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Skin in the game

How telecom operators can win with gaming

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EXECUTIVE SUMMARY

Video gaming is an exciting opportunity for telecom operators. They can tap into this rapidly growing market and diversify their business using their existing capabilities. This is a particularly attractive proposition for operators in the Gulf Cooperation Council (GCC)[1] region, where more than half the population is under 25 years of age.[2]

A successful foray into video gaming would improve the brand positioning of telecom operators and increase the loyalty of their customers. Gaming would increase data usage and produce some boost in revenue. Significantly, gaming would generate more data about customers, which means improved behavioral analytics for a more targeted customer experience and increased monetization.

Operators that choose to exploit video gaming need realistic short-term goals, and should build on their experience to go further if desired. The first stage is associating brands with gaming, which costs little. Operators should offer experience-enhancing products and services. They can also host servers for top developers or sponsor events, largely through partnerships with gaming companies.

Operators can then become involved in game development, again with partners. That means launching some simple games, or making games relevant to GCC audiences. If successful, operators could eventually develop their own games and compete with global game publishers.

Another way to associate with gaming is through investment in eSports, which are spectator events in their own right. Operators can launch events and form eSports teams to compete worldwide.

Operators need enhanced capabilities in this market. They should be adept at selecting the right partners and pursuing acquisitions. They will need excellent market research and insight. Whether operators simply host video games or fully engage in their own game development, state-of-the-art network infrastructure will be essential.

THE GAMING INDUSTRY IS POWERING UP

Video games are a global cultural force. They are competing for individuals' leisure time with other entertainment activities like movies, books, and arts. The video game Grand Theft Auto V, for example, achieved seven Guinness World Records after its release in 2013, including a world record for US$1 billion of sales within three days of its release.[3] It is estimated that there are now 2.5 billion gamers worldwide. Gabe Newel, owner of Valve, a video game developer, publisher, and digital distribution company, mentioned that when an update is released on the company's Dota 2 game, the worldwide internet traffic grows by 2 percent to 3 percent.[4] Netflix has even said that Fortnite, the online video game, is a bigger threat than HBO.[5]

Just look at the GCC region. Describing the popularity of gaming in his country, *FIFA* player Mosaad Aldossary, known online as "Msdossary," said that "in Saudi Arabia, every family has a video gaming console." In 2018, Msdossary became the first Saudi national to win the *FIFA* eWorld Cup, an event for which more than 20 million gamers attempted to qualify. In 2019, gamers in Saudi Arabia are receiving a bonus: The country is hosting the region's largest global gaming tournament, *PlayerUnknown's Battlegrounds* (PUBG) *Mobile* Star Challenge World Cup.[6] Meanwhile, in the United Arab Emirates (UAE), for example, the median number of hours spent playing video games each week has reached 14 hours.[7]

The gaming industry has grown faster than anyone could have ever imagined. It is now a US$129 billion-a-year business. In terms of revenue, that is larger than annual worldwide box office, annual music streaming and album sales, and the combined annual take of the top five wealthiest sports leagues: the National Football League, Major League Baseball, the English Premier League, the National Basketball Association, and the National Hockey League.[8] Every sports league in the world is worried. For telecom operators, however, video gaming represents an opportunity to play in an area that has enjoyed massive growth in recent years.

Gaming is a comprehensive ecosystem in which global companies do business, and there are opportunities for individuals to make money. Live streaming is one of the main reasons video games have taken off, with gamers streaming themselves playing games in real time. Tyler Blevins, known online as "Ninja," is one of the most popular professional gamers. He earned more than half a million dollars a month at the height of his popularity.[9] Each day, fifteen million people watch gamers live stream on Twitch, the world's largest streaming platform. In this way, games like *Fortnite*, *PUBG*, and *League of Legends* are transformed into enormous sporting events.[10] In 2019, Kyle Giersdorf, known online as "Bugha," won the *Fortnite* World Cup and took home $3 million, even more than the money awarded to the male or female winners of the Wimbledon tennis championship.[11]

These are the headline-grabbing stories. What lies behind them is the core structure of the gaming business. This consists of a plethora of developers, distributors, monetization channels, and device manufacturers producing and enabling hit games across genres. It is this general context that telecom operators need to understand if they are to make the appropriate play in gaming, so that they can tailor their internal capabilities accordingly.

To envision the practicalities of how the gaming industry operates (*see Exhibit 1, pages 4-5*), think about EA Sports (a division of Electronic Arts that develops and publishes sports video games) releasing the latest *FIFA 2020* on mobile, consoles (Xbox and PlayStation), and PC. The game is distributed to the public online through app stores, digital media stores (for example, PlayStation Store), and other portals, or offline as CDs through retailers. These publishers enable monetization through in-app purchases or adverts, and maintain an online support presence for any technical issues gamers face. Thus, gamers can enjoy playing *FIFA 2020* on their device of choice.

Then there are the key complementary components of the industry. These include the ever-more-popular events and conventions such as gamescom and E3 that are popping up in cities around the world, showcasing the latest and greatest in gaming tech, and the thousands of online gaming communities such as Twitch and Reddit where users can stream their gaming reviews and walkthroughs and have access to game news.

Last but not least, there is the eSports industry, which has taken the world by storm. Here professional players and teams pit their wits against each other in competitive pro leagues and tournaments to win lucrative prizes.

Conventional wisdom says that an industry is on a major upward curve when the likes of Google and Microsoft seek to disrupt it. That is exactly what is happening with cloud gaming, which allows gamers to play sophisticated, "open-world" games directly on the web through streaming instead of downloading them onto their devices. With cloud gaming, gamers don't need to spend money on constantly updating gaming devices just to play the latest games, which is why even device manufacturers such as NVidia are investing in the cloud space as a hedge for the future.

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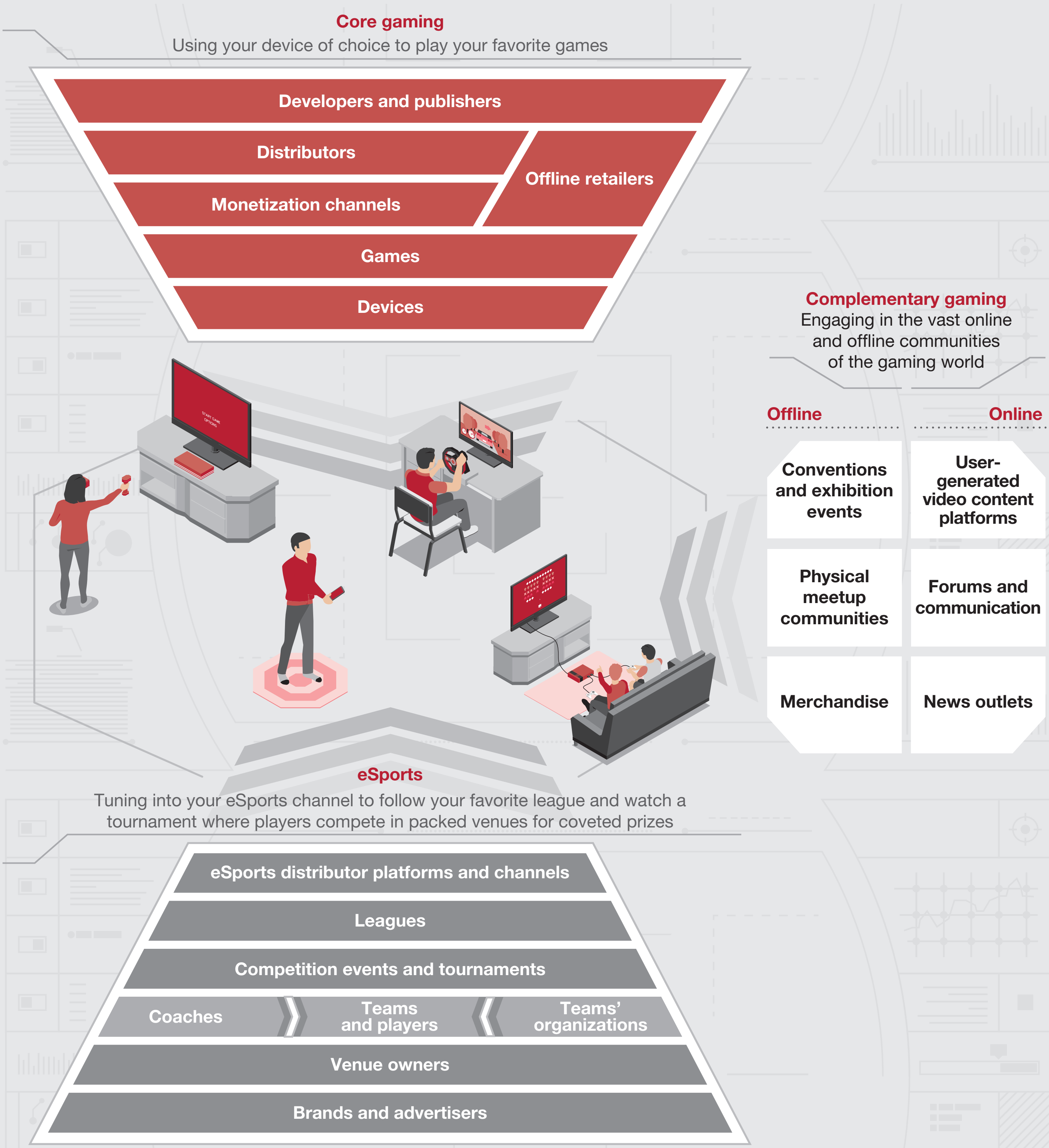
EXHIBIT 1
Gaming is a comprehensive ecosystem



Source: Strategy&

Core gaming

Developers and publishers	EA, Nintendo, Activision Blizzard, EPIC Games, Sony, etc.
Distributors	App stores (Apple Store, Google Play), OEM built-in (PS Store, Samsung, etc.), portals (Steam, Battlenet, etc.), cloud (Stadia, Hatch, etc.), etc.
Monetization channels	Online ad platforms, in-app or in-game purchases, etc.
Offline retailers	GameStop, Game Retail, etc.
Games	Action (*PUBG, Fortnite*); sports (*FIFA*); role playing (*Dota*); adventure (*Red Dead Redemption*); strategy (*StarCraft*); racing (*Need for Speed*), etc.
Devices	Mobile phones, tablets, PCs, consoles, VR sets, etc.

Complementary gaming

Offline	**Conventions and exhibition events**	E3, EGX, gamescom, GDC, etc.
	Physical meetup communities	Internet cafés, gaming venues, etc.
	Merchandise	Raven, EGL, H4X, Sector Six, etc.
Online	**User-generated video content platforms**	Twitch, YouTube Gaming, Mixer, etc.
	Forums and communication	Reddit, TeamSpeak, Discord, Esh, etc.
	News outlets	IGN, VB, The Score, etc.

eSports

eSports distributor platforms and channels	ESPN, Twitch, Mixer, etc.
Leagues	ESL, Overwatch League, League of Legends Championship Series, PUBG Global Championship, etc.
Competition events and tournaments	The International, Intel Extreme Masters, Overwatch World Cup, Fortnite World Cup Finals, etc.
Coaches	Game Coach, Gamer Sensei, etc.
Teams and players	N0tail JerAx, ana, etc.
Teams' organizations	Team Liquid, Cloud 9, etc.
Venue owners	Fukuoka Convention Center Foundation, Fusion Arena, Blizzard Arena, The Fortress, etc.
Brands and advertisers	Coca Cola, Redbull, Nissan, etc.

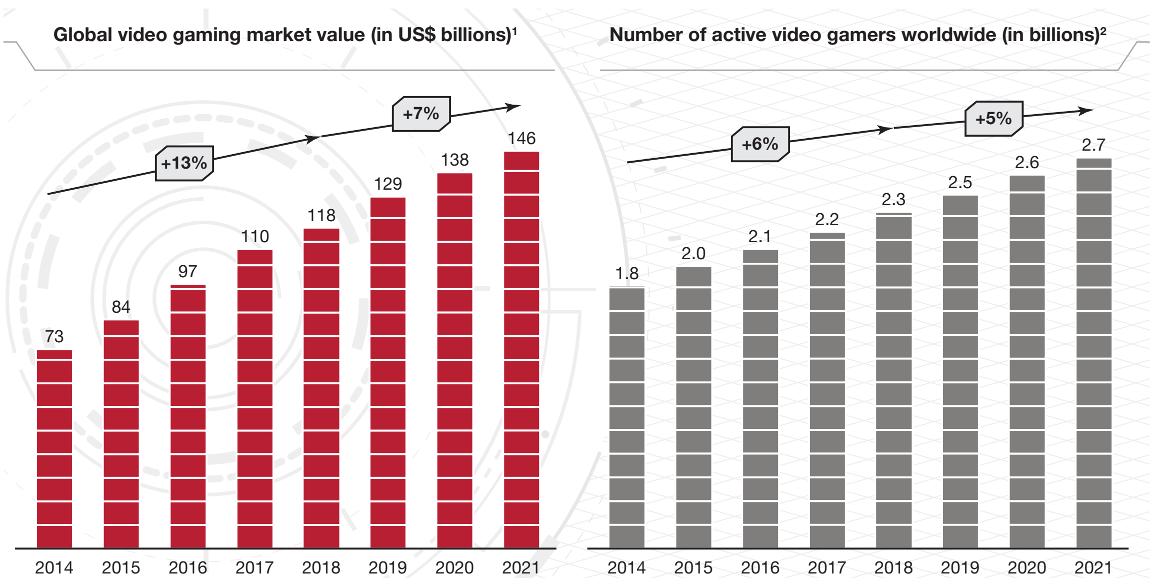
EYES ON THE PRIZE

Throughout the world, gaming revenue has seen strong growth in recent years, with the global market value forecast to increase from $73 billion in 2014 to $146 billion in 2021 (*see Exhibit 2*).

EXHIBIT 2

Game on!

Global gaming industry overview (2014–2021)



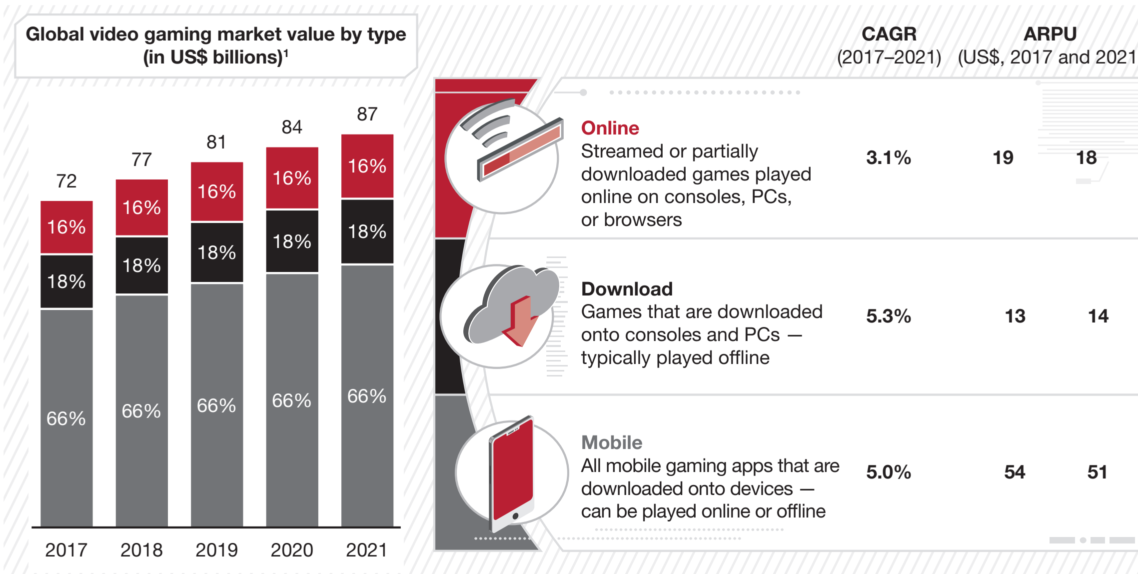
[1] PwC Global Entertainment & Media Outlook 2019–2023. 2014-2018 are actuals, 2019–2021 are forecasts.
[2] Statista. 2014–2017 are actuals, 2018–2021 are forecasts.
Note: Percentage increases are compound annual growth rates.
Source: PwC Global Entertainment & Media Outlook 2019–2023, Statista

Mobile gaming currently leads all gaming categories in value, and in average revenue per user (ARPU) (*see Exhibit 3*). Meanwhile, the online video gaming market should receive a considerable boost from the entry of players such as Microsoft and Google into the relatively small field of cloud gaming.

EXHIBIT 3

Mobile gaming is in the lead

Global gaming industry trend (2017–2021)



[1] Boxed video game sales, demo/trial versions, and free-to-play games are not included.

Note: 2017–2018 are actuals, 2019–2021 are forecasts from Statista. CAGR = Compound annual growth rate, ARPU = Average revenue per user.

Source: Statista; Strategy& analysis

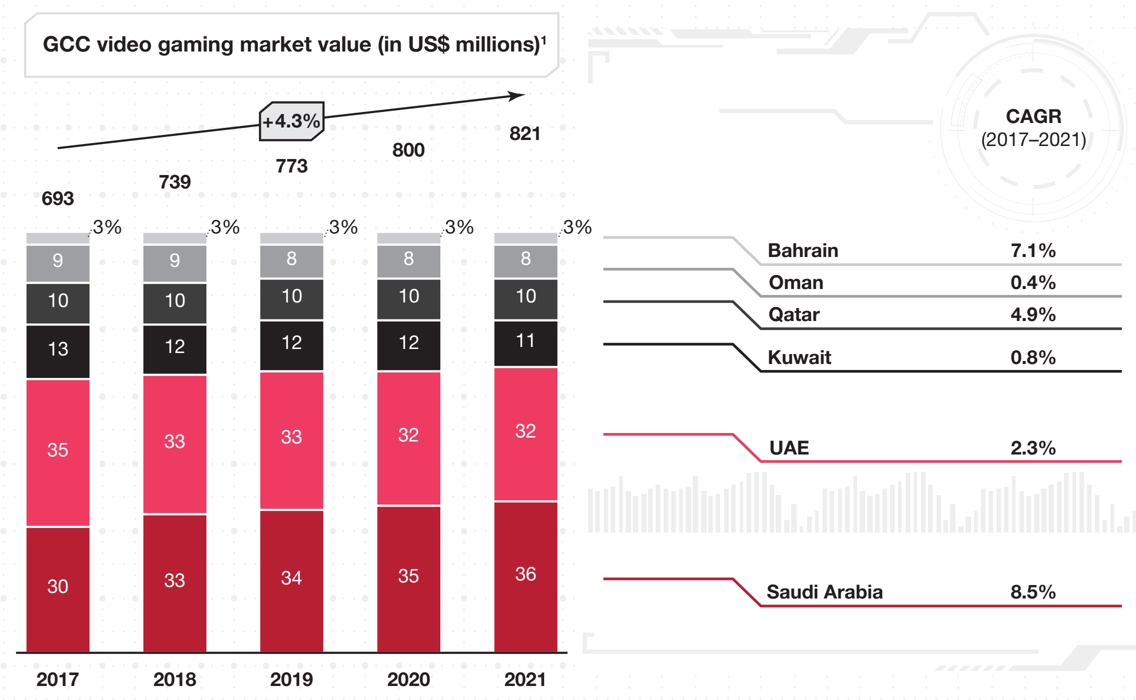
In terms of the complementary components of the industry, the eSports market is likely to undergo substantial growth from its currently low base. The acquisition of sponsorship, advertising, and media rights is projected to increase its annual global revenue to more than $1.7 billion by 2021, around 1 percent of the total gaming market.

In line with the overall global trend, the GCC gaming market has grown. Although the UAE was the largest gaming market in the region in 2018, Saudi Arabia is expected to expand rapidly and become the largest market from 2019 onwards (*see Exhibit 4*). As elsewhere in the world, the mobile gaming segment in the GCC dominates the region's gaming market when it comes to revenue and penetration.

EXHIBIT 4

GCC gaming is growing

Overview on video gaming industry in the GCC (2017–2021)



[1] Boxed video game sales, demo/trial versions, and free-to-play games are not included.
Note: 2017–2018 are actuals, 2019–2021 are forecasts from Statista.
Source: Statista; Strategy& analysis

Market research indicates that global games devised by international developers have captured the lion's share of opportunity in the GCC.[12] The top mobile games played in the GCC today are *PUBG Mobile*, *Intikam Al Salatin*, *Fortnite*, and *Rise of Kingdoms*. However, the demand for localized content remains strong and to an extent unfulfilled. This creates a potential for global players to modify their content to satisfy GCC users, or for GCC users to adapt global content themselves. Indeed, regional players such as gaming studio Falafel Games and Arabic mobile games publisher Tamatem Games have started to emerge through building on their culturally relevant content.

There is clear growth in eSports events, competitions, and investments in the GCC. New venues such as Challenge Arena and Clix gaming lounge in Saudi Arabia and the planned Dubai X-Stadium in the UAE have sprouted and established several competitions to date, suggesting an increase in popularity. Meanwhile, local eSports players such as Msdossary are posting world-class results.

EMBARKING ON THE QUEST

The size of this opportunity means that it is now game on for telecom operators. The timing of this opportunity could not be better. Telecom operators' core revenue streams are flagging and their markets are saturated. At the same time, they have to keep investing in infrastructure to cope with the tremendous increase in mobile data consumption. Making matters worse is disruption from over-the-top players and competitive pricing, which have contributed to the decline in overall revenue and ARPU.

Adding to the pressure, operators are seeking to satisfy rising consumer demand for more digital and sophisticated offerings, while countering the associated decline in customer loyalty. Telecom operators possess considerable advantages in infrastructure, brand awareness, access to a wide customer base, a developed understanding of customer behavior that enables analytical targeting, and a natural service fit where digital services can seamlessly complement existing telecom services. They have been searching for ways to use these advantages to invest in new potential areas of growth, such as media and entertainment, or financial services.

These challenges are similar to those that experienced gamers face. Stay on the same path, and eventually it is game over. Make a rash decision, a leap into the unknown, and the result could be just as bad. There is an alternative, however. A wily gamer knows when to explore a new path. Video gaming represents precisely that alternative approach for telecom operators.

These companies are already equipped to secure an immediate bridgehead by exploiting their existing capabilities, before then deciding whether to attempt further expansion. Although a successful foray into video gaming might not translate directly into a significant increase in their overall revenue, the indirect impact on financial performance is likely to be substantial over time. Strategy is not about instant gratification, but about a satisfying, long-term payoff.

There are major benefits for telecom operators that establish themselves in video gaming. Telecom operators should not expect visible incremental revenue in the short term but rather important intangible benefits with significant potential impact. The first benefit involves brand positioning. An association with video gaming would alter customer perceptions of the operator. These perceptions could change from seeing the company as a seller of digital services, necessary but uninteresting, to perceiving it as a provider of exciting and appealing gaming experiences. The change in brand perception would be most significant among the digitally adept younger population. It would make them more receptive to its offerings in general. With more than half of the population of the region under 25, these young customers, with their heavy consumption of data, are a valuable prize for operators.

The second benefit would be increased customer loyalty. If that younger population is impressed by the operator's venture into gaming, then this may increase their loyalty to the brand, thereby reducing customer churn. In an era in which traditional telecom services are becoming increasingly commoditized, loyal customers are like the pot of gold at the end of the game.

The third benefit would be a higher ARPU, driven by dedicated consumer gaming products and services, typically around quality of service. The overall video gaming ecosystem would further increase data usage, the main growth area among operators' core revenue streams, further offsetting declining sources of income, such as voice calls.

The fourth benefit would be that operators would get to know their customers much better. Growth in customers using gaming offerings will generate greater amounts of data relating to customer behavior. Operators will be able to target offerings and provide an improved customer experience. This means operators extracting more value from interactions with existing customers.

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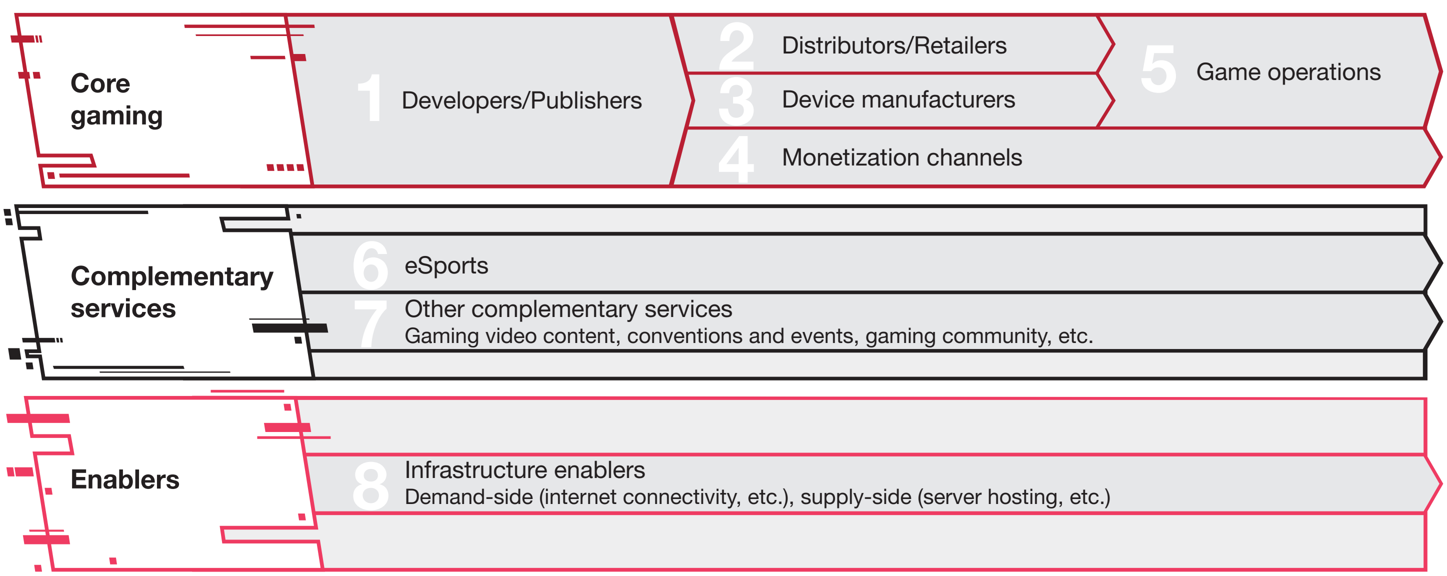
HOW TO PLAY THE GAME

Like an actual game, the video gaming value chain involves multiple, different players. Operators need to understand these players so that they can build their own ways to play, and their own ways to win in this growing market.

For the core gaming part of the industry, there are developers and publishers, distributors and retailers, and device manufacturers. In the complementary part, the largest element is eSports, which consists of such components as teams and leagues, event organizers, distributors, gaming platforms, and advertisers (*see Exhibit 5*). Then there are the components of other complementary services, such as online media portals for gaming video content, conventions centered on gaming, and facilities for gaming community interaction, such as gaming cafés and social media.

EXHIBIT 5

A telecom operator's view of the gaming value chain



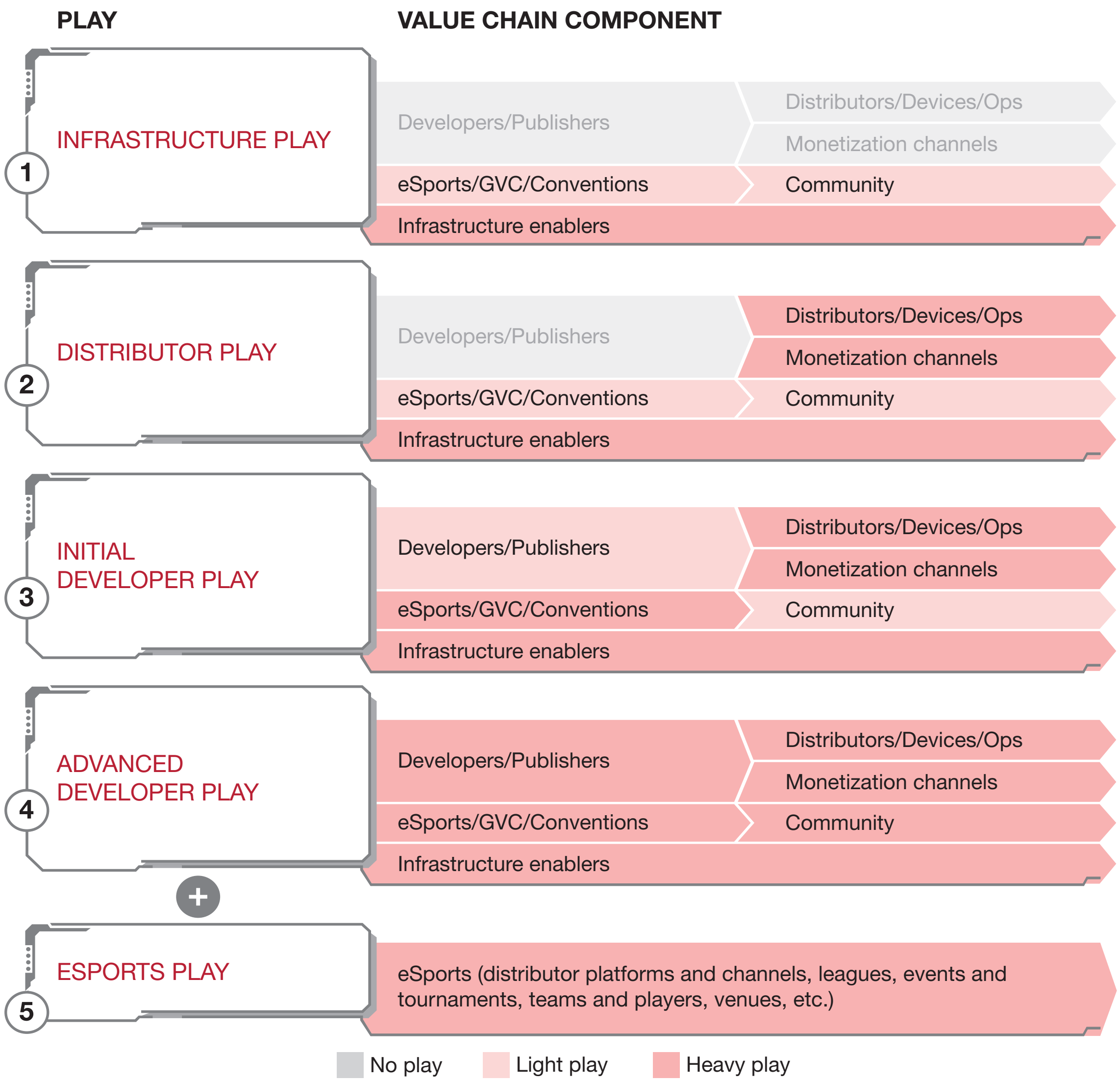
Source: Strategy&

Finally, there is the infrastructure layer — operators' bread and butter — which enables the demand for, and the supply of, video gaming.

There are numerous ways to play and as many to win. Telecom operators have the choice of four different ways to play along the value chain for core activities, plus an additional way to play that focuses on launching eSports entities (*see Exhibit 6*).

EXHIBIT 6

Telecom operators have five ways to play



Note: GVC = Gaming video content.
Source: Strategy&

Infrastructure play

Providing enhanced connectivity through infrastructure is the simplest way to play for operators. It is also the safest and least ambitious. Operators can supply data packages offering better quality of service (lower latency) for gamers, potentially bundled with gaming hardware, content, and online platform subscriptions. Many leading companies around the world, including in Malaysia, Singapore, and the U.S., have already taken this path. Operators can also co-locate and host the servers of top developers to enhance the user experience for gamers. Supplying connectivity to major eSports events is another way operators can associate themselves more closely with the gaming community.

Distributor play

Building on the infrastructure play, operators can create partnerships with leading gaming companies. This allows customers access to exclusive game releases or in-game advertisements of the operator's own products. It also enables direct carrier billing (DCB) for popular games, making it possible for users to complete in-game purchases by charging payments to their phone bill, as is done throughout the world for apps from Google Play[13] or the Apple Store. As cloud gaming develops, operators are partnering with cloud gaming service providers to distribute their platform. For example, Etisalat joined forces with Gamestream to offer cloud gaming services to its customers. Moreover, operators can share eSports content on their streaming platforms to enrich their portfolio. They can also sponsor and engage in eSports tournaments and gaming conventions, as well as pursue efforts to improve brand perception, such as through in-store initiatives. For example, SK Telecom in South Korea partnered with Niantic, Pokémon Go's developer company, to rebrand 4,000 of its stores through Pokémon and deploy Augmented Reality to boost customer interest.[14]

Initial developer play

The next stage involves close partnerships with developers. The goal is to make gaming content more relevant for GCC subscribers. That can mean translating games into Arabic, or adapting images and the storyline to the GCC culture. This is particularly relevant to GCC operators, given cultural sensitivities that lead to certain top games not being allowed in some markets. This play would also see a more robust entry into complementary services, such as hosting tournaments and gaming conventions. For example, Verizon entered the eSports arena by hosting a tournament in Dallas in 2015.[15] NTT Docomo, the Japanese operator, sponsored the game event EVO Japan in 2019, showcasing its new partnership with a major gaming company as well as its plans for 5G.[16]

Advanced developer play

This play entails the operator developing and launching its own games and products. At this stage, the operator is confident and ready to take on the dominant players. Like gamers who have earned their stripes, now is the time to be bold. For example, Indonesian wireless network provider Telkomsel launched *Shellfire*, a popular mass online battle arena and first-person shooter game, utilizing its own distribution network to promote the game to users. Turkcell, the Turkish operator, introduced digital board games on gaming platforms through its subsidiary Inteltek. In this play, the operator enters into partnerships only to secure solutions needed in respect of distribution, monetization, and gaming devices. Operators can achieve a still more forceful entry into the complementary market by launching online communities and Internet cafés. Dunia Games, Telkomsel's online gaming portal in Indonesia, offers articles, reviews, trend reports, and information on eSports events.

eSports play

The eSports arena lies outside the core of the video gaming industry. For this play, the operator will need to invest heavily by launching its own events and building its own eSports teams to compete worldwide. This would position the operator at the forefront of the gaming ecosystem and the minds of its customers. For example, Mobile TeleSystems (MTS) in Russia acquired Gambit eSports, an owner of four eSports teams, for approximately $5 million in 2018, while AT&T now owns ELeague, an eSports league, through its acquisition of the league's parent company, Time Warner.[17] Movistar eSports, owned by Telefónica, aims to become the largest provider of Spanish-speaking eSports content.[18]

Operators can make use of various business models to implement these ways to play:

- Partnerships with gaming companies to access their gaming development capabilities and offerings
- Partnerships with other telecom operators to make use of each other's capabilities and assets, and jointly utilize channels to expand the popularity of regional eSports
- Strategic investments in gaming companies (for example, through purchasing shares or funding), with the operator obtaining access to their gaming portals in exchange
- Acquisition of a gaming company, thereby gaining access to its subscribers
- In-house gaming development by the operator itself

OPERATORS' CREED: THE WAY FORWARD

The gaming prize is tempting but risky. Operators need to play their way forward with care and craft. They need to develop a road map that marries their ambitions with available capabilities. As they acquire experience and market knowledge, they will progress in the gaming market, proceeding to the next level. To do so, operators will need to set realistic short-term goals, medium-term ambitions, and a long-term vision.

The first goal for operators should be to earn some gaming credibility with gamers. That means associating their brand with gaming so that customers immediately think of games when they encounter the operator's brand. To date, this has usually been achieved through the distributor play. Building credibility entails providing services and content to gamers through exclusive releases, dedicated bundled packages and integrated payment services, and engaging in eSports events or sponsorships. Such activities do not require significant direct investment. Instead, these objectives could be achieved largely through partnerships with companies in the gaming industry.

Once they have established some credibility, operators can start to become familiar with the developer side of the value chain through the initial developer play, rather like gamers feeling their way through a new scenario. In this way, they can consolidate their position in the gaming ecosystem by working with partners to launch some simple games, or make some highly popular games more relevant to local audiences. They can push their eSports agenda through the acquisition of content or teams or entities. They could also contemplate some limited investment in their own development capabilities at this stage.

With these ventures completed, operators should have established the requisite level of trust with customers. They should have acquired a nucleus of loyal gamers happy to associate themselves with the brand. Should they decide on further expansion at this point, they can commit themselves to developing their own games. At this level, they will compete with global game publishers (*see Exhibit 7, page 16*). The vision of dominating the gaming market and community within their own region could then become a realizable ambition. Telkomsel offers one example of a company that has moved successfully through the various stages to establish itself as a major player in the gaming industry (*see "Success mode in Indonesia," page 16*).

EXHIBIT 7
The way forward for telecom operators

Source: Strategy&

Success mode in Indonesia

Telkomsel is a leading Indonesian telecom operator that established itself successfully as a leader in consumer gaming. It started off in the industry as a distributor with the launch of its Dunia Games web portal in 2013, allowing customers to download games and directly charge them to their phone bill through DCB. Then in 2017, in an initial developer play, Telkomsel partnered with games such as *PUBG* to activate special in-game offers for customers subscribed to their dedicated online games data package.

Finally, it successfully launched its first mass online battle arena and first-person shooter game, *Shellfire*, in 2018 — with plans to develop seven additional games. All throughout, Telkomsel was increasingly active on a complementary front, boosting its Dunia portal with gaming articles, reviews, and trend reports, launching the Indonesia Games Championship eSports tournament, as well as introducing special advertising initiatives in local gaming communities. By 2019, Telkomsel achieved a 22 percent market share of Indonesia's gaming industry.[19]

LEVELING UP

Gaming success will depend on getting capabilities right. Recognizing the enticing market opportunity of a young GCC customer base is important, but attracting those customers will require considerable skill.

As newbies in the video gaming market, telecom operators will need to make use of their various existing capabilities, such as infrastructure, a broad customer base, an established brand, and strong distribution channels. A high-performing operator would also be able to tap into numerous other invaluable capabilities that have been built up over the years. These would include strong marketing expertise, a superior analytics team, advanced payment options, and high-quality customer care.

As they become further immersed in the industry, operators will need to develop their internal capabilities further to meet customer needs. First, they will need to develop a cross-functional operating model for gaming, as it requires collaboration throughout the organization. This would involve defining and demarcating roles and responsibilities, setting key performance indicators for each gaming initiative, and ensuring the transfer of gaming knowledge between business and functional units. Second, operators will have to recruit top talent for gaming, including gaming-oriented marketing and customer support teams. Third, where necessary, they will have to upgrade technology requirements for specific gaming initiatives, such as server capabilities. Whether acting as hosts for other gaming companies or developing and marketing their own games, an advanced state-of-the-art network infrastructure delivering superior quality of service (lower latency) will be a vital requirement, either through fiber-to-the-home connectivity or through 5G mobile technology.

Operators will also need the appropriate capabilities to take on the complementary components of gaming, most notably eSports. These would include prudent selection of events to sponsor, access to funding for acquiring and operating an eSports team, skills for setting up and managing tournaments and events, and ability to bring together sponsors and renowned players. To promote their eSports streaming offerings, operators will also need access to premium and attractive content, most notably from popular gamers and streamers.

Building or developing such capabilities need not occur organically. The ability to select the right partners, or even acquisitions, across the value chain will be crucial. A venture into cloud gaming will require partnerships with cloud developers. Making top-quality games relevant for regional audiences calls for partnerships with top game developers and localization experts. If operators move into developing and launching their own games, access to partners with game development capabilities and more diverse distribution channels will be necessary. At all stages of their development, operators will rely on market insight into the various areas of the gaming industry, and will thereby be able to determine their own readiness and chances of success.

CONCLUSION

The video game niche is a tremendous opportunity for GCC telecom operators. Like gaming itself, exploiting that niche demands skill, patience, and the right strategy. Operators can use gaming to improve their brand positioning and connection to young customers. They can test their own suitability for the gaming industry by progressing steadily and with caution in the first instance. In time, they may wish to advance more aggressively, even developing and launching their own games. Each stage of this process requires a reappraisal of internal capabilities, and further investment may be required to address any potential shortcomings for the next phase of development. Just like a complex game, operators may find the gaming market baffling at first, but in time they will grow in confidence. At that point, they will be on course for victory.

ENDNOTES

1. The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

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