



2024 media and entertainment subsector outlook

Video games

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Deloitte’s annual sector and subsector outlooks highlight the leading trends we expect to shape businesses over the next 12 months. These complement our annual TMT Predictions, which dive deeper into specific trends and technologies enabling change, transformation, and disruption.

Introduction

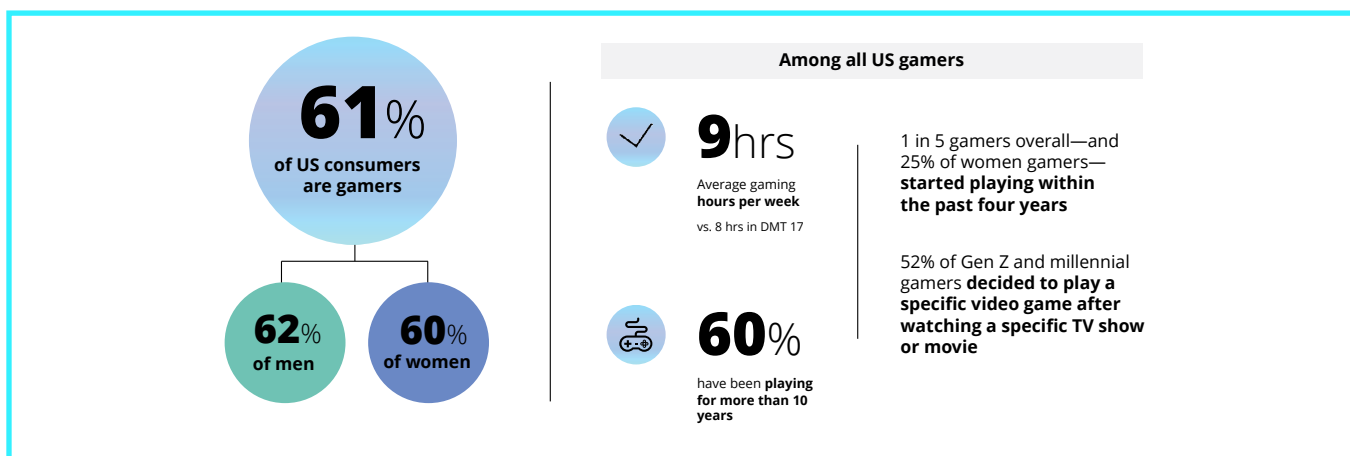
It may not be far off when video games are barely distinguishable from real life. Or perhaps, the only sign of hyper-realism could be how far they transport us into other realms so obviously beyond the usual. Designers, storytellers, and communities are all using video games to create and participate in vast and persistent worlds that are becoming bigger than the biggest cinematic experiences and as social as any town square, concert, or stadium.

In Deloitte's 2024 Digital Media Trends survey of US consumers, 85% of Gen Z, 78% of millennials, 60% of Gen X, and 35% of boomers surveyed are regularly playing video games.¹ Mobile games have enabled many more non-gamers to enter the market, particularly among older generations, but the video game industry seems to be shaped and celebrated by massive hyper-realistic game worlds and enduring multiplayer services. The biggest story-driven games can transport players into 100-hour-long immersive experiences and mint franchises that reach beyond gaming. Popular live service games are drawing millions of regular players—along with brands, musicians, athletes, and celebrities—into persistent gaming experiences that can support social interactions and benefits beyond competition. For many, interactive and immersive gaming experiences are becoming integral to the ways we engage with the largest stories, and for how we play, socialize, and express ourselves online.

However, there are changes shaping the gaming business, with implications for media and entertainment companies in gaming and beyond. Although the most successful games can enjoy engagement and stickiness, it's often harder for new games to stand out and endure—and more expensive to develop and market them. Despite a vast assortment of available games, more players are aggregating into a smaller number of leading titles. By some accounts, the biggest games in 2023 by monthly active users (MAUs) were all released more than five years prior,² and 90% of game revenues came from just 43 titles.³ The result is a small number of major successes that dominate gaming and a long tail of games that may generate enough to sustain holding companies, independent studios, and 3D UGC platforms, but not top studios and publishers.⁴

For gaming companies and non-gaming companies wading into interactive experiences, standing out and competing with such entrenched successes may be harder than ever. Development costs of so-called AAA games—those big-budget games with the highest production goals—have continued to rise and may now appear unsustainable, making ROI more difficult to achieve. Top studios can heave hundreds of millions of dollars and years of work at bringing a new AAA or live service game to market.⁵ This can make it critical to work to reduce the risk of developments while also raising the bar on innovation and quality.

In the US, video games are competing for entertainment time. TV shows and movies may be helping.



In the year ahead, the largest game companies and publishers may feel pressured to take fewer and more calculated risks. This could lead to fewer new releases from major studios and more investment in already successful properties. At the same time, there may be more games than ever entering the market. While the largest players reckon with high costs of major releases, smaller game studios may be more empowered to develop and market compelling and innovative games while cultivating communities and fandoms around them. More non-gaming media companies are also entering the video game market, looking to expand their IP into interactive experiences that get closer to the behaviors of younger generations.⁶

Audiences and fans are following their favorite stories and characters through TV, film, and gaming. These mediums are converging to expand successful franchises and unlock new opportunities.⁷ This likely encourages media and entertainment executives to understand the broader value of their IP and the fandoms that grow around it. How can they activate fans and meet more audiences across a portfolio of experiences? What should they understand about translating IP from one medium to another? And how can these experiences drive long-term engagement with a franchise and more successful monetization across them? Whether gaming, TV, or film—or merchandise and beyond—media and entertainment executives should be thinking about the entire life cycle of their IP and franchises, how these relate to fandoms, and how they can be engaged and delighted for many years.



Extending the lifespan of games and the reach of game worlds

Globally, gaming growth has been led by mobile games that have brought many more people into gaming and monetized them with app sales, microtransactions, and advertising.⁸ Although many major game studios and publishers serve the mobile gaming market, the industry continues to be largely shaped—and paid for—by AAA and live service games (particularly in Western markets). In 2023, revenues of top game publishers were led by the biggest free-to-play live services and by some of the largest film franchises adapted to AAA games.⁹

The dominance of leading games and the fight for engagement may be shifting the strategies of executives. To keep more players attached to content for longer, most leading game studios and publishers are now developing multiyear roadmaps and live services.¹⁰ If successful, this approach can anchor fans and monetize players for years—but only some may succeed.

Crossovers and convergence in big, story-driven game worlds

Large, story-driven games can sell for \$65 or more, offering an immersive single-player experience that can deliver 60+ hours of impactful gameplay.¹¹ These games seem to have more universal appeal. Deloitte's 2024 survey showed that, among US survey respondents, a nearly equal number of men (57%) and women (51%) prefer solo adventures in rich, story-driven worlds.¹² Game studios and publishers can use AAA games to establish new franchises, expand existing IP, and build partnerships with movie and TV studios. Increasingly, the quality of writing in AAA story-driven games are generating movies and TV shows of their own.¹³ Indeed, in 2023, movie and TV slates were boosted by successful takes on video game IP—a trend that is likely to accelerate.¹⁴

Successful story-driven games can create entirely new fandoms among gamers and expand TV and film fandoms into interactive experiences. Recent successful crossovers from gaming franchises into streaming TV and film have generated very strong interest in the games that inspired them, bringing in new fans—and new gamers.¹⁵ Our study found that 52% of Gen Z and millennial gamers surveyed decided to play a specific video game after watching a specific TV show or movie.¹⁶ This may be good news for TV and film studios seeking ways to stay closer to people spending more time in games. Yet, it is unclear if game publishers have been able to fully capitalize on these boons. Are they actively supporting positive onboarding and play experiences? Are they reinforcing their fandoms with social engagement, and monetizing them with physical and digital merchandise? Gaming companies—and film and TV studios—may need stronger coordination across their businesses to realize larger and more durable benefits.

Live service games that live for a decade or more

In the year ahead, game slates will likely include more live service games.¹⁷ In live service games, gameplay can be adjusted, new experiences can be introduced, and “moments” can be generated to keep the game fresh and deliver regular marketing and PR opportunities. Live services can offer games and game worlds the chance to live and breathe on immersive social stages that can host diverse experiences, crossovers, and storylines.

Live service games can change development costs and monetization. Instead of releasing one game and a few patches, live service games typically require constant uptime and maintenance. Continuous development may be necessary to keep gameplay fresh and drive player counts. Revenues from in-game purchases may be highly dynamic and even volatile, changing accounting and revenues from single game purchases. Brand activations and crossovers in games can require additional content programming and engineering.

Successful live service games enjoy network effects and impose switching costs: more people play, and it may be harder to leave when your friends are there. The most popular live service games host more than 100 million players a month.¹⁸ Brands can look to live service games to reach younger audiences where they spend much of their entertainment time and, increasingly, where they reap social and emotional benefits. From our 2024 survey, 33% of Gen Z and millennial gamers surveyed agree that they socialize more in video games than in real life, and about 30% say they have more friends in game worlds than in real life.¹⁹ Additionally, 41% of Gen Z and millennial gamers mainly play online games to meet up with friends.²⁰

These stats index toward men much more than women, since men are more likely to play live service games. When we asked about gaming preferences, only 29% of US women gamers say they mainly play live service games, versus 47% of men.²¹ This may be, in part, because many popular live service games are based on fighting and combat. But our study suggests that it is also due to harassment and bullying in multiplayer environments. Forty-four percent of men gamers and 48% of women gamers surveyed believe online multiplayer games have too much bullying and harassment, and about 56% of all gamers think that video game publishers should do more to combat harassment in their games.²² Given how much game companies could be pinning their future on live service games, they should consider it a business imperative to tackle harassment and bullying and to deliver more experiences that engage female players. Our study found that 41% of men gamers and 50% of women gamers have little to no interest in playing multiplayer games.²³

Generative AI to drive innovation and accelerate time to market

Game studios and publishers face two big challenges in the coming year: addressing development costs and innovating on gameplay and experiences. Early experiments and implementations of Generative AI are tackling both, looking for ways to accelerate time to market for new games and to unlock innovation. In the year ahead, game companies will continue evaluating Generative AI tools, but they may be challenged to fully operationalize them and define a coherent strategy, due to so much innovation and change in Generative AI.

Generative AI already appears to be accelerating pre-production by using visual models that can iterate rapidly through concept art and early visualization.²⁴ In game production, generative coding models are helping engineers have faster access to game behaviors and mechanics and to test the quality of their code.²⁵ This could help amplify their performance.

Game companies are also experimenting with Generative AI to deliver more realistic and engaging gameplay. Early experiments with conversational non-player characters (NPCs) show a path toward more natural language interactions, rather than canned dialogue.²⁶ This will likely evolve to deliver NPCs that are highly conversational but within limits defined by human writers.²⁷ Generative AI is already enabling rapid translation and dubbing into diverse languages, potentially making games much more accessible across regions.²⁸

Generative AI could produce customized digital consumer goods in live service games while enabling game worlds and storylines to be more adaptive and personalized. Games have used procedural modeling for years to create extremely large game worlds too big to be designed by hand. Generative AI could enable more responsive content generation, like game levels that evolve in response to player behaviors and skills. This could be extended to rapid development of digital goods that are more personalized to players, brands, and events.

Generative AI could also support new players by helping them onboard, ensuring better player retention. Deloitte's 2024 Digital Media Trends showed that one in five gamers overall—and 25% of women gamers—started playing within the past four years.²⁹ Are these newer gamers having good experiences? Models could help players understand their weaknesses in gameplay and then develop tutorials and training simulations to help them become better. These could also be better at moderation of bullying and harassment in live service games, which could increase the amount of satisfaction players get in the game—and increase the time and money they spend there.

Stepping back, gameplay data could inform generative models that seek to discover player cohorts, fandoms, and new innovations in gameplay. Just as Generative AI seemed to come out of nowhere, gaming could be disrupted by a company that adopts and deploys Generative AI in a way that vastly accelerates and scales their capabilities to bring new, innovative gameplay to market.

These examples suggest that the complexity of game development and operations aren't expected to be reduced by Generative AI, though some of it may become more automated. They also suggest that the costs of developing the next generation of games may not go down that much, but innovation, time to market, player retention, and monetization could all be greatly improved. Ultimately, game experiences could soon become even more realistic, immersive, and responsive.

Roadmaps for success

Although the economics of success may look more daunting for games, new games are still breaking through.³⁰ However, the pathways to success appear to be shifting. Multiyear roadmaps and live services can require different approaches to funding, development, and monetization. Deeper relationships with brands and non-gaming franchises can further expand engagement and tap into the fandoms critical to success. With the rise of Generative AI, strong data practices are more important than ever. Although costs are high and competition is fierce, media and entertainment executives should evaluate the strengths and weaknesses of their IP, and they may want to consider it as the center of a portfolio of experiences across different kinds of media. They may need to focus on fewer and bigger franchise efforts, leading with strong social media campaigns to drive discovery and buzz, engage fandoms, and cultivate communities.³¹

These are important considerations for non-gaming companies looking to grow their franchises into game experiences. What kinds of sensing should they have to de-risk game strategies? How many fans might have their first gaming experience through the franchise? What kinds of onboarding and hand-holding might be needed to ensure a positive experience? How many new gamers might be minted, and how can they become regular gamers and regular fans? As gaming, TV, film, and music converge, it will be critical to cultivate strong partner relationships that support all sides of the business.

Gaming may also experience cycles. Cohorts—and investments—may flow to live services then back into single-player games. Franchises may grow in popularity only to drive “franchise fatigue” and a desire for more novel “outsider” content and experiences. Competitive games may yield to cooperative experiences. Players can get exhausted by microtransactions and monetization. Executives may need to pursue balanced portfolios that play the spread of trends while also serving diverse business goals and audiences with differing growth objectives. Ultimately, media and entertainment executives should seek ways to stay engaged with audiences longer, convert them to fans, and meet them wherever they’re at, digitally and physically. Costs may not come down in the near term, but there are opportunities to grow players, engagement, and revenue.

Despite the high costs of live service and AAA games, these are expected to continue to define the roadmaps of the biggest game studios and publishers, and increasingly for the biggest TV and film studios as well. The best games can engage players and shape culture for a decade or more. And yet, there’s still no clear formula for what makes a game work for a given market. Leading game studios and publishers, as well as the TV and film studios they partner with, may be tempted to focus more on the successes they know, leveraging their might to help drive interest and engagement. But gamers continue to want innovation and risk-taking that can push the medium forward and delight them with novel experiences. This could leave the door open for the next disruptors from the sidelines that may be more empowered than ever to do so.

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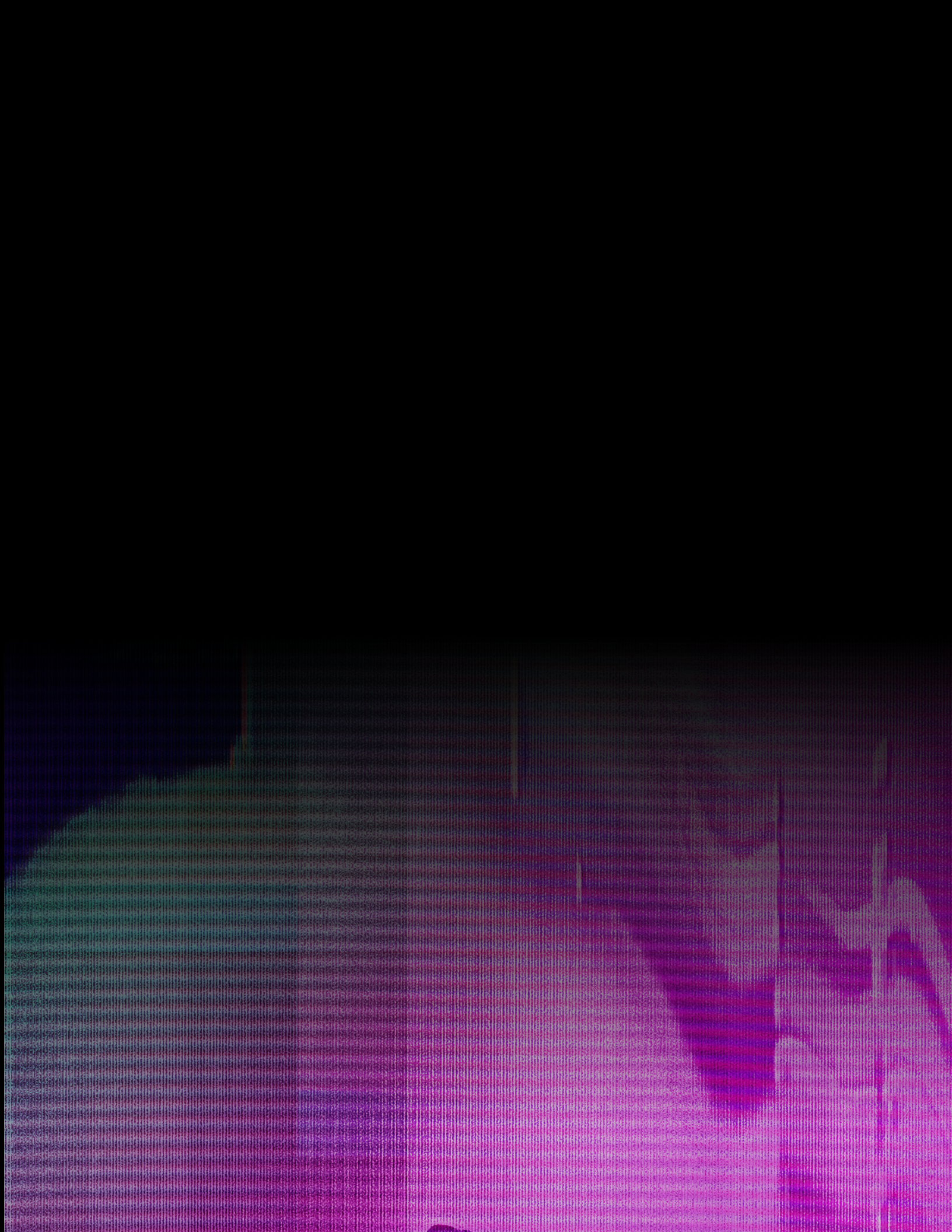
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