

Cloud Gaming: In Search For Business Opportunities

September 2022

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The focus of this research is to **determine the current state of cloud gaming services**: its main challenges, prospects, direction of development, as well as monetization trends and opportunities. In order to do that, we reached out to gaming companies, industry experts, and also conducted a survey among 1,500+ gamers to evaluate the current state of the cloud gaming market.



Market Overview

The modern cloud gaming ecosystem not only includes large gaming companies, but also innovative independent cloud gaming providers that are also making a name for themselves. The growth of cloud gaming over the last 2 years is undeniable. 21.7 million paying users helped the market generate \$1.5 billion in 2021. This yearly revenue will quadruple in 2024.¹ Market trends:

- Hardware in data centers is an important differentiating factor;
- Cloud gaming is coming to TVs;²
- Small cloud gaming services are taking giant steps;
- The market is – and will continue – consolidating via M&A and investment;
- More large media and entertainment companies will likely get involved.



Monetization Strategies

PAGES: 6-7

Major cloud gaming services use subscription monetization models. One of the main advantages of this is the ability to have a wide range of games. The subscription model brings the most revenue of all cloud gaming delivery models.

22%

of gamers would rather pay for a subscription

*according to the 80 Level gamers survey

The pay-per-minute model is a way to provide cloud services at a lower cost for players. Paying by the minute also works better for developers who only have one game on the platform.

32%

of gamers prefer to pay as-they-go

*according to the 80 Level gamers survey

Interviewees said that cloud gaming services could even be offered to users for free, but with embedded advertising instead of direct payment for the service.



Advantages for gamers and gaming companies

PAGES: 8-10

For gamers: During the pandemic, many cloud gaming value propositions have emerged or become more visible. Cloud gaming's use cases for gamers include:

- Playing game demos in a subscription service before downloading them.
- Minimizing the download sizes of high-fidelity mobile games, saving precious storage space;
- Being able to have the same experience playing a game on devices with different hardware capabilities;
- Experiencing high-end and supply-constrained gaming hardware for a fraction of the cost.

78%

of gamers update their hardware less often than once in 3 years

*according to the 80 Level gamers survey

For gaming companies: Cloud gaming services are a powerful discoverability tool for developers. According to Microsoft statistics, Xbox Game Pass players who use cloud services discover and play nearly twice as many games as Xbox Game Pass members who don't play on the cloud.

The cloud gaming market is very promising for mobile game studios. Cloud technologies help studios to implement in-game purchases outside the App Store and Google Play. For example, now.gg, as a mobile cloud gaming platform, is very interested in cooperation with a payment provider like Xsolla. (Cyrus Li. Director, Strategy and Partnership. now.gg)



Risks for Gaming Companies

PAGES: 10-11

Interviewees do not believe in the idea of cloud gaming being provided on game studios' websites, as they generate very low traffic and are mostly used for nationalizing and advertising.

7%

of gamers discover and buy new games on a developer's website

*according to the 80 Level gamers survey

Interviewees mentioned that only big game studios could try to provide cloud gaming via their websites. Indie and mid-tier studios' websites could be less trustworthy to gamers due to the increased risk of payment fraud. Mid-tiers and indies will prefer more reliable methods and enter cloud gaming through major services.



The Future of Cloud Gaming

PAGES: 12-15

Users of a cloud gaming service would have a positive experience in the presence of several factors: a high Internet speed, a stable connection, and being closely located to the cloud servers. The majority of gamers have an opportunity to meet all these requirements.

72%

of gamers have 100+ Mbps internet connection speed

*according to the 80 Level gamers survey

Fast Internet has become more and more accessible worldwide. With the development of Wi-Fi 6 and 5G, people now have a better Internet connection, so it is a promising time for cloud gaming services.

50%

of gamers have 5G network in their region

*according to the 80 Level gamers survey

However, immersive disrupting technologies like cloud gaming take some years to gain mass adoption.

32%

of gamers actually use 5G network

*according to the 80 Level gamers survey

Interviewees speculate that cloud services are going to replace traditional PC and console gaming where you have to download games onto your device's storage. With the release of Web 3.0, blockchain games will be more popular; these games will "break the wall between the space we are living in and the space inside the computer." (Cyrus Li. Director, Strategy and Partnership. now.gg)

Two vectors to keep in mind for cloud gaming optimization:

1. When developing a new platform, more branding of the payment services and platform should be delivered;
2. Put cloud gaming services into more demanding products like adult entertainment streaming services.

Experts in the cloud gaming area use a very optimistic language when it comes to the question of association-building: **promising, inevitable, diverse, popular, enjoyable**, as well as **demanded by people** and **essential** for them.

Whom did we interview?

**Cyrus Li**

now.gg
Former Business Development

**Sebastien Motte**

QUANTIC DREAM
Director, Third Party Studios

**Ivan Tyumenyev**

MetaEditor.io, Unrealos Inc.
Founder & CEO

**Mark Effect**

MetaEditor.io, Unrealos Inc.
CPO

**Alexander Boronin**

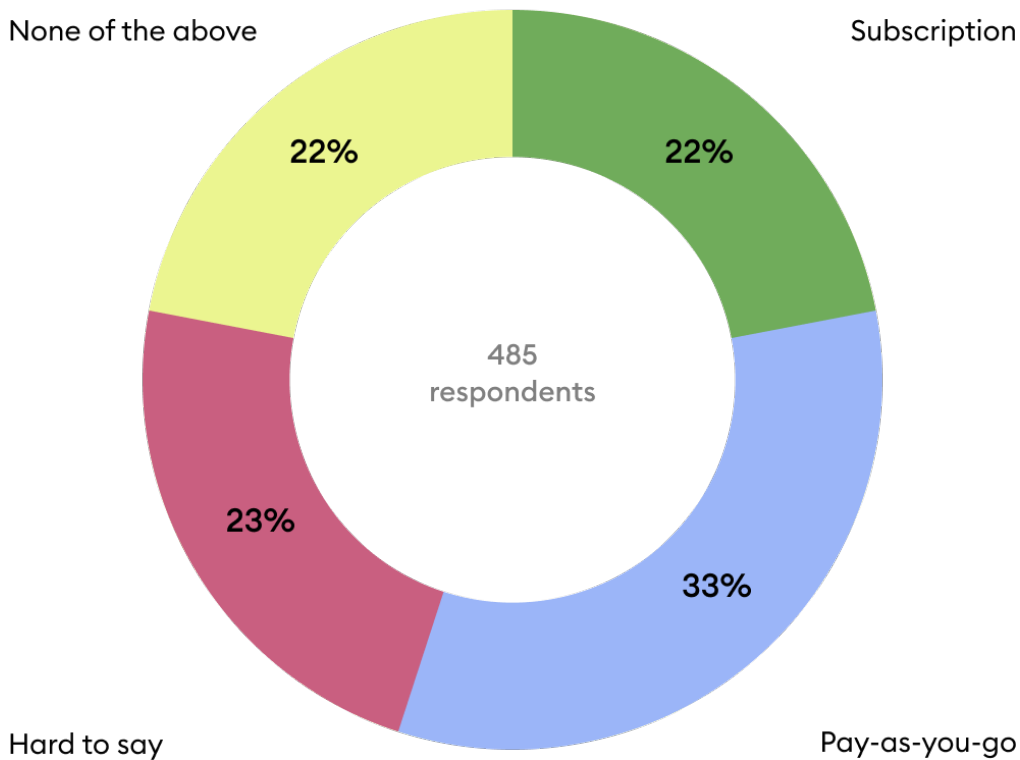
CollectiveWeb
CEO

Key Takeaway #1: Monetization Strategies



Major cloud gaming services use subscription monetization models. One of the main advantages of this is the ability to have a wide range of games. The subscription model brings the most revenue of all cloud gaming delivery models.

Would you rather prefer to subscribe for a cloud gaming service or pay-as-you-go?



The pay-per-minute model is a way to provide cloud services at a lower cost for players. Paying by the minute also works better for developers who only have one game on the platform.

Interviewees said that cloud gaming services could even be offered to users for free, but with embedded advertising instead of direct payment for the service.

Ivan Tyumenyev
MetaEditor.io, Unrealos Inc.
Founder & CEO

Mark Effect
MetaEditor.io, Unrealos Inc.
CPO

The monetization model depends on users' mentality. For example, Americans prefer subscriptions whereas other nationalities might prefer another model.

**Cyrus Li**

now.gg
Former Director, Business Development

Users are very sensitive about paying for subscriptions — and time. The company could help developers grow and get more revenue by promoting them in the studio's channels, and then developers will share revenue with the company.

Charging users for how long they play can create a barrier for users to enter the platform because people don't want to pay to play games online; they can download games for free. But users don't take into account that they have to pay for cell services.

**Sebastien Motte**

QUANTIC DREAM
Director, Third Party Studios

One way you can bring new consumers to your platform is to offer free trials or any kind of mechanism which will help them decide whether to subscribe or not. But Sebastien doesn't really see payment per minute working effectively from a consumer standpoint.

If you run into the scenario where someone wants to play a specific game, then maybe payment per minute could work.

The reason Microsoft's service is successful is because they are combining both the subscription system with cloud delivery. It's very powerful for customers because they don't have to wait for, say, two hours for a game to download to their device. Game Pass holders have games not on their devices, but stored on the cloud.

Some users discover games through cloud subscription services (like Microsoft's Game Pass) and decide to buy them outright, so there is some conversion. But that's more of a link to the service itself (the Game Pass feature) rather than cloud gaming. Cloud gaming is another way to expand the different possibilities to play a game and have more entry points. For example, if you don't have a console, you can play on a laptop with a controller or on a tablet.

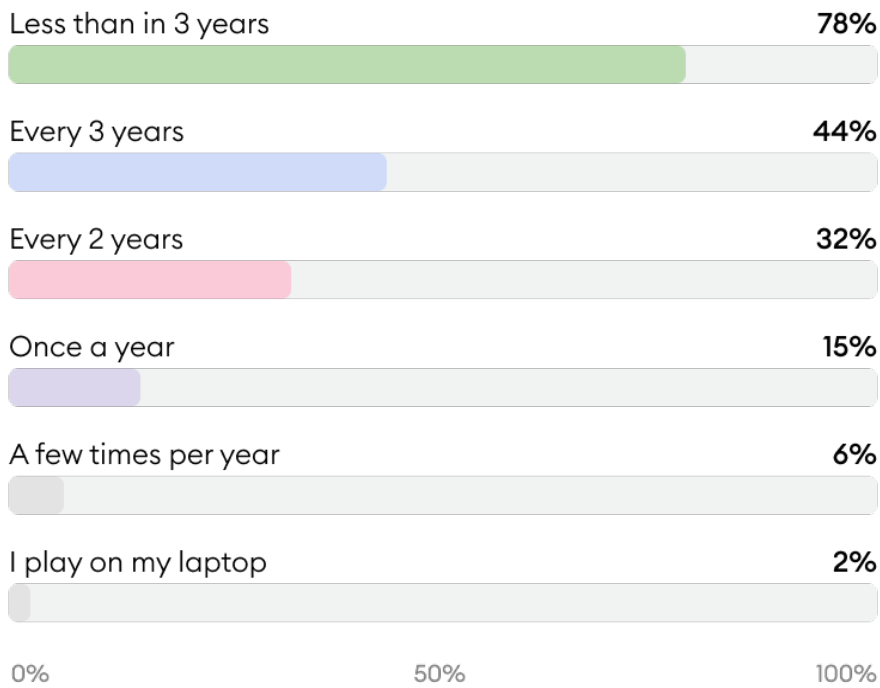
Key Takeaway #2: Advantages for gamers and gaming companies



For gamers: During the pandemic, many cloud gaming value propositions have emerged or become more visible. Cloud gaming’s use cases for gamers include:

- Playing game demos in a subscription service before downloading them.
- Minimizing the download sizes of high-fidelity mobile games, saving precious storage space;
- Being able to have the same experience playing a game on devices with different hardware capabilities;
- Experiencing high-end and supply-constrained gaming hardware for a fraction of the cost.

How often do you update your computers hardware (e.g. CPU, RAM, etc.)?



For gaming companies: Cloud gaming services are a powerful discoverability tool for developers. According to Microsoft statistics, Xbox Game Pass players who use cloud services discover and play nearly twice as many games as Xbox Game Pass members who don’t play on the cloud.

The cloud gaming market is very promising for mobile game studios. Cloud technologies help studios to implement in-game purchases outside the App Store and Google Play. For example, now.gg as a mobile cloud gaming platform is very interested in cooperation with a payment provider like Xsolla. (Cyrus Li. Director, Strategy and Partnership. now.gg)

**Ivan Tyumenyev**MetaEditor.io, Unrealos Inc.
Founder & CEO**Mark Effect**MetaEditor.io, Unrealos Inc.
CPO

There are a lot of advantages of cloud gaming technology:

- Users don't need to buy an account;
- Payment only for the use of games and graphics servers;
- Cloud gaming is available on any device;
- Users can change their devices and continue to play;
- There aren't failures in the functionality of this technology;
- Support from game companies can be reduced due to cloud gaming.

**Alexander Boronin**CollectiveWeb
CEO

Cloud gaming gives an opportunity to get access to games that will not work on your computer. You don't need to buy a new one: You can just pay some money to the service and play the game you want to play without having to worry about hardware compatibility.

Cloud gaming makes it possible to give the user the same experience as if they were playing on a very powerful computer, especially if their Internet connection is stable. It is much cheaper than buying a computer.

**Cyrus Li**now.gg
Former Director, Business Development

Cloud gaming saves on phone storage space. It also gives you a better gaming experience on all kinds of platforms. For example, if you have a somewhat outdated phone that doesn't support the best graphics, cloud computing can solve that by using emulations of a specific environment.

Mobile games don't take up much space in the cloud because they are relatively small compared to PC and console games.

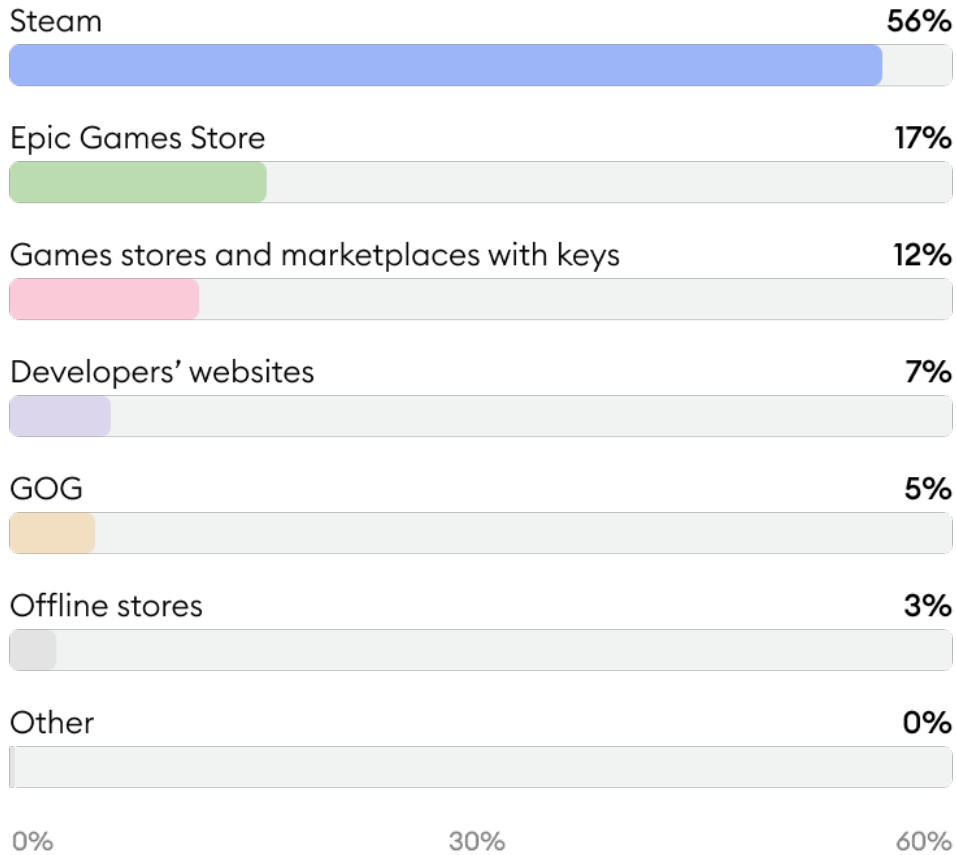
Cyrus thinks cloud gaming should be with the upcoming technology, the current or latest might still need some work to perform at its finest.

Key Takeaway #3: Risks For Gaming Companies




Interviewees do not believe in the idea of cloud gaming being provided on game studios' websites, as they generate very low traffic and are mostly used for nationalizing and advertising.

Where do you usually purchase PC games?




Interviewees mentioned that only big game studios could try to provide cloud gaming via their websites. Indie and mid-tier studios' websites could be less trustworthy to gamers due to the increased risk of payment fraud. Mid-tiers and indies will prefer more reliable methods and enter cloud gaming through major services.



Cyrus Li
now.gg
Former Director, Business Development

Cyrus believes that the studio can create a sense of security when working with third-party service providers through joint marketing and learning.

Most developers are confused when something new comes up. Very large companies are developing their own cloud platforms, but medium-sized and small developers are confused (regarding things like the use of specific features, compatibility of the game with all devices, monetization of the platform, etc). Cyrus notices that the studio is quite open to questions from developers.



Sebastien Motte
QUANTIC DREAM
Director, Third Party Studios

If we're talking about giving the user away to a cloud gaming platform that allows them to play immediately on the company's website, this method isn't valuable because, at the end of the day, gamers only go to a few places. Quantic Dream has its own store, but it's more for nationalizing. When it comes to selling the game, the company redirects to Steam or the Epic Games Store.

I don't think it makes sense for game developers or publishers to provide their own white-labeled cloud solution on their website. Most of them (except maybe for the top 5 publishers) don't get enough traffic on their site to justify the investment. They need the funnel of a major marketplace to acquire users.

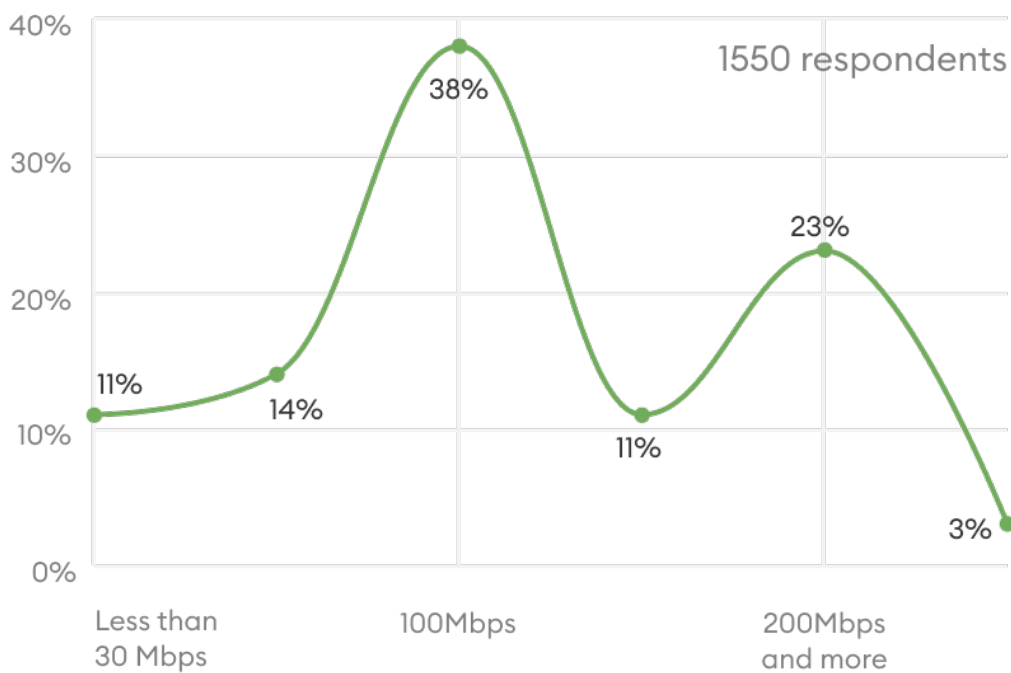
Quantic Dream can't allow users to play on their website through cloud gaming technology because it is necessary to cut a deal with a cloud platform, but it is not going to license to the company just for a few games as an independent publisher. "They want you to come to their service rather than letting you do it on your own."

Key Takeaway #4: The Future of Cloud Gaming



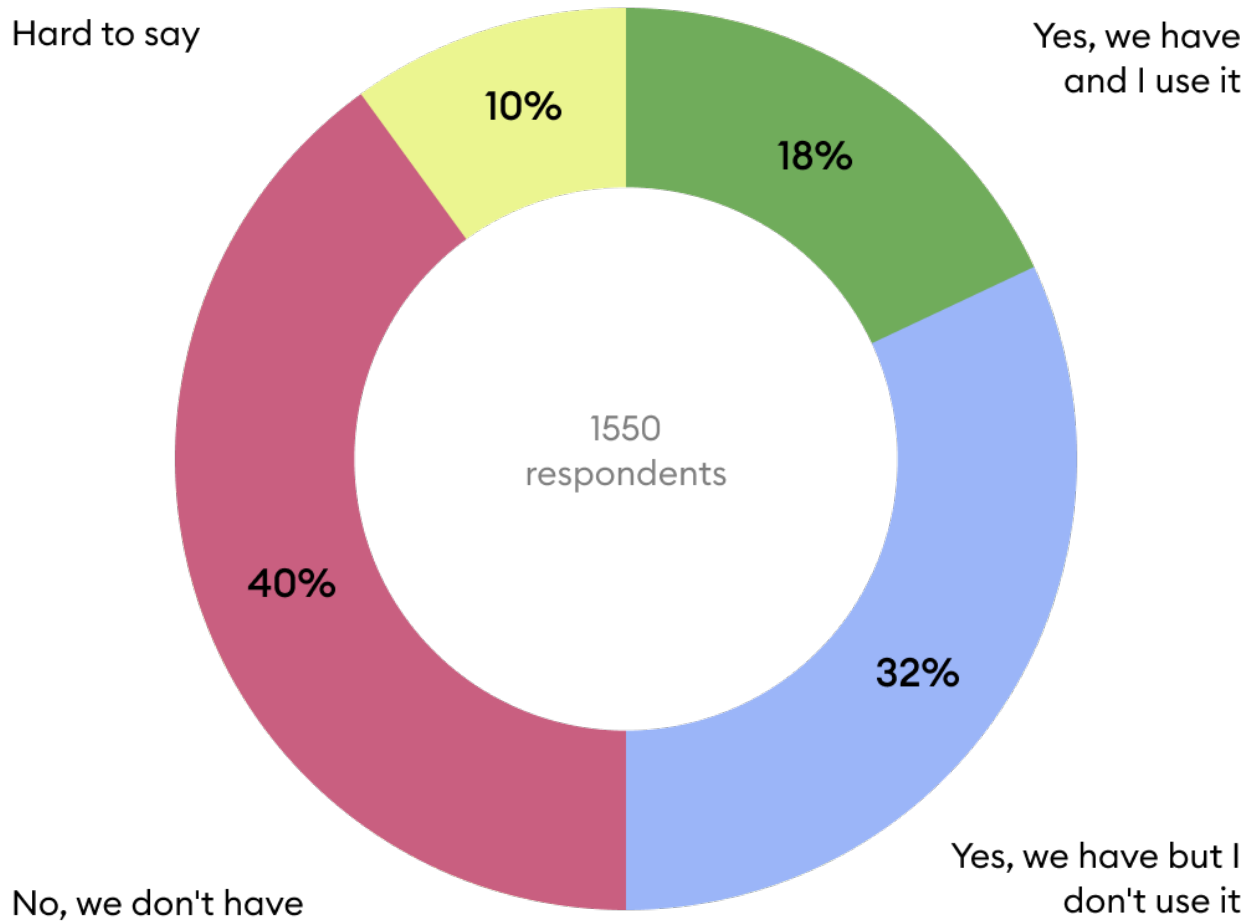
Users of a cloud gaming service would have a positive experience in the presence of several factors: a high Internet speed, a stable connection, and being closely located to the cloud servers. The majority of gamers have an opportunity to meet all these requirements.

What is your average internet connection speed?



Fast Internet has become more and more accessible worldwide. With the development of Wi-Fi 6 and 5G, people now have a better internet connection, so it is a promising time for cloud gaming services.

**Do you have a 5G network in your region?
If yes, do you use it?**



However, immersive disrupting technologies like cloud gaming take some years to gain mass adoption.

Interviewees speculate that cloud services are going to replace traditional PC and console gaming where you have to download games onto your device's storage. With the release of Web 3.0, blockchain games will be more popular; these games will "break the wall between the space we are living in and the space inside the computer." (Cyrus Li. Director, Strategy and Partnership. now.gg)

Two vectors to keep in mind for cloud gaming optimization:

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Experts in the cloud gaming area use a very optimistic language when it comes to the question of association-building: **promising, inevitable, diverse, popular, enjoyable, demanded by people and essential** for them.

Popular
Inevitable
Demanded
Promising
Essential
Diverse
Enjoyable

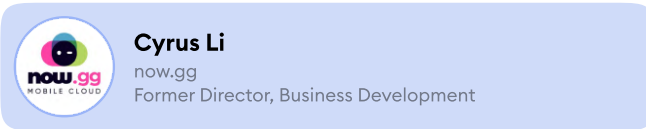


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There is an assumption that graphics data centers be developed locally in order to reduce server access time and reverse rendering time for users.



Cyrus Li
now.gg
Former Director, Business Development

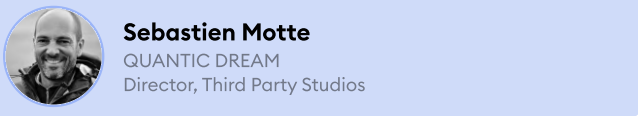
This is a very good time for the company to publish a cloud gaming platform for developers whose players will enjoy a large package of games on the cloud instead of having to install them on their phone.

With the development of mobile devices and Internet connection speeds, cloud gaming will be inevitable for both traditional Web 2.0 games as well as blockchain games in the future.

In the future, people will enjoy the diversity and connectivity of games because, with the coming of Web 3.0, blockchain games will be more popular. Users will cross different kinds of environments on cloud gaming without any barriers or device requirements. So, blockchain games will “break the wall between the space we are living in and the space inside the computer.” It is a point of convergence in the gaming industry as we move everything into the cloud.

There could be a rise of AI in the future, and AI could possibly have emotions and minds. It depends on what people are doing right now, but it really seems like they are headed in that direction.

To make a new platform essential for people to use, you either need more branding of both the payment services and platform, or at least one of them. The company can also put their services into more demanding products. You will get success either way, but the cost of promotion is very high in this scenario.



Sebastien Motte
QUANTIC DREAM
Director, Third Party Studios







Undoubtedly, cloud gaming will be scaled up and Microsoft will move into the future in cloud technology. This company already has a deal with Samsung, so users who have new Samsung devices are able to play any Xbox game. There is also a rumor that they are developing a TV stick. Sebastien is sure that cloud technology is going to replace everything, and he notices that the combination of Game Pass and cloud gaming is super powerful.


References

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2. Samsung and Microsoft Partner to Bring The Xbox App to Samsung Gaming Hub on Neo QLED 8K/4K, QLEDs and Smart Monitor Series // URL: <https://news.samsung.com/us/samsung-microsoft-partner-xbox-app-samsung-gaming-hub-neo-qleds-smart-monitors/>

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