Chapter XVI
The Market Structure and Characteristics of Electronic Games

Kerri-Ann L. Kuhn
Queensland University of Technology, Australia

ABSTRACT

A multi-billion dollar industry, electronic games have been experiencing strong and rapid growth in recent times. The world of games is not only exciting due to the magnificent growth of the industry however, but due to a host of other factors. This chapter explores electronic games, providing an analysis of the industry, key motivators for game play, the game medium and academic research concerning the effects of play. It also reviews the emerging relationship games share with sport, recognizing that they can replicate sports, facilitate sports participation and be played as a sport. These are complex relationships that have not yet been comprehensively studied. The current chapter serves to draw academic attention to the area and presents ideas for future research.

INTRODUCTION

A multi-billion dollar industry, electronic games have been experiencing strong and rapid growth in recent times. A review of the industry and key trends shaping the market shows they have grown to become a key segment in the entertainment category, drawing an increasing number of players from a broader demographic. Despite their magnificent growth however, this remains a medium that is still little understood. The characteristics of games have not been formally developed in the literature, nor do we have conclusive evidence of their influence, or the effects of play generally. This is particularly true in the context of sport. The objective of the current chapter is to review the market structure and characteristics of electronic games, with particular emphasis given to their relationship with sport. Such a review is a worthy pursuit, considering the significant economic, social and cultural impact of electronic games (Castronova, 2005).
INDUSTRY BACKGROUND

The global entertainment and media industry is predicted to grow 6.6% annually to 2012, to then be valued at US $2.2 trillion (PricewaterhouseCoopers, 2008). Within that industry grouping, the gaming market alone is expected to grow 10.3% annually to be worth $68.4 billion by 2012, up from $41.9 billion in 2007 (Caron, 2008; PricewaterhouseCoopers, 2008). Digital technology advances are driving growth, facilitating product innovation and the development of new hardware and software. Worldwide, video game and interactive entertainment industry revenue is forecast to reach $57 billion in 2009, including revenue from video game hardware and software; dedicated portable system hardware and software; PC games; as well as online PC and console games (DFC Intelligence, 2008). Overall, the industry has become more structured and stable: revenues for manufacturers are increasing, software sales are rising and a more diverse audience playing. These issues are examined next.

Game Platforms and Software

Broadly, electronic games can be divided into five categories: console/ handheld, wireless, online, PC and arcade. Leading industry bodies such as the Entertainment Software Association (ESA) and PricewaterhouseCoopers define the games market as being made up of these groupings. It must be recognized however, that it is becoming increasingly difficult to distinguish between the game formats. For example, console-based games are often played using console systems connected to a television, but hardware connectivity has allowed for their extension to related handheld devices (such as Sony PlayStation®Portable and Nintendo Game Boy® or the current DS™). Technological advances also mean they can be played online (the new consoles and handhelds allow for internet connection for multiplayer gaming), and sometimes PC versions are released. Past console games can also now be played on mobile phones. Despite the convergence that is apparent, the nature of the games, the way they are played, and the types of gamers differ across the platforms, so it is necessary to analyze each independently.

Consoles remain the dominant platform for play. The electronic games market is controlled by three major console manufacturers who account for 80% of all game revenue (Taub, 2004): Sony Computer Entertainment which launched its PlayStation® in 1994, Microsoft Corporation which launched Xbox® in 2001 and Nintendo Company which launched the Nintendo Entertainment System (NES®) in 1985. The latest generation consoles released in 2005-2006 include Sony PlayStation®3, Microsoft Xbox 360™ and Nintendo Wii™. All three are direct competitors, but each of the manufacturers targets a slightly different market: Sony targets the 16 to 24 year old demographic, Microsoft’s focus is on 18 to 34 year olds, while Nintendo has traditionally concentrated on a younger audience (8 to 18 years) (Schilling, 2003), though this has changed with the advent of the Wii™, which is targeted to more of a mass market.

Sony is the largest and most successful manufacturer, dominating with a market share of 69% in 2005, followed by Microsoft with 16% and Nintendo with 15% (Edwards & Greene, 2005). It also has the strongest customer base; by October 2007, Sony had sold more than 120 million PlayStation®2 units worldwide and more than a billion software units from its library of over 1500 titles (Sony, 2007). However, although PlayStation®2 is the best-selling gaming platform ever released, sales for PlayStation®3 have fallen below expectations, with only 13 million units sold worldwide by May 2008, compared to 25 million Wiis™ and 19 million Xbox 360s™ (Reisinger, 2008). This is significant, because unlike other media, each of the manufacturers operates a proprietary system, so the first-mover advantage and mass acceptance of the product are critical success factors (Gallagher & Park, 2002).
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