



Gaming

# VIDEO GAMES GROW UP (EVEN AS THEIR AUDIENCE DOESN'T)

**Last November**, just a few weeks after arriving on the campus of Robert Morris University (IL), first-year student Adrian Ma walked away from the sports scholarship he had received from the college in order to turn pro, saying, "The opportunity was too good to pass up." The opportunity that Ma decided to embrace was joining Team Impulse in the North American League of Legends Championship series, and the scholarship he was walking away from was not one for basketball or football, but rather a scholarship for e-sports. As of August, global spending on video games was on pace to be approximately \$92 billion this year, larger than direct consumer spending on movies and recorded music...combined. Beyond passing Hollywood and the music industry in revenues, the video-game industry seems to be following aspects of those cultural industries' historical scripts. Just as movies and music grew and evolved throughout the twentieth century, the video-game industry is now transforming itself into something bigger, something different and, increasingly, something artistic. While many video-gaming-related companies have done well over the past few years, they are also in a period of transformation with potential growth to come, because, like motion pictures and music before it, the gaming industry is utilizing new technologies, platforms, distribution methods and storytelling techniques, all while growing its cultural impact throughout the world. (*Time*, 4/6/15; *Gulf News*, 8/16/15)

## TAKEAWAYS

- The video-game industry is in a period of transformation, utilizing new technologies, platforms, distribution models and storytelling techniques to help it grow globally.
- The video-game industry is an economic force on par with Hollywood and the music industry, and as a cultural force, it is moving to the mainstream. For those under 40, it is already a mainstream cultural attribute.
- Video games (playing and viewing others play) are growing their market share in the Battle for Consumer Time.
- We are in the early stages of video-game creation being appreciated as a creative, artistic endeavor.

## IMPLICATIONS

- E-sports and the viewing of others playing video games are still very early in their growth stage.
- Video-gaming companies that offer the games used in e-sports competitions will continue to grow.
- New gaming technologies, including virtual reality, will provide opportunities for the companies that can take advantage of them.
- Marketers that want to reach the under-35 demographic would benefit by aligning themselves with the video-game culture.

## COMPANIES

### Platforms and Distribution

SONY	(SNE)
Microsoft	(MSFT)
Nintendo	(NTDOY)
NetEase	(NTES)
GameStop	(GME)
Valve Software	(Private)

### Game Developers

Electronic Arts	(EA)
Activision Blizzard	(ATVI)
Take-Two Interactive	(TTWO)
Ubisoft	(EPA:UBI)
Konami Holdings	(OTCMKTS:KNMCY)
Capcom LTD	(CCOEF)
Changyou.com	(CYOU)
Shanda Games Limited	(GAME)
Perfect World	(PWRD)

### E-Sports/Game-Viewing Platforms

Amazon	(AMZN)
Google	(GOOG)
Tencent Holdings	(OTCMKTS:TCEHY)

## Video Games as (The) Culture

Elvis. The Beatles. James Dean. Madonna. PewDiePie. For decades, teens and young adults have determined the leaders of pop culture. For many of today's youth, video games have replaced television, movies and music as the primary source of celebrities and stars. A recent survey conducted by *Variety*, which attempted to rank celebrities' influence (or Q score), asked teens to rate celebrities in a number of categories, including authenticity and approachability. Eight of the top 10 slots were filled not by people from the movies, television or music industries but by YouTube video creators, an increase from six in the same survey the year before. However, most relevant here, the top three spots were all occupied by YouTube stars whose content is focused on the video-game industry, including PewDiePie at number two. In total, one quarter of the top 20 celebrities on the list came from video-game content. (*Variety*, 7/22/15)

Video games, in all their different forms, are popular across demographics. According to an industry trade group, around 42 percent of Americans play video games regularly and the average age of a gamer is 35. Women aged 18 or older amount to a third of the game-playing population, versus 15 percent for boys 18 and younger. Steam, a large PC gaming platform created by Valve Software, hosts more than 4,500 games and now has more than 125 million active users. (*Forbes*, 11/2/15; *Medium*, 11/14/15)

Earlier this year, in an effort not to get left behind in this cultural shift, traditional talent agency WME-IMG acquired Global eSports Management, adding professional gamers to its roster of Hollywood stars and athletes. Then, in September, the agency announced it was partnering with cable network TBS to launch an e-sports league next year. (*Hollywood Reporter*, 10/9/15)

Just how popular have e-sports and watching of others play video games become? Consider these facts and events from the past 18 months.

- Twitch, a platform for gamers to broadcast themselves playing and for viewers to watch others play, has about 120 million viewers a month. Amazon paid \$970 million to acquire Twitch in August 2014.

- As of April 2014, Twitch had a 43 percent share of all live-streaming web traffic in the U.S., with viewers watching for an average of 106 minutes per day.

- From January to August 2015, 15,788 new ad-supported gaming channels were added to YouTube, more than any other category. There are now **107,583 gaming channels** on the site. People are spending 75 percent more time watching gaming videos on YouTube this year compared with last year, and half of the top 100 channels in terms of time watched either show or discuss gaming.

- In August, YouTube launched YouTube Gaming, a mobile app for gaming videos and live streams.

- More than 32 million people watched the League of Legends Championships this year, almost double the number of people who watched the NBA finals.

- In August, more than \$18 million in prizes was awarded at the Dota 2 International gaming championship, held at the KeyArena in Seattle, which holds more than 17,000 spectators. For the second year in a row, the tournament finals were aired on ESPN.

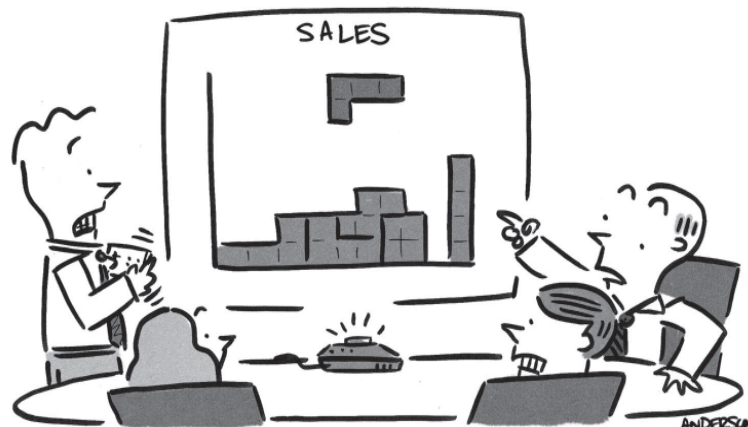
- There are approximately 450 collegiate teams and 10,000 players competing in the e-sports Collegiate StarLeague.

- In 2013, the U.S. started granting professional-athlete visas to foreign e-sports players.

- Forty percent of all e-sports viewers don't play the game themselves.

(*Time*, 4/6/15; *The Guardian*, 7/23/15; *Mashable*, 8/9/15; *Bloomberg BusinessWeek*, 8/10/15; *Financial Times*, 8/26/15; *Ad Age*, 9/14/15; *Medium*, 11/14/15)

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"OK, move right, turn it clockwise and drop it! Hurry!"

E-sports, which have garnered \$111 million in North American corporate sponsorships from the likes of Coca-Cola, Nissan and American Express, has become such a big business that in July the world's largest gaming organization, the ESL, announced that it would begin to explore a comprehensive drug-testing program for e-sports participants, ensuring they don't take performance-enhancing drugs like Adderall. (*ESPN*, 7/23/15; *Bloomberg BusinessWeek*, 8/10/15)

It isn't just team-based, competitive e-sports viewing that has become part of popular culture, however. Tom Burke, who goes by the online handle Witwix, earns his living by broadcasting himself on Twitch playing video games and finishing them as quickly as possible. According to Burke, 75 percent of his income comes from viewer donations and subscriptions to his channel, while 25 percent comes from ad revenues. Minecraft, which is web-searched more than the Bible or Harry Potter, offers an almost endless land for players to explore. Recently, Kurt J. Mac quit his job in order to spend time looking for the land in Minecraft where the algorithm in the game starts to disintegrate. The exploration will supposedly take him 25 years. He currently has 370,000 subscribers to his YouTube channel, on which he is documenting his journey. (*Esquire*, 5/15; *Pacific Standard*, 9/17/15)

## New Technologies

Some creators are beginning to use newly available technologies to advance the industry's capabilities and offerings. We have written about the potentially large impact of virtual- and augmented-reality technologies on businesses, the culture and the video-game industry, which has embraced this emerging technology. But those aren't the only technological advancements that the industry is embracing. Specifically, new games are beginning to utilize cloud computing, real-world physics and artificial intelligence to enhance gameplay (See [inF 1003](#), "Virtual and Augmented: Creating Our Own Reality," 4/10/15).

- Japanese game company Square Enix has started the Shinra Technologies division to create what it calls a "persistent world" platform, where it will create cloud-based games that continue and change even when the player isn't online and playing. The platform will be capable of running computations in artificial intelligence, graphics and physics, on distinct computers in the cloud to enhance gameplay.

- *Worlds Adrift*, from Bossa Studios, is one of the first games to bring real-world physics and causality to a massive online world. The studio claims that in the game, which is set for a beta release soon, every action a player takes is governed by lifelike mechanics, and the results have an impact on every other gamer.

- *No Man's Sky* is an upcoming vast virtual world in which players can explore a virtual universe by spaceship. The game can support a universe with 18,446,744,073,709,551,616 distant planets. The game generates new worlds via artificial intelligence as people explore using a mathematical formula that generates the planets and their flora and fauna over time.

(*Fortune*, 3/9/15; *New Scientist*, 5/23/15; *Esquire*, 5/15)

## Video Games As Business

As illustrated in many of the examples above, video-game fans seem extremely willing to financially support the games and personalities that they enjoy in the industry. Some of this support has opened opportunities within the video-game industry to new creators and ambitious projects, allowing the industry to constantly evolve. The video-game category has taken in \$412.4 million on Kickstarter, the most of any category on the crowdfunding platform. That number doesn't account for a PC game called *Star Citizen*, which is currently being crowdfunded through its own website and which has raised more than \$94 million from more than one million users. *Star Citizen*, created by Cloud Imperium Games,

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"The fame is fine, and the money's great, but sometimes I miss the plumbing."

has raised that money through sales of eventual in-game items (such as spaceships), and the average Star Citizen backer has contributed \$96. As another example, at the Dota International Championship, beyond the base \$1.6 million contributed by Valve (the company that makes Dota 2) the events prize pool was funded by fans via purchases of the International's \$10 annual compendium, an interactive booklet that tracks the tournament and challenges fans to predict winners in exchange for cosmetic items that can be used in-game. (*Wired*, 3/31/15; *Verge*, 11/4/15; *Medium*, 11/14/15)

In addition to the crowdfunding, some of the gaming platforms and games themselves are increasingly opening up to new creators. In addition to the approximately 4,500 PC games on the Steam platform, there are also approximately 400 pieces of user-generated content (or "mods") available. Dota, now one of the biggest games on the e-sports circuit, was originally a user-created mod of another game, Warcraft 3. Other games are also opening up to the creative ideas of their fans. Nintendo recently released a platform game creator, Mario Maker, which gives fans the power to make and share their own Super Mario Brothers levels. Games such as Hotline Miami 2 and Doom are offering similar tools for users.

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## Video Games As Art

In his book *"It's Only a Movie!: Films and Critics in American Culture,"* author Raymond Haberski examines the birth and growth of movies through the lens of film and culture critics throughout the years. He states, in those early years of movies, "Drama critics considered photoplay the worst kind of competition for stage productions, because, they argued, movies would always be less expensive to produce and exhibit and always of a lower quality than 'original theatre.'" According to Haberski, "Social scientists and the custodians of the culture decried the vulgarity and salaciousness of photoplay material, claiming that the movies had provoked a moral crisis among the nation's youth and less educated." For many creators and fans of video games, the quotes above likely sound familiar.

While critics may still decry video games as largely a waste of time or a lower form of culture, some members of the current generation of video-game creators are

focused on creating new kinds of video games, which are targeting different audiences and different themes and are telling different stories.

The video game *Proteus*, which attempts to examine nature and mortality, allows an individual to explore a lifetime by cycling through seasons. Each year is broken into four seasons, and each night-and-day cycle lasts about 15 minutes. Within the game, players can "experience" once-in-a-lifetime events like meteor showers or auroras. Other games, such as *Cloud* and *Flow*, deal with weather manipulation and living as a microscopic organism. Other creators are focused on examining new genres of games. In the game *Her Story*, a player sifts through various video clips by inputting keyword searches into a database. Each short clip is taken from one of seven police interview sessions with a female suspect, which took place over two weeks in the summer of 1994. No matter how many hits the player gets on a particular search, access is always limited to the first five entries, forcing the player to continually refine his or her search in order to find all the clips and figure out the mystery. The keyword-search process also allows for individualized player experiences.

Other creators are following the path of their television brethren and are now offering episodic games. *Life Is Strange*, a game about a soft-spoken teenage girl who's interested in folk music and photography – and who happens to have the power to rewind time – is being released episodically, with a new offering coming every six weeks in two-to-three-hour installments. Similarly, Telltale Games offered its game *The Walking Dead* in five episodes. (*The Guardian*, 4/26/15; *Utne Reader*, Spring 2015; *Grantland*, 7/29/15)

As we have written, one of the aspects of today's Different Adulthood is not needing to put away "childish" things, such as video games. For many teens, video-game and e-sport personalities have replaced movie stars, musicians and professional athletes as their cultural icons. At the same time, the video-game industry is following the earlier path of Hollywood and the music industry in taking advantage of new technologies, platforms and distribution to evolve its offerings and story-telling capabilities. Despite a social change that suggests it might not need to grow up, the video-game industry is becoming something bigger culturally and something different artistically.