



## The games console: Fitter than ever at 50

There's no midlife slump for the video games console market. Content, experience, and business-model innovations are keeping it competitive

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**T**HE GAMES CONSOLE ecosystem celebrates its 50th birthday in 2022 in robust health: record revenues, a full slate of latest-generation devices, and a strong foundation for further growth.<sup>1</sup> Deloitte Global predicts that the console market will generate US\$81 billion in 2022, up 10% from 2021. Revenues per console player, of whom there will be 900 million by the end of the year, are expected to average US\$92 per person—substantially more than the projected US\$23 per PC gamer and US\$50 per mobile gamer.<sup>2</sup>

About US\$59 billion of 2022's console revenues will be from software sales, composed of video game titles, subscriptions (more than US\$10 billion), and in-app payments. Console hardware sales are expected to top US\$22 billion, subject to the resolution of supply chain issues that had constrained the supply of the latest-generation consoles released at the end of 2020. Importantly, pricing for the newest gaming consoles has proven resilient, with launch prices able to be maintained longer than for prior generations of consoles.<sup>3</sup>

Beyond 2022, console software sales are expected to continue growing, reaching close to US\$70 billion by 2025.<sup>4</sup> Over this period, digital game purchases, including downloads, subscriptions, game passes, and in-app payments, are expected to rise as a share of sales from 65% in 2022 to 84% in 2025.

## Diverse innovations are bolstering the console ecosystem

The games console is at the center of an expanding ecosystem that continues to innovate in content, experiences, and business models. These innovations are transforming the console ecosystem from one based on final products generating one-off sales—whether a physical console or a game title—to a perpetual and evolving entertainment service that encourages daily, often multiplayer gameplay, generating a steady stream of revenue.

Subscriptions are a critical development. We forecast that console owners will have more than 200 million multiplayer and game subscriptions in 2022. By 2025, these subscriptions will likely generate more than US\$11 billion in revenue, up from US\$6.6 billion in 2020.<sup>5</sup> A console owned for eight years may garner as much subscription revenue as from the sale of the console itself.

Another notable innovation is downloadable content (DLC), which offers gamers new “chapters” of gameplay and storylines, the use of virtual currency, and in-game add-ons such as better gear and distinct outfits. Some titles have also evolved into games-as-a-service with constantly updated storylines, content, and events that encourage regular play. For example, Rockstar’s *Grand Theft Auto 5* began in September 2013 as a top-tier single-player experience, but has since expanded into a multiplayer service in an

evolving game world—making it the bestselling game in the US market between 2010 and 2019.<sup>6</sup>

Another approach is the annual, rather than occasional, release. This tactic is common among sports titles such as *FIFA*, *Pro Evolution Soccer*, and *Madden*. Because players in each real-world team are constantly changing, with major transfers taking place once or twice a year, sports titles are suited to annual updates. This type of annual game can also be bundled with additional revenue streams, such as in-app payments and game passes.

Yet another innovation is that console game makers, successfully taking a leaf out of the mobile playbook, are now offering free-to-play games that are monetized through in-app purchases. The best-known example of this is Epic Games’ *Fortnite*, which has generated billions of dollars in spend.<sup>7</sup> In some cases, games that were formerly sold outright, such as *Rocket League*, have switched to this model.<sup>8</sup> Popular multiplayer titles are looking a bit like immersive social media, with greater socialization and personalization of avatars through purchased “skins” (clothing, hairstyle, and so on) and “emotes” (most commonly gestures and dance moves).

A final spur to console game growth is its increasing integration with mobile. While games have historically been designed for either of the two very different device types, console titles are now starting to be integrated with complementary smartphone apps, allowing players to commingle in the same game from any device. In 2022, we expect this nascent trend, called cross-play, to accelerate. An early example of console-mobile integration is *Call of Duty* one of the most popular multiplayer console franchises. The franchise has introduced a mobile version of its games, designed to keep people playing and invested while on the go and away from the big screen. According to one estimate, *Call of Duty: Mobile* boasts 200 million active users overall and about 30 million daily active users.<sup>9</sup>

The jury is likely to still be out in 2022 over whether console-mobile integration is net positive for consoles. Over time, cross-play might dilute the value of a given console, or at least undermine the

role of new releases that are exclusive to a single platform. This highlights a mounting tension in the gaming ecosystem: Top game franchises are jostling for prominence with the hardware that runs them.

## THE BOTTOM LINE

Consoles have a great deal going for them heading into 2022, with the most prominent bulge being to the revenue line.<sup>10</sup> The newest generation of consoles has only just launched, with three models debuting in 2020–2021,<sup>11</sup> and multiple major new titles are planned for launch in 2022–2023.<sup>12</sup> With a six-year average lifespan, new consoles will likely remain at the center of the most compelling game experiences.

Consoles also likely won't lack for future customers, and this will have implications for other media categories that are competing for the same eyeballs. The console user base is young, aging well, and expanding. Deloitte research on US consumers has found that the majority of 14-to-24-year-olds rank gaming as their favorite form of entertainment, even ahead of TV and streaming video.<sup>13</sup> As this generation ages, it will likely retain gaming as a prominent part of their lives. Gaming has been growing among millennials and Generation X as well. Middle-aged players who grew up with consoles as kids have remained loyal or returned to them as 40- and 50-year-olds.<sup>14</sup>

The pandemic has further accelerated adoption and engagement with gaming. During the pandemic, parents spent more time gaming with their kids—a social activity that may well endure.<sup>15</sup> As COVID-19 recedes, out-of-home activities will likely compete for entertainment time, but gaming has held strong even in cities that have reopened.<sup>16</sup> Even before the pandemic demanded remote socializing, the most popular games, such as *Fortnite*, *Call of Duty: Warzone*, and *Apex Legends*, were based around social experiences, further strengthening retention: Leaving the game may mean disconnecting from friends.

From a competitive standpoint, cloud gaming has been expected to usurp the console, but its threat level is likely to be meek in 2022. In part, this is due to network readiness: This year, most homes globally will lack the required connectivity to run high-performance cloud gaming while sustaining other home broadband needs. Even a 720-pixel (lower than HD) cloud gaming experience may require a *dedicated* 20 Mbit/s connection. Further, cloud gaming requires upstream handling of player inputs, placing additional demand on the data connection—and possibly the data plan.<sup>17</sup> From a game experience perspective, too, the offer of 4K from cloud gaming services will become ever less compelling as the installed base of 4K (and 8K-ready) consoles steadily increases.<sup>18</sup> It's small wonder that, though publishers have allowed some of their titles to be ported to cloud services, they have found little incentive to release games exclusively on a cloud platform. For cloud gaming to take off, it will likely need to clearly offer better value than the console—such as delivering on the promise of much larger and richer game worlds capable of hosting thousands of players in the same instance (most multiplayer games have a cap of 150 players in the same world).

Console makers should, however, plan for a future where a growing proportion of game execution and delivery happens over the network. The best way for the console ecosystem to compete may be to meld the best elements of the console, which is essentially a high-performance edge computing device, with the best of the cloud, which already includes online marketplaces and multiplayer play. Console makers could also develop, acquire, or license more content IP, reinforcing their role as game development studios. They can explore how the console could guarantee quality of service in the home and play a stronger role in gating content, social moderation, and purchasing for different family members. Additionally, console makers could consider offering premium hardware options or the ability to add additional graphics cards that cater to gaming communities such as those participating in competitive esports, which have typically preferred the customization and extensibility of PCs.

All in all, consoles are far from the has-beens that one might think such a venerable platform may have become. Their ability to deliver compelling and highly social game experiences, coupled with business models that allow for recurring revenue, is keeping them very much alive, well, and poised for future growth. Happy 50th!

## Endnotes

1. The first home video games console was the Magnavox Odyssey, which was launched in September 1972. The console could display three square dots and one line of variable length. The console sold 350,000 units over its lifetime. See: Wikipedia, "Magnavox Odyssey," accessed October 6, 2021.
2. Deloitte estimate based on data from Tom Wijman, "Global games market to generate \$175.8 billion in 2021; despite a slight decline, the market is on track to surpass \$200 billion in 2023," Newzoo, May 6, 2021; IDG forecast cited in Sony Interactive Entertainment presentation: Jim Ryan, "Game & network services segment," Sony, accessed October 6, 2021; App Annie, *Gaming spotlight 2021 report with IDC*, accessed October 6, 2021; Dean Takahashi, "Newzoo: There will be over 3 billion gamers by 2023," *VentureBeat*, June 25, 2020; James Davenport, "2022 is eating 2021 alive to become a monster year for PC gaming," *PC Gamer*, July 21, 2021.
3. Most successful consoles have seen price drops after about a couple of years, but the Nintendo Switch, launched in 2017, was still selling at full price in July 2021. Sony's PS5 is expected to remain in tight supply through 2022. See: Kyle Orland, "Nintendo's 'OLED model' Switch estimated to cost just \$10 more to produce," *Ars Technica*, July 15, 2021; Hirun Cryer, "PS5 shortages will continue until next year according to Sony," *GamesRadar+*, May 10, 2021.
4. IDG forecast for physical and digital software downloads, cited in Sony Interactive Entertainment presentation: Ryan, "Game & network services segment," p. 6.
5. Juniper Research, "Video games subscription revenue to exceed \$11 billion by 2025, but cloud growth will be slow," press release, October 5, 2020.
6. Jeff Grubb, "NPD: The top 20 best-selling games of the decade in the U.S.," *VentureBeat*, January 16, 2020.
7. Mitchell Clark, "Fortnite made more than \$9 billion in revenue in its first two years," *The Verge*, May 3, 2021.

8. *Rocket League* went free to play in September 2020. See: Max Parker, "Rocket League free to play arrives September 23," *Rocket League*, September 15, 2020.
9. ActivePlayer.io, "Call of Duty: Mobile," accessed October 6, 2021.
10. In July 2021, Sony announced it has passed 10 million sales for the PS5, making the latest-generation console the fastest selling ever. See: Veronica Rogers, "A new milestone: SIE sells 10 million PlayStation 5 consoles globally," Sony, July 28, 2021.
11. Following from the launch of Sony's and Microsoft's new consoles, Steam announced the launch of its Steam Deck console in July 2021, priced at US\$400. See: Ryan McCaffrey "Steam Deck FAQ: Valve answers the biggest questions," IGN, July 15, 2021.
12. A list of new releases for 2021–2023 is available at these sources: Sam Loveridge and Heather Wald, "Upcoming PS5 games: All the new PS5 games for 2021 and beyond," *GamesRadar+*, September 29, 2021; Loveridge and Wald, "Upcoming Switch games for 2021 (and beyond)," *GamesRadar+*, September 28, 2021; Loveridge, "Upcoming Xbox One games for 2021 and beyond," *GamesRadar+*, September 29, 2021.
13. Kevin Westcott et al., *Digital media trends, 15th edition: Courting the consumer in a world of choice*, Deloitte Insights, April 16, 2021.
14. Sony Interactive Entertainment notes that its PS1 gamers have stuck with them. See: Ryan, "Game & network services segment," p. 7.
15. Conor Pharo, "Parents playing five extra hours of video games a week to bond with their children, poll finds," *Independent*, October 30, 2020.
16. *Economist*, "As lockdowns lift, media firms brace for an 'attention recession'," July 3, 2021.
17. The upstream link instantaneously updates the game state to the server; this information must then be streamed back to players (up to 150 of them in some multiplayer games). See: Chris Arkenberg, *Cloud gaming and the future of social interactive media: Moving gaming to the cloud may promise richer playing experiences and provider opportunities—if both parties are willing to commit*, Deloitte Insights, March 9, 2020.
18. A long list of potential challenges to cloud gaming can be found here: Sean Hollister, "To succeed cloud gaming needs to disappear," *The Verge*, June 23, 2021.

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