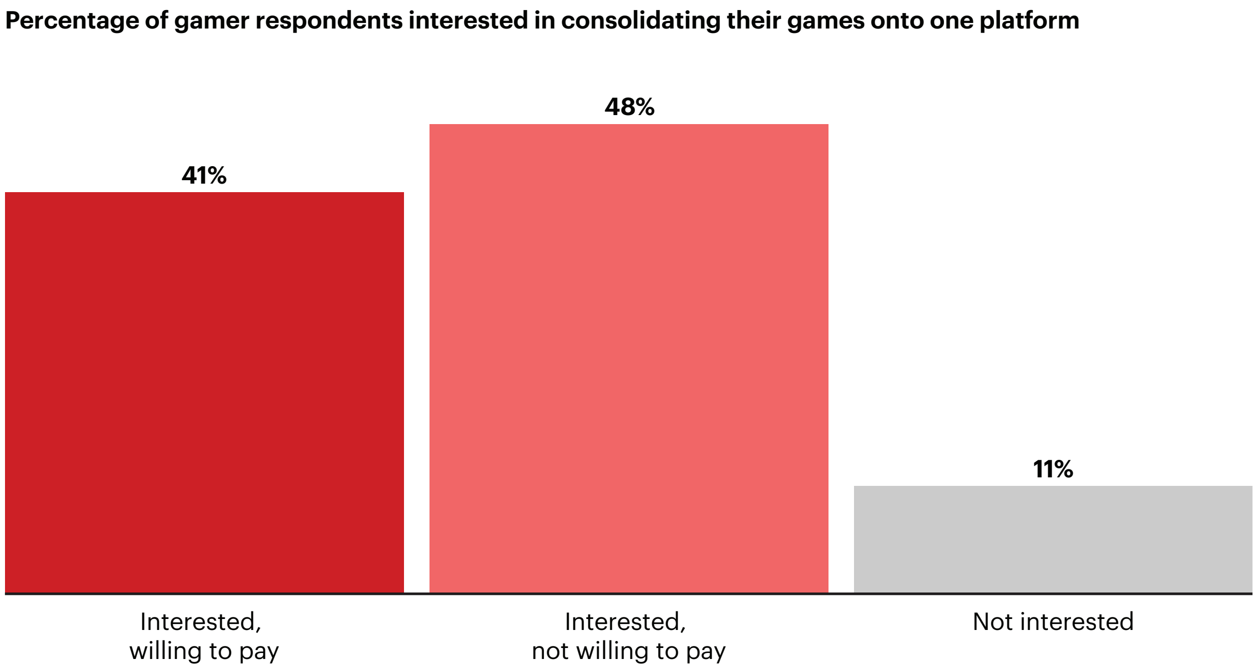
And while players say that they are active on multiple platforms, our survey found that 90% of them want to consolidate—and that half of those are willing to pay for it *(see Figure 2)*. Gaming consumers are likely to settle on a handful of marketplaces, big game platforms (such as *Roblox* or *Fortnite*), or other integrated media platforms (such as Netflix Gaming).

Figure 1: Despite an increase in console sales, console penetration is declining as mobile gamers make up most of new growth



Notes: Console penetration represents console install base as a percentage of the gamer population; consoles included in the sample for console sales and install base include PS3, PS4, PS5, Nintendo Switch, Wii U, Nintendo Wii, Xbox Series X, Xbox Series S, Xbox One, Xbox 360
Sources: IDC; Newzoo

Figure 2: Most gamers want to consolidate their games onto one platform, and many are willing to pay



Source: Bain Video Game Consumption Survey, May 2024 (n=5,153)

Race for gamers' attention

As that consolidation happens, a few industry leaders will capture the customer relationships, using that engagement to grab market share. Those companies (large and small) that fail to maintain a direct relationship with gamers will have to make strategic alliances to ensure that they can reach their audiences. Gaming companies will need to redefine their relationships with customers, competitors, and the various other players that make up the video game industry landscape.

Gaming companies will need to redefine their relationships with customers, competitors, and the various other players that make up the video game industry landscape.

- **Game device makers:** Those brands that have been defined by their proprietary hardware and the games exclusive to it may need to innovate and rethink their value proposition in order to maintain their relationships with their gamer customers. Given that 80% of gamers are playing mostly on non-console devices, these companies' marketplaces may become more central to those relationships and their business models. They may want to take a two-pronged approach. First, protect and maintain their core hardware-based business by designing a highly innovative new generation of devices that provide high-quality, immersive experiences using extended reality technologies (e.g., virtual reality, augmented reality, etc.) and that natively and intuitively integrate with 4K smart TVs. The goal here should be to differentiate their game play from general purpose devices. Second, they'll want to explore new business models, such as opening up their gaming environment to other players' marketplaces, untethering their own marketplaces from their hardware (while providing the highest value proposition toward both gamers and developers), and generating new revenue streams from advertising.

- **Game developers:** As gamers concentrate their engagement on a few platforms, developers will want to decide whether to engage their players through their own direct-to-consumer platforms and marketplaces or through large, cross-device marketplaces, depending on their scale. They will likely accelerate efforts to develop cross-platform, cross-device games and features such as portable accounts and game libraries. This, of course, may require staffing up or upskilling internal teams to ensure the necessary technology capabilities. Strategic partnerships are also likely to become more important, especially for small and medium companies.

- **Marketplaces and other distributors:** Our recent survey found that 58% of gamers are already buying games from several online stores, and further disruption is almost certain. Large marketplaces such as Steam and battle.net are likely to compete in a land grab for new customers, who will have more choices but also face greater complexity. Expect to see a race for scale to become the dominant, cross-device marketplace, which will allow the leader to offer better economics to players and publishers as well as convey the right to own customer relationships.

An important first step in that direction will be for these companies to find ways to differentiate themselves with great interfaces, good prices, and occasionally swimming against the tide to offer exclusive games. Marketplaces will also want to build good relationships with game developers by offering reasonable fees, AI tools, LiveOps services, data analytics, and innovative monetization tools. Taking a more proactive approach to relationship management may require staffing up sales teams that help put more games on their marketplace.

No one can say for sure how long it will take the industry to move to a mostly hardware-agnostic model. But the companies most likely to win in the next chapter will be those with a clear understanding of their competitive advantage—namely, what has delivered success in the past and how that will play into the future. Forward-looking companies will invest in developing 5- to 10-year growth strategies that delineate how to capitalize on the opportunities—and mitigate the risks—inherent in this wave of disruption.

Boosting Marketing Performance in Mobile Games

Making great games is no longer enough; great marketing is critical.

By Anders Videbaek, Benjamin Sommer, and Anders Christofferson

At a Glance

- With 40% of the world's population playing video games, the audience is getting saturated. Effective marketing is more important than ever.
- Game studios spend about 25% of their revenue on marketing, higher than in other industries. But much of it is misdirected.
- Successful marketing requires targeted ads, strategic channel decisions, and alignment between development, marketing, and finance.
- Artificial intelligence and data-driven insights enhance marketing effectiveness by optimizing campaigns and improving engagement.

Today, more than 3.1 billion people play video games, about 40% of the world's population. Mobile gaming represents slightly more than half of the global gaming market, and we can expect that percentage to grow given the ubiquity of devices. As the audience of gamers becomes saturated, it costs more to acquire new gamers, and developers with new games must fight harder to win players away from their current games.

At the same time, gamers have access to more games than ever before, thanks to expanding distribution paths and the overall growth of the industry. Competition for players' attention also comes from other media: 67% of game players say that they often consume other media while gaming. This is likely to make it more difficult to maintain high advertising rates, as advertisers may require proof of *attention*, rather than just *reach*.

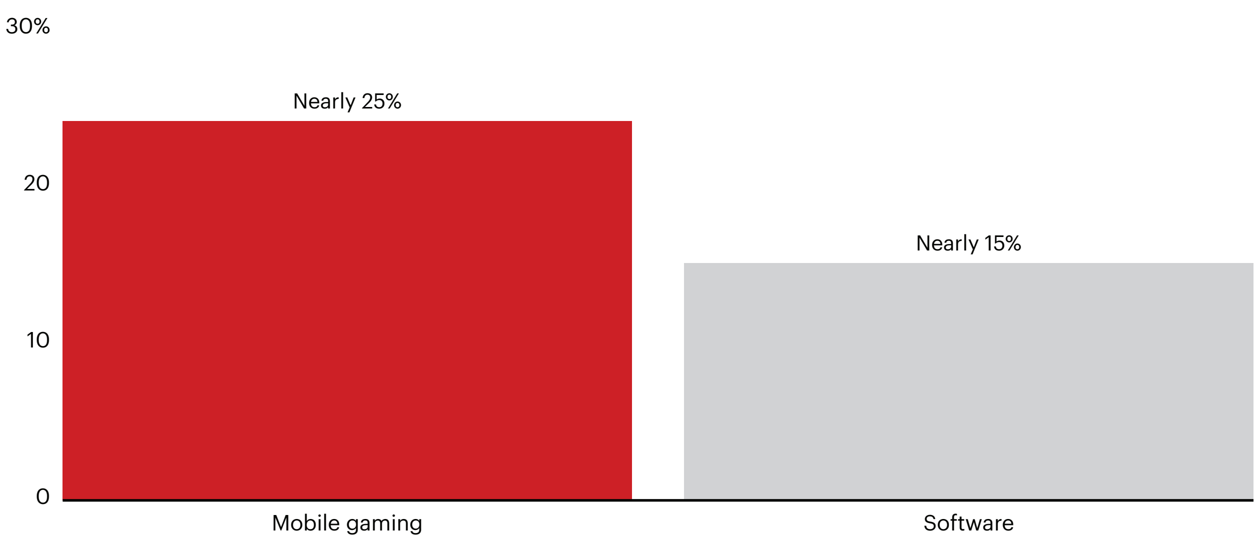
Given these challenges, successful marketing will make or break many game developers. On average, gaming companies with revenue less than $1 billion spend about 25% of their revenue on marketing, and some spend much more. That's higher than spending at other software companies, which spend about 15% *(see Figure 1)*.

Unfortunately, much of that spending is misdirected when companies fail to market their games effectively in a crowded field. Game developers may spend more on marketing but fail to set clear targets based on metrics like the lifetime value of a customer. In some cases, gaming companies do a poor job of aligning their marketing teams with their product teams, resulting in confusion over who is being targeted and why.

Successful mobile gaming companies, on the other hand, are highly effective marketing machines, focusing their efforts on identifying and acquiring new users. Marketing leaders increasingly rely on advanced and unique marketing models to differentiate themselves from competitors. Scopely's *Monopoly Go!* offers a good example. Scopely (which is owned by Savvy Games Group) says it spent seven years developing the mobile version of the classic board game and $500 million in advertising,

Figure 1: Gaming companies spend about a quarter of their revenue on marketing, more than other software companies

Marketing expenditures as a percentage of revenue



Notes: Average across software companies with less than $1 billion in revenue (n=nearly 600); average across select gaming companies with less than $1 billion in revenue (n=7); based on reported annual financials and other sources
Source: Bain analysis

with about a quarter of that going toward user acquisition. The big bet on classic intellectual property paid off: Scopely says that the title has earned $2 billion in revenue just 10 months after its launch.

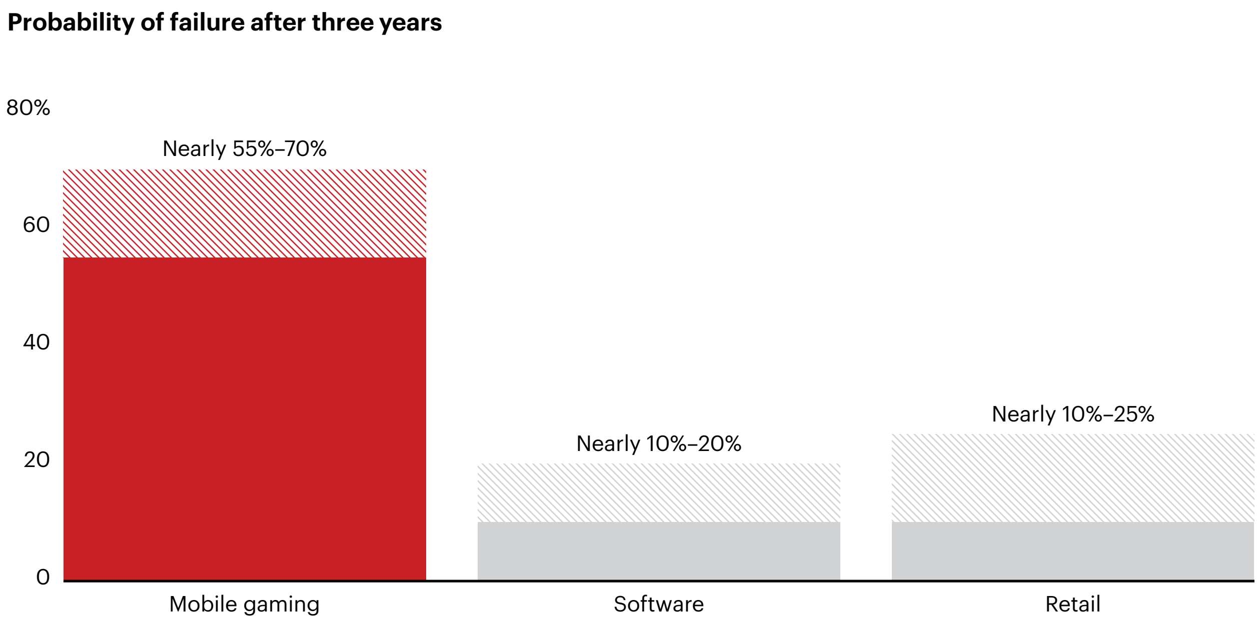
Performance varies

Mobile gaming is a high-risk business, and the chance of failure is greater than in many other industries. The likelihood of declining revenue is also high: More than 40% of all gaming companies with more than $10 million in revenue may see a decline in that revenue over a three-year period, compared with only 10% to 20% for other types of software businesses *(see Figure 2)*.

These risks make it all the more important to develop the skills that help ensure the effectiveness of marketing expenditures. Too often, companies focus on raw numbers of downloads, paying to acquire customers who may play the game only once. Unless companies target the appropriate segments and follow up with engaging gameplay, many new players won't stick around long enough to deliver a return on the acquisition costs.

Companies struggling with their marketing performance frequently slip in one of three areas: targeting ads appropriately; making the right channel decisions; and aligning strategy among game development, marketing, and finance.

Figure 2: Mobile gaming is a high-risk industry, with failure more likely than in software or retail



Notes: Based on annual revenue data over the past 10 years; retail and software parent companies in Europe and global mobile gaming companies with revenue less than $10 billion
Sources: S&P Capital IQ; Sensor Tower; Bain analysis

- Paid performance marketing has been the most important channel for successful mobile gaming companies. Sometimes, however, these ads can be too generic, poorly targeted, or misleading, showing graphics or activities that aren't part of gameplay. Successful advertisements are tailored to the target audience, nuanced for the respective distribution platform (e.g., TikTok, Instagram, or YouTube), and designed to grab attention without being too disruptive to the user.

- Closely related, successful game developers also invest more in understanding the differences within audiences and algorithms across platforms, continuously refining their understanding with A/B testing. A deeper understanding allows for more informed optimization, taking account of small details such as time of day or keyword choice across channels.

- Finally, developers often fail to align their own functions as they scale games, which contributes to ineffective marketing spending. The teams across game development (responsible for content and marketing tools), finance and analytics (gatekeeping budgets and performance targets), and marketing (developing and executing campaigns) need to stay in sync on story and business priorities as they change.

Supercell's recent addition to *Clash of Clans,* along with the related marketing campaign, shows what can happen when departments align. In May, the company launched a new campaign featuring Manchester City football star Erling Haaland. Cross-platform ads featured *Clash of Clans* characters recruiting the "world's greatest attacker" to join their battles, and players had a new option to choose Haaland as their character within gameplay. This close collaboration between marketing and game development, while surely difficult to pull off, has generated a remarkable amount of impressions and exceedingly positive player feedback.

Don't just woo them; win them

Clash of Clans' longevity—it launched in 2012—demonstrates another important point: Players stick with familiar games. A 2023 industry survey by Newzoo found that 60% of game time went to games six years old or older. This preference contributes to the industry's "winners take most" structure and further raises the stakes on ensuring powerful marketing that punches through the noise.

Successful companies position user acquisition as a core tenet of their strategy. But that's just the start: reaching the top of the leaderboard requires a more comprehensive plan for gamer acquisition and retention. Leaders are doubling down on three areas to ensure that their marketing investments serve long-term strategic goals.

Focus on the long game. Big hits are great for putting a new company on the map. But ongoing success requires aligning game development, marketing, and metrics to long-term strategic ambitions. Successful companies work to understand the connections among customer acquisition, retention, and monetization. They craft a compelling story for employees, shareholders, and customers that communicates the company's long-term ambitions.

Today, only a fraction of developers have managed to crack this code. Swedish game developer King, for example, takes a broad approach to marketing, using a variety of techniques that may contribute to the sustained appeal of its games. King's *Candy Crush* has generated $20 billion in revenue since its 2012 launch, and while it focuses primarily on improving the game experience for its players, it also invests in a range of creative marketing initiatives, such as strong brand partnerships (including Meghan Trainor, the Jonas Brothers, and the *Barbie* movie), a *Candy Crush*–themed 500-drone show over New York City, and the creation of an all-star competition.

Find the right audience. In a saturated market, gaming companies should spend more on market research to learn about the specific customer segments in which they have the greatest opportunity. Lowering customer acquisition costs and increasing retention will become ever more important. As more of the global population becomes gamers, reactivation efforts will become more important—that is, pursuing existing gamers rather than trying to create new ones.

Rollic Games, a subsidiary of Zynga, targets "hypercasual" players with simple games that can be learned in a few seconds and played in less than a minute. Aiming to deliver more of these low-effort, transitory experiences, Rollic gathers data on users that maximizes its chances of delivering something that sticks. With these insights, the developer has produced more than 200 titles since 2018, recently passed 2 billion downloads, and is pivoting into live events and live game updates.

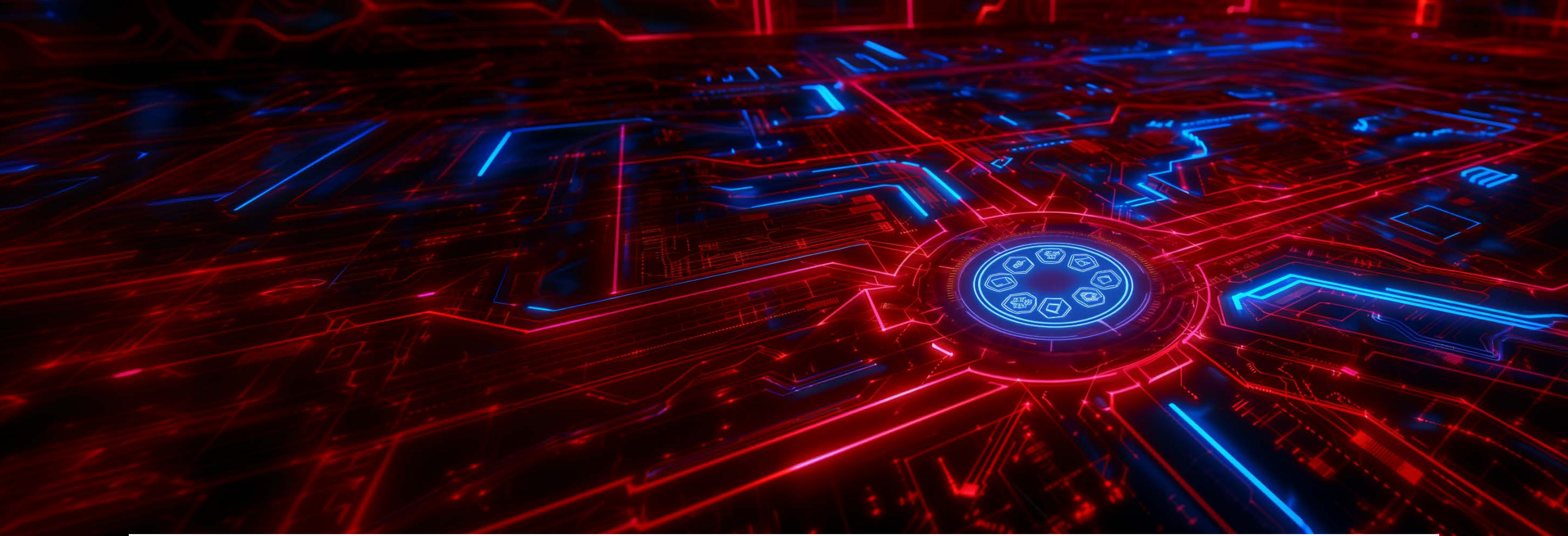
In a saturated market, gaming companies should spend more on market research to learn about the specific customer segments in which they have the greatest opportunity.

Use AI to improve engagement. Using generative AI in early efforts can accelerate marketing campaigns with precision-targeted ads. AI supports and facilitates several key marketing functions:

- In *production,* AI can generate marketing copy text and images for digital ads.
- In *quality control,* AI can help with content validation and proofing for spelling or grammatical errors.
- In *deployment,* AI can optimize campaigns by automating content tailoring (e.g., based on the platforms where they will be deployed) and tagging (e.g., uploading with appropriate tags and meta descriptions).
- And in *measurement,* AI supports campaign prediction, automated testing, and measurement of key metrics of campaign success (capture rate, clickthrough rate) to inform future campaign improvements.

TapNation, a mobile games publisher with more than 1 billion downloads and 60 million active users, acquired UAhero, an AI user acquisition tool, in January 2024 to strengthen its market position. UAhero's program allows mobile gaming companies to integrate their ad campaigns across different networks and platforms to track live metrics (e.g., clicks, installs, impressions, ad costs) in a centralized, easily comparable hub. Users can input specific targets (e.g., a return on advertising expenditures of 150%) for different campaigns, receive recommended actions to take to achieve the goal, and even execute most actions without input.

Game development and publishing is an industry saddled with the burden of its own tremendous success. In many companies that were founded out of a passion for gaming, leaders must now professionalize the functions that will allow them to compete and thrive in a global industry worth hundreds of billions of dollars annually. Marketing is among the most scrutinized functions, and professionalizing its execution is one of the most essential steps in ensuring that new successes can break through to find their audience.



Level Unlocked: How Video Game Companies Can Evolve Operating Models for Growth

Leading companies are adapting their models to capitalize on greater scale while also maintaining connections with players.

By Anders Christofferson, Tom Rowland, Alex Egan, and Matt Madden

At a Glance

- Video game companies are getting bigger and more complex as they try to meet evolving consumer demand.
- The largest companies expanded their operational footprint by an average of 13 countries over the past decade—a 28% increase.
- The top game developers' headcount growth slightly outpaced revenue growth during that period, implying minimal efficiency gains despite increased size.
- Leading companies are adapting their operating models by rethinking where and how work gets done and by investing in talent and technology.

As video game companies prepare for the industry's next wave of growth, executives are finding that the operating model that got them to this point simply won't work for the next chapter. That's true for every video game company, whether it's a small, single-game developer or a multibillion-dollar developer and publisher of AAA franchises.

Over the past decade, the video game industry has grown significantly. So, too, has its complexity. Gamers increasingly demand multiplayer, multiplatform experiences with more social features. Additionally, media types are converging as feature film and TV series adaptations of video games continue to draw significant audiences.

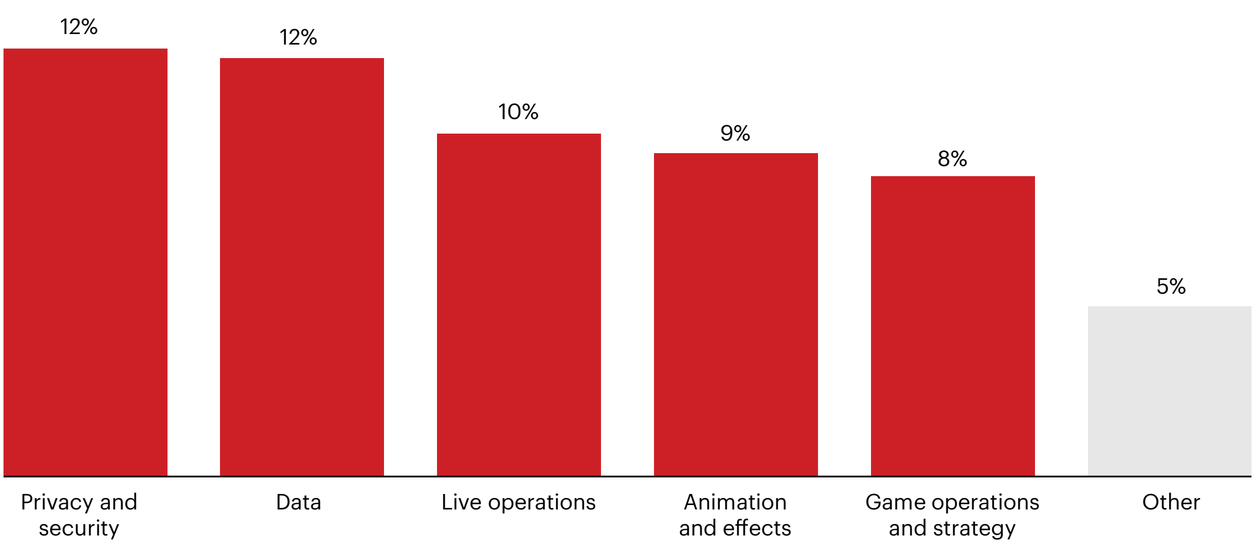
To meet evolving consumer demand, video game companies have become far larger and more complex. Eight of the top gaming companies employ people in 28% more countries than they did a decade ago, an average increase of 13 countries each. That's according to Bain analysis of Aura Intelligence data on 12 studios operating in about 100 countries.

These companies' mix of capabilities is also changing. The five fastest-growing functions—privacy and security, data analytics, live operations, animation and effects, and game operations and strategy—have increased headcount at around two times the average rate of all other business functions over the past decade, according to our analysis *(see Figure 1)*.

The industry has reached a critical juncture. The explosive growth during the Covid-19 pandemic has subsided, leading many companies to manage costs by reducing headcount. However, we anticipate

Figure 1: Large video game companies are investing in a wider mix of capabilities

Headcount compound annual growth rate percentage by function, 2014–2023



Note: Other category includes 27 functions across finance, sales, technology, quality assurance, game development, game operations, R&D, marketing, communications, HR, legal, operations, and management
Sources: Aura Intelligence (n=8 of the largest video game companies); Bain analysis

that the video game market will return to robust growth over the coming years. That means video game companies will have to adapt to the industry's increased complexity, manage growth when it comes, and do it all with more constrained resources. They have no choice but to revamp their operating models—and quickly.

The situation is akin to the evolution of the traditional film and TV industry over the past two decades, when studios shifted from merging with each other to joining broader entertainment conglomerates. These new companies had to rethink their operating models to leverage intellectual property across a range of media and gain efficiencies from formerly independent studios.

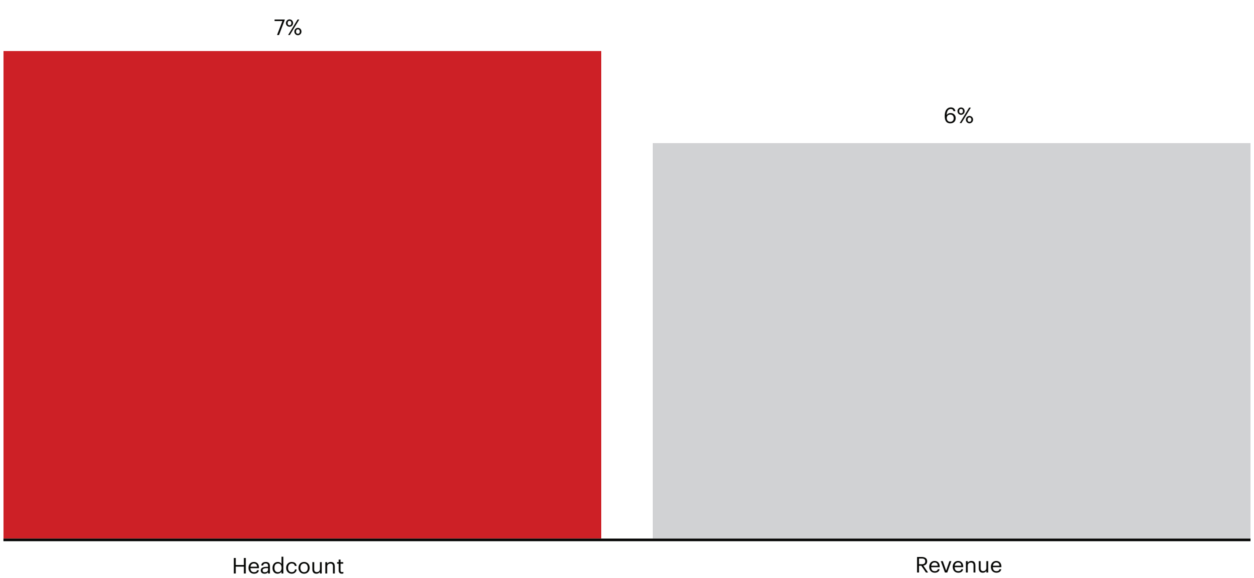
Where's the efficiency?

An effective operating model bridges the gap between strategy and execution. It's the organizational structure, processes, governance, technology, culture, and ways of working that enable a company to deliver on its goals.

Many video game companies are struggling to adapt their operating model and take advantage of scale benefits as their organization grows. The average workforce size of the top video game developers we analyzed has risen 7% annually over the past decade, but their revenue has only grown 6% each year, implying minimal efficiency gains despite increased size *(see Figure 2)*.

Figure 2: Large video game developers' headcount growth slightly outpaced revenue growth over the past decade

Average compound annual growth rate percentage, 2014–2023



Sources: Aura Intelligence (n=5 of the largest video game developers); Bain analysis

While each company's dynamics are unique, in our work with video game companies worldwide, we consistently hear about certain common challenges:

- How can they take advantage of greater scale while also maintaining close connections with their players (e.g., building AAA games with more than 100 million players over multiple years while efficiently incorporating individual player feedback)?
- How do they continue to attract the best creative talent now that they're larger and more complex (e.g., they're no longer the "cool start-up")?
- Which capabilities can be centralized within or across studios, and which would benefit from decentralization (e.g., standardizing developer tools vs. allowing each game team and studio to use their own)?
- As the number of products grows, how do companies rethink work processes to deliver the best experiences for their players (e.g., rethinking DevOps for high-production, live-service games that require a constant stream of efficiently produced new content long after the game's initial launch)?
- Which capabilities and processes should they prioritize for innovation and investment (e.g., where to deploy AI tools vs. where to keep the status quo)?
- Where should they develop capabilities in-house vs. outsource (e.g., hiring external vendors for quality assurance and testing vs. building those functions internally)?

Adapting the operating model

It may seem daunting, but the trajectories of some of the most successful companies across industries over the past few decades have shown that it's possible to scale up a business while maintaining an entrepreneurial mindset and staying nimble.

Leading companies first ensure that the business's overall ambition and strategic direction are clear. They understand that they're bound to fail if they pursue point solutions that don't link to the company's broader strategy.

With a clearly defined and communicated strategy in place, companies are well-positioned to adapt their operating model. Here are several principles that the most effective gaming companies are keeping top of mind as they try to provide the best experience for players while balancing their bottom line and growth.

Accept that it's a continuous process. As games evolve from a single release to continuous live service, so, too, will operating models. Operating model redesign shouldn't be a once-and-done overhaul every 5 to 10 years. While there will continue to be watershed moments that demand pressing the reset button, leading companies recognize it's just as important to continuously refine their operating model to support rapidly evolving strategic imperatives (such as adding an entertainment arm or adjusting operational processes to take advantage of new technologies). Incremental, iterative improvement is less disruptive to the business, and it can deliver a lot of value.

Rethink where work is done across the organization. As they evolve, leading companies dynamically adjust where key activities are managed across the organization. This avoids duplication of work and ensures that the work is performed by the people and functions best positioned to deliver on it. For example, as a game company expands from one studio to multiple, it typically makes sense to continue housing creative game development within the studios since they're on the front lines and have the most insight into what players want. By contrast, work that can be standardized across game teams and has strategic value may warrant being performed closer to the organizational center.

To efficiently deliver high-quality player experiences across its games, Riot Games created a "player platform" team charged with building standardized software and systems. These cover everything from account management and chat capabilities to the software development kits used by gaming teams companywide. Standardizing these elements across all the company's games enabled the operating model to scale and allowed game development teams to focus on where they can deliver the greatest value: core gameplay.

Redesign processes to simplify work and provide clear accountability. Emerging leaders aren't afraid to radically overhaul processes to simplify how work gets done and to clarify accountability. In a bid to remain innovative and attuned to players' feedback as it scales up, Supercell recently announced a plan to structure new game teams as entirely separate entrepreneurial units. These teams won't be subject to the typical fixed budget nor the project greenlight process. Instead, they will commit to key timelines, milestones, and resourcing plans to reach them. The idea is that independence combined with the pressure of transparency and accountability will foster creativity and results.

Emerging leaders aren't afraid to radically overhaul processes to simplify how work gets done and to clarify accountability.

Invest in a model to attract, retain, and grow the best talent. To thrive during the next wave of growth, video game companies will need to recognize that they're no longer competing solely against other video game companies for key talent but against the entire tech industry. Emerging leaders understand that they'll need a more mature, comprehensive talent model that doesn't just rely on employees' passion for video games. They'll need to invest in initiatives to increase employee engagement and enable them to do their jobs more effectively. This includes providing a sense of purpose; competitive compensation; work-life balance; learning opportunities; career support; and explicit environmental, social, and corporate governance commitments. (For more, read the Bain Brief "Beyond the Love of the Game: Talent in the Video Game Industry.")

Empower that talent with technology and tools. Similar to most industries, defining and mobilizing an AI strategy has become an urgent boardroom topic for video game companies. Generative AI and related tools have significant implications for how video game companies revise their operating models, redefine how work gets done, and prioritize investments in organizational capabilities.

In our work with gaming and entertainment companies, those that embed generative AI within their existing operating models have largely seen progress stall and struggled to break out of experimentation mode (e.g., they have numerous disparate projects). Conversely, those that have elevated accountability and taken a more holistic approach to the opportunities that generative AI presents are starting to see early results and have a much clearer path to scaling.

The pressure is on

The video game industry faces a period filled with exciting opportunities but also turbulence. The pressure on video game companies to modernize their operating models is only increasing. However, if done effectively, it can lay the foundation for the next stage of growth.

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