

# ***Gaming in the Netherlands***

## Virtual goods in video games: A business model with prospects

*This whitepaper details with the current developments and future prospects in the video gaming industry in the Netherlands for you, with a special focus on the business model sales of virtual additional content.*



---

# Contents

Introduction.....	3
Sales of virtual additional content in video games: Market overview .....	4
What the users say: Consumer survey .....	6
What the experts say .....	11
Prospects of virtual additional content in video games: Outlook .....	13
References .....	15
Contacts.....	16

## Introduction

With sales of approximately €600 million, video games are now an established component of the media industry in The Netherlands. In fact, hardly any other segment of the media sector has accomplished the switch to digital business models as rapidly as the video game industry. The industry has undergone a dramatic and profound transformation in recent years: new gaming devices such as tablets are now commonplace, new business models such as free-to-play have very rapidly emerged and gaming elements are increasingly included also in business models outside the gaming sector.

Online gaming in particular and its associated business models have experienced strong growth in recent years. Casual online gaming has familiarized many users with the world of video games and helped game companies to differentiate their audience. This new approach to gaming requires game providers to find monetisation models that allow consumers to set their spending on a game flexible without having to pay significant sums in advance. Financing games via sales of virtual goods and additional content has increased significantly in recent years and is viewed by the industry as the leading future business model.

Video gamers in The Netherlands already have some experience with virtual goods. Every third gamer we questioned had paid for virtual additional content in video games. Around 20% regularly pay for it. In Germany only 15% do so, as we found in our survey among video gamers consumers in Germany. However developments over the last few years have shown that it is hard for games to retain users' attention over the long term, and virtual goods do not always enhance the gaming experience. This has led to disappointing sales of virtual goods in 2012. Users are no longer pleased with new game concepts and appealing graphics. In the future they will demand more flexibility in their virtual content business model. If they are to finance video games successfully using virtual additional content and continue to grow, companies need to strike the right balance between marketing and gaming pleasure, based on accurate analysis of their customers' interests and requirements. Currently game companies have a lot of data available regarding the players of their game and, based on that, games can be designed data driven.

This whitepaper provides an analysis of the current market situation for virtual additional content in video games and the findings of a consumer survey and gives our forecast on sales trends to 2017. We would particularly like to thank Reinout te Brake, managing partner at Game World Consultants who presents his view on the market situation and prospects in the guest article.

I hope you will find our report stimulating and informative.

***Ilja Linnemeijer***

Technology leader PwC the Netherlands



## Sales of virtual additional content in video games: Market overview

A new outfit for an avatar, a better weapon for a super-hero – or perhaps ad-free gaming would be better? Time to play more/longer (Candy Crush model), to skip levels (i.e. Angry Birds). The business model works but concepts are bumping against their limits.

### How we define virtual additional content

The terms virtual goods or virtual additional content refer to paid-for digital items and functions within video games, which are designed to boost gamers' chances at success and help them have more in-game fun and extend longevity of the game. The use of virtual goods can be traced back to online role-playing games such as the 1997 Ultima Online. In complex virtual worlds with their own internal economies such as World of Warcraft and Second Life, virtual goods have been a normal part of gaming for over a decade.

Stemming from the introduction of downloadable content mid-2000, virtual additional content was only recognised and used widely once games moved into social networks and free-to-play

games started to be distributed. Within the freetoplay business model, game companies provide the basic gaming content for free to keep barriers to entry as low as possible for potential users. Additional content can then be purchased in-game for a small sum, either to make the game more fun or release additional functions and content (i.e. extend the experience).

Virtual additional content is as diverse as the games in which they are used. Depending on the application they can be divided roughly into functional virtual goods, decorative virtual goods and virtual goods for communication purposes. The option of ad-free gaming is also frequently offered as a virtual good in exchange for payment of a small sum.

### Types of virtual additional content in video games



Virtual goods are generally offered at low prices, often less than one Euro, in an attempt to encourage impulse buying. Payment can be made using virtual or real currency. Many game companies use dual currency systems. For example, if 'coins' are won in-game, 'jewels' then have to be paid for. Virtual goods are also frequently offered on a barter basis, where gamers are rewarded with the virtual good they want in return for installing an application or visiting a website.

With the increased significance of digital distribution channels, game companies are extending to offer entire games and extensive additional gaming content for download. In many cases the transition from acquiring a virtual good to buying additional gaming content is seamless. In this white paper the term 'virtual goods' is only used to refer to additional content at single-figure prices in euros. However there is no limit to the maximum amount users can spend per game. Generally a small number of gamers account for the lion's share of total gaming sales, with most users spending nothing or only small sums.

Sales of virtual goods have clearly benefited from the transformation in the video game industry. The significance of gaming sales has grown not just in online games but on other gaming platforms too. For example, according to figures provided by Electronic Arts for June 2012 a significant proportion of sales of the game FIFA 12 was already coming from in-game transactions for virtual goods. Last year, however, growth stalled: while sales of virtual goods continued to rise in the console and PC segment, the online segment saw a drop in sales for the first time. The decline in sales clearly shows that the market is currently in a period of transition. Simply recycling previous successful ideas is no longer enough to motivate gamers to buy virtual additional content. Game developers are therefore working hard on innovations to bring this promising market back on track.

## What the users say: Consumer survey

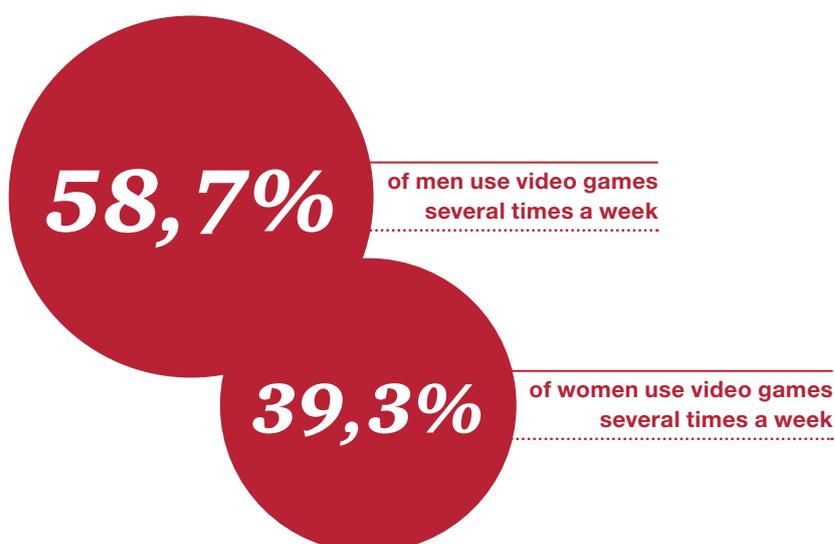
An increasing number of people in The Netherlands are playing video games. But what do they think of the virtual goods that they can acquire in-game? We asked them in detail.

The video game industry in The Netherlands is a lucrative and growing market. In recent years new business models have emerged alongside sales of individual games – particularly in-game sale of virtual content. How big is the potential target group for the sale of virtual additional content? What should providers look out for if they want to increase users' willingness to pay? And what specific offers appeal to each group of gamers?

To find the answers to these and many other questions, we conducted a survey on online users' experiences of video games and virtual additional content in The Netherlands. The survey, which was taken in summer 2013, involved more than 500 online users aged between 18 and 65. Around 400 of the consumers surveyed play video games at least occasionally. One third of the video gamers had already paid money for virtual goods.

### **The majority of the online users in The Netherlands play video games**

For around 54% of the consumers surveyed, video games are part of their everyday life. For online users under 30 the proportion is over 80% but even among consumers between 46 and 65 almost half of online users in The Netherlands access video games several times a week. These high numbers show that video gaming is an integral part of the media landscape and consumer's leisure time in the Netherlands but also reflect an incipient market saturation. In our survey 9% of gamers indicated that they had played more frequently on their smartphone or tablet in the last six months than before and around 6% had spent more money on video games in the last 12 months than in the previous year. By contrast, in Germany 30% of gamers had played more frequently in the last six months and around 22% had spent more money on video games than before.



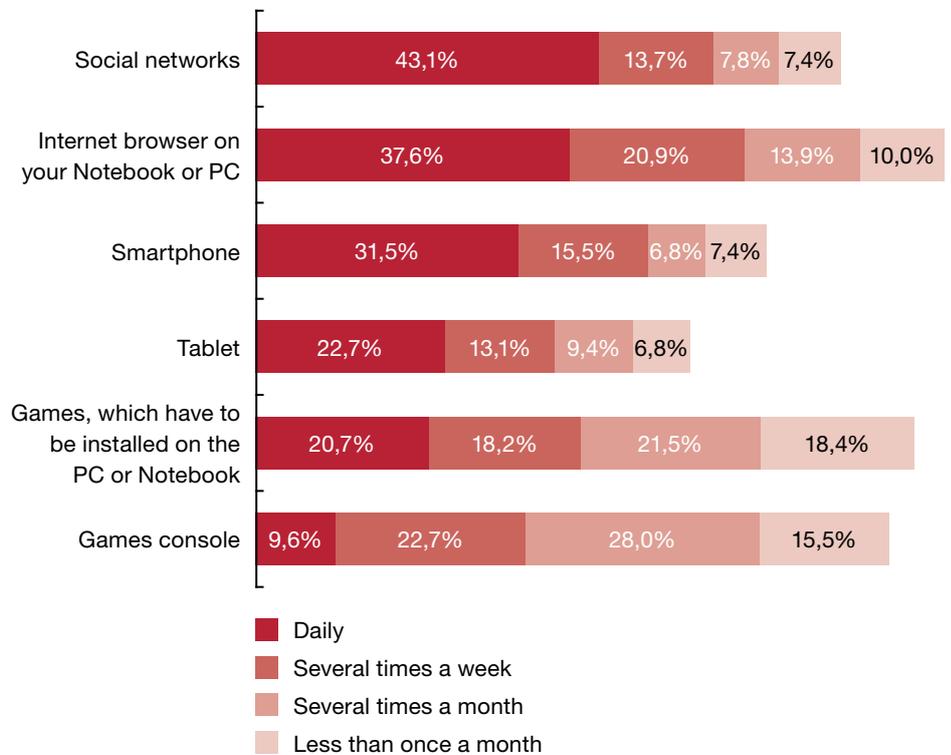
**45%**

**of the gamers under the age of 30 intend to buy a new video game console within the next 12 months**

Console games continue to be very popular – around 73% of the consumers surveyed own a video game console at home and 42% use their game console for online functions on a regular basis. But social networks have (rather rapidly) also become attractive alternatives over the last few years. Half of the video

gamers surveyed play several times a week or more, 43% even use these platforms on a daily basis. Just 9% of video gamers indicated in our survey that they had played more frequently in the last six months than before via their smartphones or tables.

**Usage of different video game platforms by gamers**



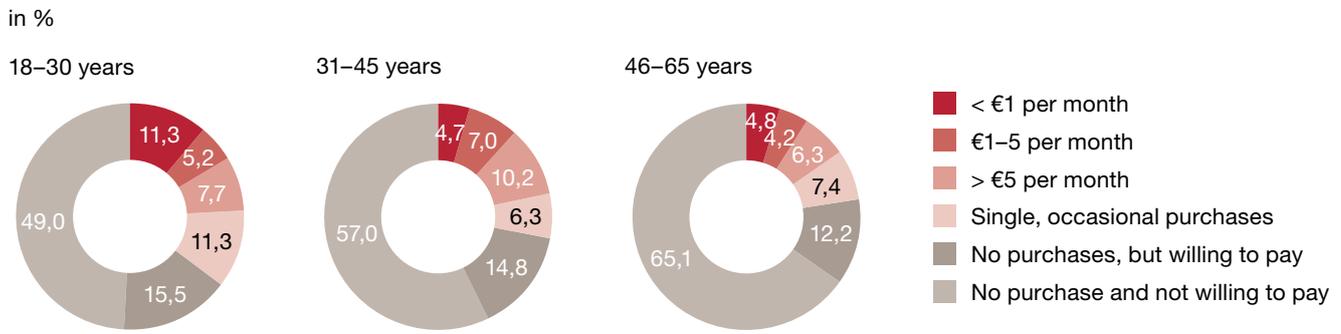
**Four out of ten video gamers are willing to pay for virtual goods**

About 35% of consumers surveyed spend money or have spent money on virtual goods and additional content, such as new levels, speeding up the game or customise an avatar (a player's character in a game). Around 9% of those surveyed have not yet bought virtual goods in games but would consider it. Younger users exhibit much greater willingness to pay than the 46 to 65 year old age group. A comparison

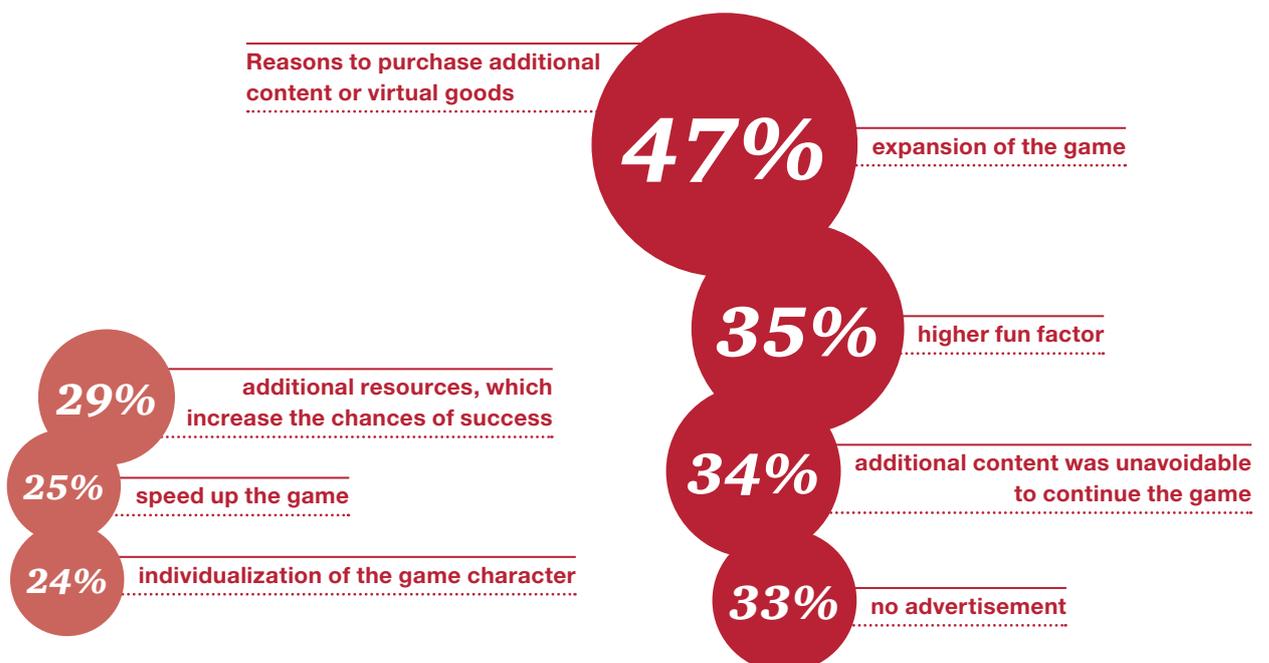
between men and women shows a similar differentiation: almost half of male users state that they are willing to pay compared with just 31% of female consumers.

Over 20% of video gamers regularly spend money on virtual additional content and 16% of gamers surveyed spent more money over the last six months on in-game virtual goods than before.

**Video gamers' willingness to pay for virtual additional content**



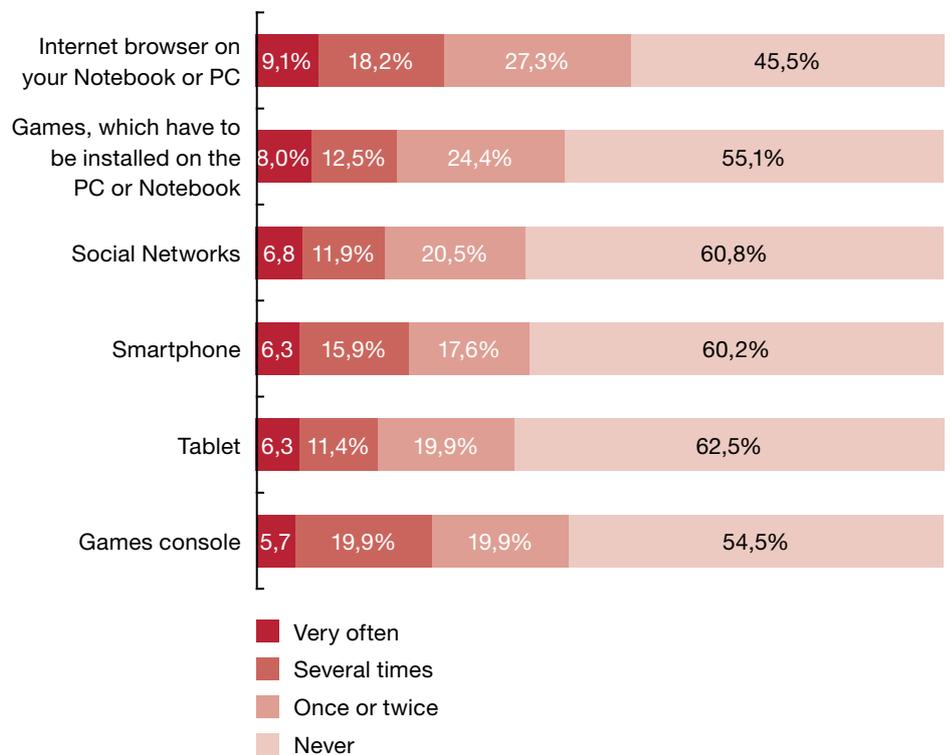
**Reasons to purchase additional content or virtual goods**



The results of our survey show that virtual goods are now offered and purchased across all games platforms. Most popular platform to do so is via internet browser. Nearly 54% of the surveyed consumers have ever purchased via browser, almost one of ten consumers purchases virtual goods via browser on a regular basis. Where the internet browser is the most popular

platform to purchase additional content for consumers over 46 years, younger consumers do so also on their game console. Mobile devices like smartphone are also used by young users rather than by consumers in the group above 46 years – only 5% of the users in this group have ever bought additional game content via smartphone.

**Platforms used to buy additional content**



***New game experiences and enhanced enjoyment are the biggest motivating factors in purchases of virtual additional content***

Extending the game, for example by adding new levels, is the most persuasive factor for purchasers and potential purchasers of virtual goods across all demographic groups. Enhanced enjoyment is important, particularly for younger gamers – 63% of users of virtual additional content under 30 are motivated to buy by more gaming enjoyment. The ability to customise avatars, however, only slightly increases willingness to pay. The

same applies to speeding up the game – an add-in that is deployed in many current browser and mobile games.

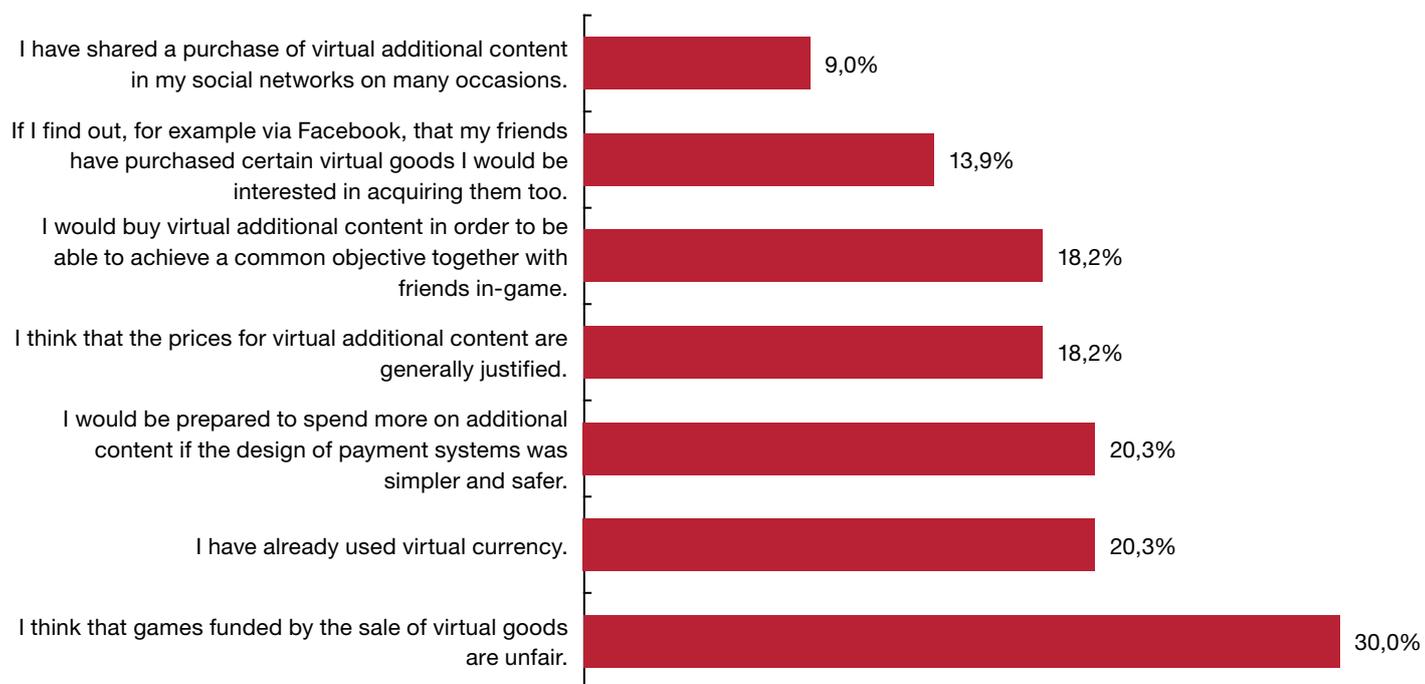
**Many users think video games using virtual goods are unfair**

When asked about their experiences of virtual additional content, 30% of video gamers indicated that they think games funded by the sale of virtual additional content are unfair. Consumers in Germany are much more critical: 55% of video gamers find games funded by the sale of virtual additional content unfair. One factor that could increase willingness to pay is provision of customer-friendly payment options – just under 28% of video gamers

under 30 would spend more money on additional content if the design of payment systems was simpler and safer. Intelligent use of social factors and social media could also promote in-game items. For example just under 22% of male gamers indicated that they would buy virtual additional content if it enabled them to achieve a common objective together with friends in-game. And just under 14% of the gamers would be interested in acquiring additional content that is bought by friends and shared over social networks.

**To what extent do the following statements on virtual additional content apply to you?**

Percentage of video gamers to which the statement applies or applies to some extent



## What the experts say

Addictiveness, competitiveness and sharing are the key to successful games

### **Interview with Reinout te Brake, Founding Partner of GWC Investments**

**by Hanno van der Winden, PwC**

Developing a game and sell it for a fixed price, as in former days, requires a very different marketing strategy compared to today's free-to-play games. Reinout te Brake: "Monetising a free-to-play game involves bringing a large target audience into the game and keep them there for as long as possible. In order to reach this target audience, gaming companies need data on the behaviour of gamers and their preferences. For instance, gaming companies need to know which games their target audience like and how many gamers are likely to make payments for various virtual additional content. Next to this, gaining a clear understanding of the potential organic growth of non-paying gamers is also vital. All in all, this means that for a game to be successful today game developers and marketing departments need to cooperate more closely."

### **Monetising**

"In order to gain a clear insight into the potential recovery of substantial marketing costs and development costs, video game developers need to come up with realistic estimates of how much money they are likely to collect from paying gamers and/or from ad revenues", Reinout te Brake continues. "For this reason they need to have a thorough understanding of their target audience as well as the game lifecycle. Developers need to ensure that they have sufficient funds to develop the game and make a strong marketing

push to establish a sizable base of gamers, which can then fuel further gamer growth virally. What's more, in the free-to-play segment you give away your game for free which makes monetising the game critical to success. Sometimes gamers can pay money to get a 'premium' version of a game if they prefer not to see ads. This is for instance the monetization model of the popular mobile game *Ruzzle*. But, *Ruzzle* has fifty million installs and keeping ads visible can potentially bring in more money than turning off ads on payment of a certain amount.

The earnings model for game developers is quite simple, as they can incorporate a whole assortment of in-game items for gamers to purchase and also serve up ads. But for this to be successful they need to have a strong understanding of game design so that gamers are incentivized to make a purchase and are not turned off by ads. These virtual goods sometimes merely enrich a character in a game, but often help gamers to get to a next level faster. Take for instance *Candy Crush Saga*, in this game seventy per cent of the players do not make payments, whereas thirty per cent pay good money to buy extra moves to get to the highest levels in the game. Once a first payment has been made and the desired level has still not been reached or an even higher level can be attained, gamers are inclined to make more payments to reach their goal. This points to the notion of addictiveness which can boost payments that are made in video games."



**„For a game to be successful today game developers and marketing departments need to cooperate more closely.“**

### **Addictiveness**

Gamers are easily distracted, especially in mobile and online environments, so it is crucial to keep them hooked in the game. Reinout te Brake: “You can achieve this by effectively teasing them to continue playing the game. Gamers are less tempted to pull out if they have just reached higher levels and expect to be even more successful. Reaching higher levels should not be too easy or too difficult, it’s a matter of fine tuning the game play during Beta testing and after the soft launches. By closely monitoring gaming behaviour as well as successful games of competing companies, developers need to find the optimum level at which gamers will start making payments and will continue to do so. If you look at the strategy game *Clash of Clans*, gamers can make in-game purchases, such as gems, in order to be successful at the game and to outsmart other online players. A combination of addictiveness and competitiveness makes people play and pay in *Clash of Clans* for weeks and even months.”

### **Communities**

So, after getting gamers into the right state of mind to start playing a game, are addictiveness and competitiveness enough to retain them for over two, three or four weeks? Reinout te Brake: “Addictiveness and competitiveness get a further boost when friends and family also play that same video game.

If gamers notice that people they know attain higher levels than they do, gamers may be incited to purchase virtual additional content. Also, gamers can sometimes ask others in their network for specific virtual goods. For instance, when playing *Jelly Splash* you have to wait thirty minutes after a few failed attempts to get to a higher level or you can ask your contacts for new ‘lives’ or coins. This way people in your network know you play the same game, and this will eventually lead to community building. Games can also prompt gamers to give, for example, ‘new lives’ to others which may result in bringing gamers that dropped out back into the game. This will lead to the desired organic growth and the activeness of the community.”

### **Cross-platform**

“When, in the very near future, all games can be played on every available device, ranging from Xbox One and PlayStation 4 to smartphones and iPads, communities will be of increasing importance. These communities will discuss new features in games, but will also give indirect feedback to game developers through web-care departments of gaming companies. This way gaming companies will be able to keep up-to-date with the desires and wishes in the gaming community and make their feedback an important factor in game development. Needless to say that gaming companies need good community management and should be clearly present on the major social networks, such as Facebook and Twitter.”

## *Prospects of virtual additional content in video games: Outlook*

Virtual goods will continue to expand their share of total sales in the video game industry. Growth is driven by expanding the business model, creativity, usage analysis, flexibility and community building.

Today's gamers welcome the opportunity to purchase paid additional content occasionally rather than committing themselves to long-term subscriptions or investing large sums in video games. Selling virtual additional content allows monetisation to act flexibly, based on individual gamers and platforms. If the industry manages to appeal to undecided gamers and make buying virtual additional content into a positive experience for consumers, market participants can also expect that they will be increasingly willing to pay.

### ***The virtual goods business is maturing and freeing itself from its dependency on free-to-play games***

In-game transactions are an effective way of making casual gamers into paying customers and then keeping them committed to the game for longer through updates and enhanced gaming enjoyment. For most game producers this business model is still associated with the free-to-play concept. But long gone are the times when virtual goods were deployed exclusively in online games and games for mobile devices. The high growth rates over the past few years have also forced the other game companies in the video game market to rethink their strategies and start investing in virtual goods or develop hybrid business models. We expect the sale of virtual additional content in the medium term to become established as an additional revenue stream in paid games as well. This will enable the monetisation cycle for paying users to be extended beyond a one-off game purchase. Cross-platform games are also contributing to the growing importance of virtual goods. Spin-offs of blockbuster games for social networks make it easier for them to be monetised. New generation consoles are now connected to the internet, which will also increase

the importance of digitally distributed games for console games.

### ***A good sense of the target group and its motivation is crucial for a game's commercial success***

Today's gamers are demanding. The current stagnation in sales of virtual additional content in online games is clear evidence that accessible games with high-end graphics are no longer enough to motivate users to spend money and stay committed to a game over the long term. Successful games, even in the casual games segment, require significant investment in design and development as well as marketing. The increasing number of easily available games means it is becoming more and more difficult to strike the right balance between monetisation and pleasure to meet the needs of a differentiated public.

In this world where games are more easily available and also in higher volume, player acquisition and marketing are key competitive differentiators. How gamers will discover (new) games and changes in the discoverability of games could significantly change the competitive position.

The assessment of current game mechanisms also points to the huge potential that the industry could still draw on here. If game producers can design paid virtual goods with content that genuinely adds value, users will focus on gaming pleasure and the proportion of gamers willing to pay will increase. For this to happen, the potential of additional content needs to be integrated creatively during the experience of each and every game.

As the results of our survey show, gamers differ significantly in their willingness to pay for different virtual goods. To achieve optimal monetisation of games, providers need to track and analyse the various factors motivating gamers precisely, by target group and platform. By and large, the data needed is already available in the form of usage statistics and other usage analyses. The challenge is to extract valuable information promptly from this diversity of data.

### ***Creativity and big data form the new basis for game developers***

The ability to get users committed to a game over the long term is the crucial factor in deciding the game's monetary success. Online games still have some way to go in this respect: according to figures from the market researcher IDC in 2012, 90% of gamers who used free-to-play games gave up after three months. Games need to be continuously updated to stop drop-out rates of this magnitude. Although feedback systems have long been standard in online video games they cannot register customer preferences precisely enough to allow content to be adjusted rapidly. Using systematic analysis, performance monitoring and cross-referencing to other available user data, big data solutions can provide rapid insights into consumer preferences at the various phases of the game. Findings can be used to improve the gaming experience for each individual user, for example, by adjusting the level of difficulty or indeed by targeted offering of virtual goods. Preventing users from becoming frustrated and/or bored leads to commitment to the game for longer, and the percentage of paying gamers increases.

Creativity will continue to be crucial for developing good games. But game companies now also need to generate an analytical basis for developing them as well as a systematic model for flexible marketing and monitoring performance.

### ***Social media elements and cooperation with brand manufacturers can lead to even more growth in sales of virtual goods***

The potential of social elements for the video game industry was revealed recently by the rise of casual gaming. Sales of virtual additional content can benefit considerably from tying in social elements since they increase games' attractiveness and accessibility for large groups of users. Visibility to other users is already often a crucial factor for sales of virtual additional content within social networks. Here, the real value of social goods lies in the ability to measure one's self against other players or to generate a particular image for them to see. The results of our consumer survey suggest there is as yet unused potential in this sector. If this can be realised it could have a positive effect on the diversity and sales performance of virtual additional content.

For companies outside the video game industry, too, virtual goods offer interesting applications. For example, manufacturers can use games to incentivise users to get more involved and committed to their products. The increasing importance of social networks and communities in society means that virtual copies of real products are acquiring a totally new kind of value for users. Various different manufacturers of branded items and artists have already discovered this marketing potential and, for example, offer own-brand clothing or advertise their new products or music albums within video games. As in the real world, branded items can function as status symbols worn for show by paying consumers in the virtual world.

### ***Summary: Growing confidence in digital business models and online communities is fuelling the market in virtual additional content***

Revolutionising the distribution mechanisms in the video game industry has made manufacturers' business models more flexible. Along with purchases of individual games, the sale of virtual goods will become established as an underlying business model on all games platforms in the next few years. Virtual goods transactions will benefit from the progressive digitisation of society and the growing importance of social networks of all kinds. There is potential for growth but stabilising and increasing willingness to pay poses some challenges for video game companies. The main ones are: integration of virtual additional content into the gaming experience in a creative way, focusing on gamers and building communities, as well as constantly monitoring performance and adjusting games flexibly to meet user requirements.

---

## **References**

***PwC (2013)***

Global Entertainment and Media Outlook: 2013–2017

***PwC (2013)***

Entertainment and Media Outlook for the Netherlands: 2013–2017

***PwC (2013)***

Media Trend Outlook Videospiele – Germany

---

## Contacts

**Ilja Linnemeijer**

Tel.: +31 88 792-4956  
ilja.linnemeijer@nl.pwc.com

**Esteban van Goor**

Tel.: +31 88 792-1796  
esteban.van.goor@nl.pwc.com

**Lisette Lynch**

Marketing  
Tel.: +31 88 792-3024  
lisette.lynch@nl.pwc.com

**About us**

PwC helps organisations and individuals create the value they're looking for. We're a network of firms in 157 countries with more than 184.000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at [www.pwc.com](http://www.pwc.com).

At PwC in the Netherlands over 4.300 people work together from 12 offices. PwC Netherlands helps organisations and individuals create the value they're looking for. We're a member of the PwC network of firms in 157 countries with more than 184,000 people. We're committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at [www.pwc.nl](http://www.pwc.nl).

**To be continued.  
The Media Trend Outlook series has  
more topics for you.**

