IAMAI
INTERNET & MOBILE ASSOCIATION OF INDIA

Online Gaming India- 2007

The Baseline Report

March 2007

A Report by e Technology Group@IMRB
For The Internet & Mobile Association of India

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Preface

"May you be born in interesting times"

-Ancient Chinese saying

At this point in time, it certainly holds true for the online gaming industry in India.

It is equally true for those who study online gaming. This category is so nascent in India that one of the aims of the study was to "lay down a clear definition for the industry"

This report therefore, is a landmark in more ways than one. Not only does it set up an overall context for understanding the variables influencing this exciting industry, it also takes a step forward to list key actions which will lead to faster growth.

At this early growth stage of the market, this report would be equally useful for the general reader and for market stakeholders looking for directional clarity.

We hope that you enjoy reading this as much as we enjoyed working on it.

Methodology

The research team at e technology Group@IMRB conducted extensive desk research for this report. The team also spoke to a cross section of stakeholders from gaming portals, traditional portals and game development studios.

The internet data presented in this report is from the I Cube 2006 reports from e Technology Group@IMRB. These annual syndicated set of reports on the Internet market in India are based on a large scale primary survey covering 65,000 individual across 26 cities in India.

The estimate for current market size is based on depth interviews and market understanding.

Executive Summary

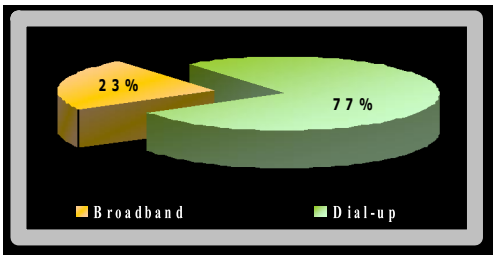
Online gaming is the newest addition to the gaming ecosystem in India. Electronic gaming in India started way back with consoles & increasing PC penetration helped offline gaming also grow. This was further helped by widespread piracy leading to cheap & easy availability of game CDs. Recently mobile gaming has done wonders in adding up numbers and creating an entire game development ecosystem of content developers and aggregators in India. The success of mobile gaming is being seen as an indicator for the potential of online gaming in India

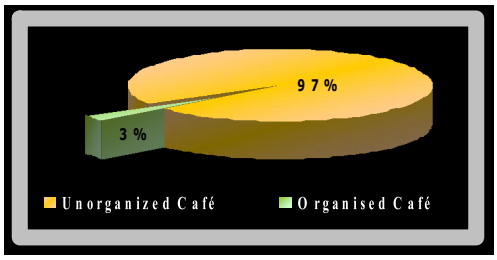
Online gaming in India is at a very nascent stage in India. It has traditionally been associated with mainstream portals like Yahoo! & MSN. For these, gaming has not been a focus area but merely another application for engaging users when they are looking for some quick entertainment. The engagement level of most users has also been low with infrequent usage and indifferent loyalty.

Now all this is changing with the spotlight sharply focused on online gaming. This has been made possible with the convergence of several market development within a short period of time. There have been high profile launches and cases of forward integration with development studios moving into a consumer facing role. The international market has also woken up to the potential that India offers with global publishing giants setting up shops in India.

This study is a close look at the ground level status of online gaming in India. We have studied the entire eco system for online gaming and the study thus provides a holistic perspective on things as they are at this point in time.

Our analysis reveals that that there is a positive outlook in the industry; this is based on key demographic variables such as the growth in the Internet base & the contribution of children and youth to the Internet base. However the industry acknowledges that the supporting infrastructure is not robust at this point. (Chart 1) What is also of concern is that **these external variables are not directly controlled by the online gaming industry;** the industry is therefore dependent on other entities in the ecosystem to a great extent**.**





INTERNET CONNECTIONS **NUMBER OF CYBER CAFE**

Base: 8.1 mn internet connections (Sep 2006) & 1,40,000 cyber café (March 2006)

Source: TRAI & Cyber Café Report I –Cube 2006, Syndicated study of eTechnology Group@IMRB

Definition

Online Gaming is defined as **'Gaming that require the use of a PC and internet connectivity, either played online or downloaded and played online later, capable of supporting either single player or multiple players, where the player(s) is in India'.**

It does not include games downloaded & stored on the PC harddrive and played offline, it also does not include mobile & console gaming.

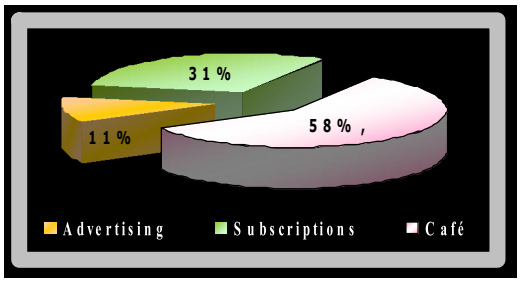
The current revenue streams for the online gaming industry in India are from three sources:

Advertising: These include Advergames, In-Game placements & On-Site advertising

Subscriptions: These include Monthly subscriptions paid for MMORPG's available through Indian publishers, subscriptions paid directly to international players for MMORPG's such as World of Warcraft and for digital distribution of games through broadband service providers

Organised Cyber Café: These include Revenue accruing to Reliance & Sify from online gaming activities at Web Worlds & Game Dromes

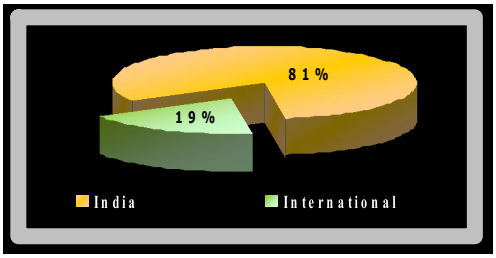
The current industry size is Rs Twenty One (21) crores as of January 2007



Source: IMRB Research

The is currently dominated by revenue accruing through organised café (**Rs. 12.17 crore**) & from subscription based revenues **(Rs. 6.6 crore)**, the contribution of advertising **(Rs. 2.24 crore)** which is currently low, should go up over the next 2-3 years, in line with developed gaming markets such as US where it accounts for close to 40% (Source: Yankee Group)

Almost 20% of this revenue (**Rs 4 crore**) currently accrues directly to international players not based in India, we believe that over the next 2-3 years this proportion would go down as more Indian gaming portals come up and establish their presence by providing localized content.



Source: IMRB Research

Our discussion with market stakeholders reveals that at this point in time, **most Indian gaming portals are evaluating various alternative strategies for long term monetization**. Currently most are on a free model and are looking at advertising revenues to sustain the first phase of growth; there are plans to introduce monthly subscriptions or subscriptions to higher levels as uses become more comfortable. Most portals acknowledge that advance advertising options such as in-game placements will take some time to enter the lexicon of mainstream advertisers, most of who are just beginning to experiment with online advertising.

We believe that **choosing the right monetization strategy would be the single biggest determinant to the growth of industry revenues**. It is easy to get swayed by the success of online gaming in markets like China & Korea and assume a **similar natural progression** for the Indian market.

However there are several key issues which need to be resolved for India to reach a similar stage. This would mean a correction in the enabling infrastructure, addressing key perceptual issues such as a prevalent ant-gaming mindset amongst parents & tackling low quality domestic game development in India. Equally important would be the development of content to suit Indian tastes, as most content available today is a rehash of successful international games.

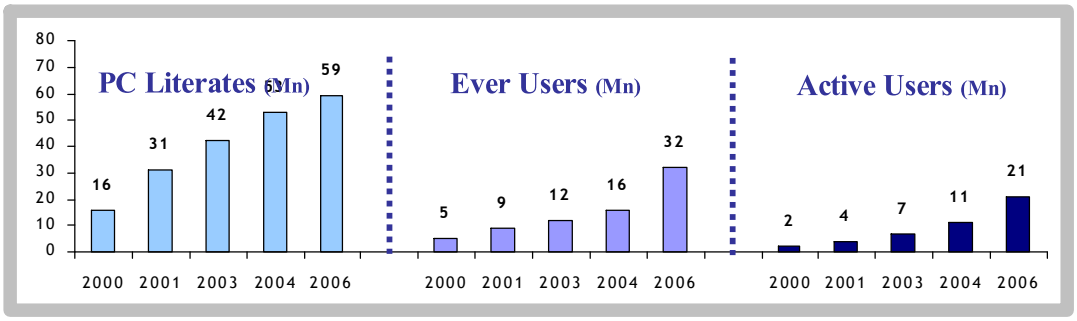
On the consumer facing side the three key tasks for the online gaming portals would be; to induce trials, ensure consumer retention and lead to successful monetization.

Therefore, at this early stage of market development, the Indian stakeholders would do well to cooperate and work together for developing the market. As one passionate Chief Executive put it, ***"We are fighting for a brick when there is an entire skyscraper to be had"***

The Indian Internet Market

The adoption and usage of any advance application such as online gaming is a function of the overall environment for Internet usage in a country. To correctly understand the likely growth path for online gaming it is imperative to map the current status of the Internet ecosystem in India. Some of the key variables that need to be understood are the total size of the user base, affluence levels of users, enabling infrastructure and trends in adoption of other applications.

A correct mapping of these would help in understanding the overall framework in which online gaming operates in India.

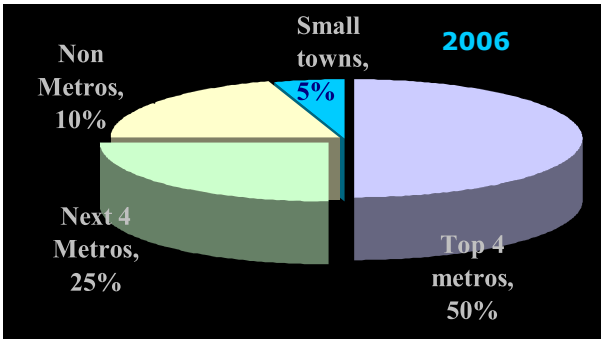


Source: I-Cube 2006, Syndicated Research of e-Technology Group@ IMRB, March 2006

The user base in India is on a fast growth curve having grown 100% in 2006 over 2004. Though in India overall penetration is still low (<5%) the important factor is that a critical mass of users is shaping up which will fuel rapid growth over the next 3-4 years. However equally true is the fact that stickiness of the existing user base has been an issue; Internet category drop-out rate has been traditionally stable around 25% and thus the total base of active users (accessed Internet at least once in the last 30 days) was 21million out of the total users base of 32 million (March 2006)

Looking ahead, we believe that online gaming will reduce the drop out rate, particularly amongst the younger user segments of school and college students as they discover the stickiness of this application.

Over the last five years Internet is gradually percolating across India, from a high of 64% of all users in 2001, the top 4 metros now account for 50% of all users.

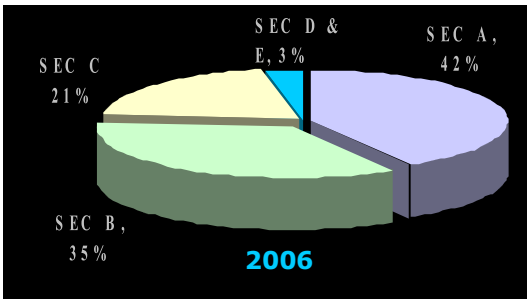


TOWN CLASS DISTRIBUTION – EVER USERS
Source: I-Cube 2006, Syndicated Research of e-Technology Group@ IMRB

The growth in the other metros and smaller towns is driven by improved access to internet due to percolation of Broadband and Cable connections. With that, Internet trials are increasing as more users log on and feel confident enough to be a part of this global community. The small towns & non-metros would also be a key market for online gaming in India.

Internet – Still an affluent phenomenon

Unlike geographical percolation Internet has still not spread evenly across all user segments and is still an affluent phenomenon. Almost 40% users are from the most affluent segment (SEC A). Both Internet usage & ownership has been limited amongst the lower SEC's because of various factors like the high cost of enabling device, cost of access from home or cyber café and availability of content & hardware interface in vernacular languages.



SOCIO ECONOMIC CLASS DISTRIBUTION, EVER USERS
Source: I-Cube 2006, Syndicated Research of e-Technology Group@ IMRB

However concentrated efforts are now being made both by the Government, NGO's and Indian corporate sector. We believe that as digital divide programmes bear fruition, usage from lower SEC's would increase substantially over the next 3-4 years. The challenge would be to engage and retain them through appropriate content, an area where online gaming can play a significant role.

Youth – The low hanging fruit

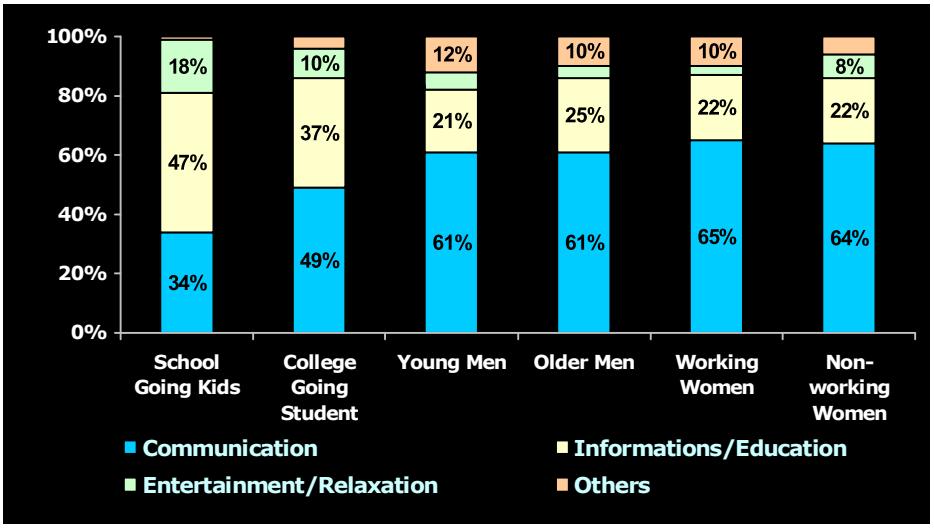
Our continuous tracking of the Indian Internet market since 2000 reveals that school & college students and youth have been the biggest segments on the Internet, accounting for almost 75% of all users. Like their peers in other countries, Indian youth are also more inclined to adopt technology faster than other segments.

Various segment of users such as youth, older men, working & non-working women have evolved a clear preference for applications on the Internet. Entertainment & Information is the main application for almost 65% of the younger user groups, whereas communication is the main activity for 60% of the older age groups.

At the current nascent stage of evolution, online gaming in India will find willing converts from the younger age group as it readily appeal to them. This segment of users would lead the first wave of growth. The next phase of growth would be trickier since it would involve initiating non-traditional segment of uses like women & older men.

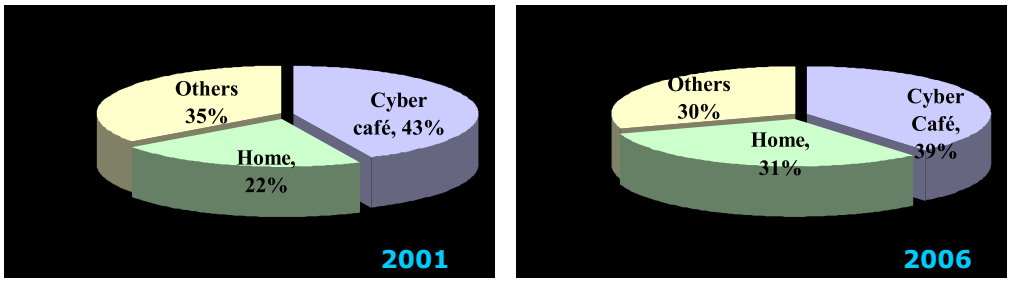
MAIN APPLICATIONS ACROSS DEMOGRAPHIC SEGMENTS

Source: I-Cube 2006, Syndicated Research of e-Technology Group@ IMRB



Access enablers for Internet

Another important variable in the online gaming ecosystem is the point of access. In the Indian Internet space there are two main points of access, home and cyber café. They are expected to be the most prominent access points for gaming due to increasing broadband penetration and emergence of organized café chains in the Internet market. They would provide for the right gaming infrastructure and platform to ensure the right gaming experience. The role of other places, offices, schools & colleges is limited in online gaming due to control & monitoring issues. *(Most office servers routinely block access to all kinds of gaming sites)*

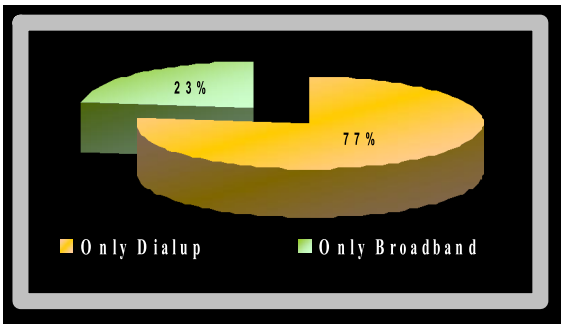


MAIN ACCESS POINTS
Source: I-Cube 2006, Syndicated Research of e-Technology Group@ IMRB

Home access in India

High price of PC's and connectivity constraints the growth of Internet in a price sensitive market like India, where about 69% non owners of Internet say that the cost of access from home is a key reason for non ownership *(Source: I-Cube 2006)*. It limits the adoption of PCs in the Indian households and that of Broadband in the PC owning households.

Home connectivity is still dominated by dialup connections. Broadband penetration is gradually increasing but will take time to replace the existing base of dialup connections.



BREAK-UP OF INTERNET CONNECTIONS
Base: 8.1 mn internet connections Source: TRAI, Sep 2006

The ownership of a Dial Up versus Broadband connection stands at 77% and 23% respectively. Though Dial-up connectivity is readily available, but its slow speed; frequent disconnections and high access rates make it unfit for gaming. The online gaming industry would stand to benefit from the increasing Broadband awareness and penetration in the next 1-2 years.

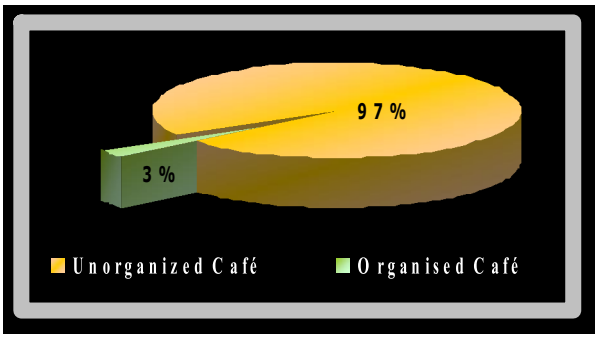
Cyber Café in India

Cyber Café re usually the point from where the typical internet user generally starts his internet journey. Almost 62% of the active internet users in the top 26 cities access internet from cyber café and 39% access Internet mainly from cyber café (I Cube 2006)

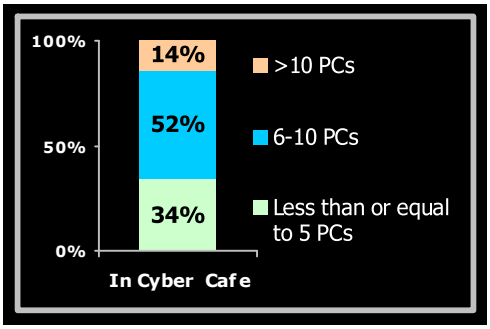
Cyber cafe have remained the most prominent access points despite increasing prominence of home access as the overall PC penetration in households is negligible and availability of high speed Internet connection in these households is not a common phenomenon.

Other reasons which drive access from cyber café are limited need for access; need for privacy while surfing Internet, cyber café proximity and facilities provided, especially air conditioner in summers *(Source: I-Cube 2006).*

In India, the total market of 1,40,000 café (I Cube 2006) is dominated by the unorganized cyber café which account for 97% of the market. These are typically low investment entities which depend on multiple revenue streams to sustain their business (PCO's, Printing etc.). On an average most of these have revenues between Rs. 20,000-25,000 per month.
Most of these unorganized café have poor infrastructure & connectivity. Currently, only 14% of the Cyber Café own more than 10 PCs while in Korea & China a significant proportion of café have more than 75 PC's per café.



INTERNET CAFÉ MARKET IN INDIA



NUMBER OF PC's INSTALLED IN CAFÉ

Source: I-Cube 2006, Syndicated Research of e-Technology Group@ IMRB , March 2006

Apart from low number of PC's, the unorganized market also has poor infrastructure in terms of processors, graphic & sound cards & LAN connectivity. All these serve as barriers to a good gaming experience.

Role of café in promoting gaming

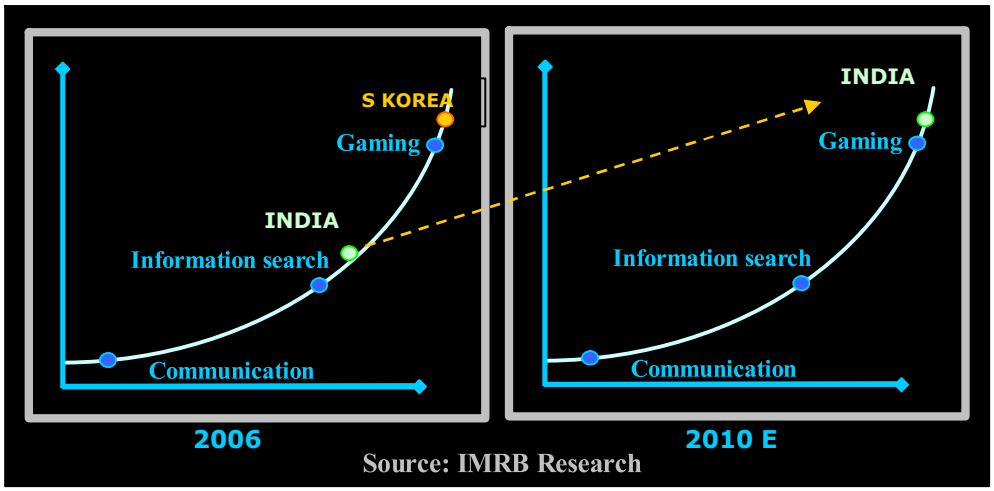
Cyber café drive the growth of online gaming as they serve the dual function of often being the first point of access and also a hang out zone where peers can coach those who are uninitiated into gaming

Currently the focus of the organised cyber café chains in India has not been on online gaming, it has been limited to LAN based offline gaming. However that is changing. The change has been brought about by a push from content providers, who are generating interest from consumers & forcing café to upgrade to meet consumer demand. Gaming portals are also taking the initiative of developing the market by providing marketing support to the unorganized market to move into being gaming zones.

International experience suggest that as organized café chains enter the market with better infrastructure, access technology and facilities, it results in a culture where people spend more time on online gaming.

When we analyze the current position of the role of cyber café in India and compare it with a developed market like South Korea, we can conclude that India is moving on the path carved by South Korea where the most population across most café is online gaming. If the factor conditions remain positive, online gaming in India would also contribute as much as 75% of the total revenue at a typical café.

APPLICATION EVOLUTION CURVE: MOST USED AT A CYBER CAFE



Online Gaming Industry in India

The Indian gaming industry defines Online Gaming as **'Gaming that require the use of a PC and internet connectivity, either played online or downloaded and played online later, capable of supporting either single player or multiple players such that the end user is based in India'.**

It does not include games downloaded & stored on the PC harddrive and played offline, it also does not include mobile & console gaming. While mobile & console gaming is not part of online gaming, they are part of the overall gaming ecosystem & influence online gaming to some extent. Some users move from one to the other or play on multiple platforms depending on the time & occasion. (*Mobile games while commuting, online games with friends at a café)*

We believe that connected multiplayer mobile gaming through WAP & gaming on consoles connected to the Internet can be taken to be a part of online gaming. However both of these are not on the current horizon. Given the speed constraints on mobile, companies are encouraging users to indulge in multiplayer gaming through Bluetooth & until 3G roll out things are not expected to change. Similarly the high price of consoles *per se* and the additional price for online connectivity for consoles are expected to restraint growth in this space.

Types of Games

Online games can be classified based on the number of players and based on the level of involvement of the players.

Based on number of players: Based on the number of players the different types of online games are Single Player, Multi-Player, Massively Multi Player Games (MMOG's) & Massively Multiplayer Online Role Playing Games (MMORPG's). Single player games are where the user plays against the system. Multi Player games are based on the bandwidth and the type of the game, many players can play it simultaneously, where their geographic location does not pose a constraint on playing against others. MMOG is an extension of Multi-Player online games, these games can be played by hundreds often thousands of players at the same time. The number of players that an MMOG can support depends on the server.

MMORPGs are further extension of MMOGs. These games are designed to go on and are not dependent on who comes and who leaves. These games are complex virtual worlds where each player assumes a virtual character often called an "Avatar**"-** An online role. **Players band together and form clans and exhibit all the characteristics of the real world.**

"Its biggest draw, without a doubt, is its human factor, and World of Warcraft's fans have quickly shaped Azeroth into a second Earth. Players hunt for gold, and epic items, then put them up for sale on eBay, thus turning a hobby into a livelihood. They have cyber-sex, date, and get married. They hang out with old friends who may live hundreds of miles away. "

From- Confessions of a 30 year old Gamer- TIME Jan 12, 2007

An "Avatar" in World of Warcraft- An MMORPG

The segment of Multi- player online games is currently small in India and is expected to rise in the future with industry initiatives to provide multiplayer games.

- **Based on Involvement**:

Based on the level of involvement, online gamers can be further categorized into Casual gamers & Core gamers.

Casual Gamers: This genre of gamers constitutes of those who play for the sake of having fun or for a quick break. When in office, they find time in short intervals to play for 10-15 minutes, when in Café, based on the time left for their session to complete, they get on to gaming. As defined in the **International Game Developers Association 2005 Casual Games White Paper**, "*Casual web games are launched via a web page with no prior installation of software required and are on an average less than 500kb. These do not include games that are downloaded to the user's hard drive and run outside of the web browser*"

Casual games typically include games such as Chess, Poker, Sudoku. Casual Games may be further classified into Action, Arcade, Racing/ Driving, Puzzles, Sports and Strategy games. Various games sites have put up either all or majority of these genre of games.

> Arcade, Racing, Puzzle and Strategy games are being played by more than 50% of people; a similar number of people play Chess, Casino, Checkers, Poker and Card games; a small percentage of internet users play Action games. It is expected that the trend would remain the same for the next 2-3 years.
>
> - Leading Portal

- **Core or Serious Gamers**: Core gamers spend at least 4-6 hours a week gaming and play LAN based, MMOGs & MMORPG's. There may be many reasons which drive this genre of gamers to game online. They are community based gamers, who generally have a peer group into gaming; they prefer multi-player games over single-player games; and are not as easy to understand as the Casual Gamers.

> "They are definitely not gaming just to game; there is always something else that drives them towards gaming..."
>
> - Content Aggregator

What drives them to game? They have been classified into four broad categories based on possible motivators to game.

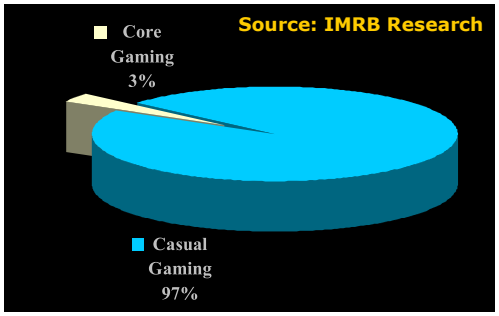
TYPE OF CORE GAMERS- Psychographics	
Subjugator	The first category of serious gamers believes that there is a challenge in a game to overcome and feel they can master everything. They may want to show off, but are driven by an internal strive to defeat very challenge
Networker	They are the social interacting genre of serious gamers. The main motive of gaming in a multi-payer situation is to have a good bonding experience with people. They feel it an opportunity to meet people and develop relationships
Escapist	As the name suggests, they game for the promise of escape. They had faced difficult situations and challenges in their real life or are complacent. They game to face and overcome artificial challenges; to satisfy themselves by being completely opposite of their original self
Learner	Their main purpose to game is to explore different environments and conditions with a motive to learn something from their experience and then progress and excel in it. Their main aim to hone their skills in everything possible

In markets like Korea, US, Japan and China, though casual gaming market is bigger than the core gaming market, the difference lies in the fact that this segment is driven mainly by women and the older segments. More youngsters are playing Multi Player games or MMOGs from Gaming Zones and Cyber café than from their homes. They are spending 4-5 hours on a daily basis gaming.

In India also most of the gamers play Casual games. But unlike the developed gaming markets, the casual games market is youth driven segment, mainly by those males who are in

the age group of 17-28 years old and have been online for more than 2-3 years. (Source: I-Cube 2006).

Currently, the casual gamers lead the gaming industry in the country, while the community of hardcore gamers (defined as those gaming for than 4-6 hours a week) is limited to a mere 2-3% of the total gamers in India.



SPLIT OF CASUAL AND CORE GAMING IN INDIA

Size of the Industry

The current revenue streams for the online gaming industry in India are from three sources:

Advertising: These include

- Advergames: Games developed especially for a brand with deep integration of the brand into the game
- In-Game placements: Brand/logo placement inside an existing game. Eg. Honda logo in a racing game
- On-Site advertising: Banner ads on gaming sites and gaming pages of portals

Subscriptions: These include

- Monthly subscriptions charged for MMORPG's such as Sify's A3, Level Up's Ragnorok and for World of Warcraft (which has a small but dedicated user base in India)
- Monthly subscription for digital distribution of games through broadband service providers (such as the GoD service from Indiagames)

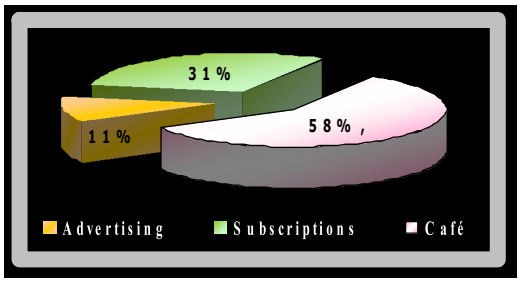
Organised Cyber Café: These include

Revenue accruing to Reliance & Sify from online gaming activities at Web Worlds & Game Dromes.

In addition end users & some enterprising cyber café owners are generating revenues by trading within MMORPG's or using softwares which play the game automatically and earn game currencies. However the size of this cannot be estimated with precision, since trading is not officially allowed on both A3 & Ragnorok, two of the prominent MMORPG's in India.

The current industry size is estimated at Rs Twenty One (21) crores as of January 2007.

CHART 2

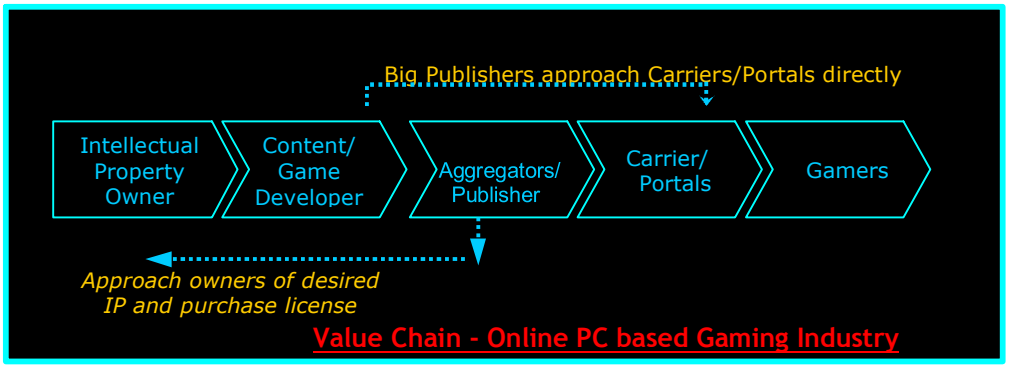


Source: eTechnology Group@IMRB

The is currently dominated by subscription based revenues, however the contribution of advertising in the overall pie will go up in line with developed gaming markets such as US where it accounts for close to 40% (Source: Yankee Group)

Value chain- From concept to the end user

The value chain for online gaming is fairly complex and encompasses a host of entities: IP owners, developer & end users. It also encompasses a host of activities such as Conceptualisation and Production. To better illustrate the value chain & put it in perspective, an analogy has been drawn with the value chain of movie making.



The chain starts with the IP owner owing a concept around which a game may be developed. The IP owner is in a similar position as a story writer who approaches or is approached by a director,

which in this case are- content or game developers. For game developer, pre-production work consists mainly of concept art, game design and game dynamics. Production constitutes final concept arts, modeling, animation and programming. Testing tends to be a big task for game developers; there is a wide range of formats and platforms that the games have to be tested for.

In a majority of cases, for operational efficiency and financial benefits forward or backward integration has taken place in the Indian market. As a result, either there are development studios which publish the developed games themselves or development studios which own the idea/ intellectual property based on which they develop games.

Carriers, Portals are like multiplexes – which have a technology medium for distributing a game to the audience. Established publishers/developers directly approach the portals and carriers, while the smaller ones have to go through Aggregators, equivalent to distribution houses in film making, to reach to the carriers of the games.

The audience – Gamers determines the kind of business a game would do – average, above-average, or below-average based on the acceptance and usage of a game title. Most portals & carriers have developed accurate mechanism for estimating the time a game would take to break even.

The revenue thus generated, gets divided among the entities. Currently, no standard percentage of revenue split exists. The share thus earned vary considerably from one game to another and depends mainly on the negotiation power of the entities involved. Based on it, either of the following commercial agreements prevail:

S.No	Commercial Agreements among developing & carrying entities
1	Small game developers/publishers at the time of hosting their game pay various portals in order to gain visibility and then generate revenue via premium games. In this case, the develops/ publishers often keep their games free for initial 3-6 months, post which they ask the gamer to opt for subscription or come up with an updated 'to pay for' version of the game (TYBY- Try Before You Buy)
2	In the second model, the portals/carriers pay big publishers (generally overseas game developers/publishers). The payment is made is made as it would be for any other content like News Headlines, Jokes etc. to be put on the portal. However, the revenue of the developer is not based on the final performance of the game
3	In third and majority if the case, developers receive a set fee for downloadable titles and royalty from monthly subscription. Recently Microsoft has made a change internationally and will be sharing a proportion of advertising revenue also with developers. This has been done to encourage the developers to focus on improving game quality.

Source: IMRB Research

Revenue Models- Whatever works

Traditionally, a lot of traffic from India has moved towards international gaming sites like miniclip.com. Now, several domestic players have taken up the responsibility to develop the industry. They combine the responsibilities of developers and aggregators, developing a percentage of games in-house and buying games from other developers to put-up on their web portal.

For the consumer facing entities (*Carriers, Portals & Publishers)* there are various options for monetizing. Revenue models can be stand alone or complimentary. Internationally some companies also follow a step-up approach of engaging users with a completely free model and then gradually introducing either monthly subscriptions or in-game fee for access to higher or newer version of a game.

In India, various revenue models have been adopted by various entities as a layer of uncertainty prevails over the gaming industry. Under the current circumstances, nothing seems obvious; thus, the gaming industry is trying out every revenue model to establish a model that would be a near perfect fit. Some of the common revenue models are;

	Revenue Model	Elaboration on the Revenue Model
1	**Subscription based pricing model**	This model involves charging a monthly subscription fee from the end users for accessing the portal. Subscribers typically receive ad-free games, full games (as opposed to games with time limits or crippled games) and exclusive titles not available on free service
2	**Advertising based revenue generation**	Especially for casual gaming, most gaming companies rely on advertising for generating revenues. This is based on the insight that most casual gamers are not ready to pay for their gaming experience, therefore need to be monetized through advertising. Within advertising various options can be:
-2.1	**On-site Advertising**	Internationally the most common revenue model, though not the largest source of revenue. In this model the advertiser's pay for placing their advertisement (usually banner ads) on the website. Games are monetized by advertising units sold around the game
-2.2	**Advergames**	A game is specially built around a brand, aimed to develop association and strong recall for the brand. An example is a game built around the bottle of a soft drink brand. The advertiser underwrites the entire cost of game development.
-2.3	**In game placement**	A brand is placed in a game such that it is an integral part of the game and creates many opportunities for the consumer to interact with it. A good example is the logo of Honda painted on a car in a racing game. The advertiser pays a fee for the in-game placement.

Width vs. Depth

At this stage key players have adopted different strategies to enable growth. Some players such as Zapak have created a big splash through traditional media and are using offline advertising to widen the user base and. At the other end players such as Indiagames are focused on creating depth of usage by tying up with broadband ISP's to offer games for a monthly subscription fee to core users.

Traditional portals like yahoo.co.in also offer online games through their gaming pages and attract the casual gaming segment. Some specialty properties like Hungama.com & Contest 2win.com are also looking at the online gaming business seriously.

At this stage the Indian online gaming market is in a flux and most are willing to experiment with various options to grow their user base & maximize revenue accruals.

Drivers of Online Gaming in India

The factors that will drive the growth of online gaming market in India can be broadly classified as:

- Consumer Pull
- Game development activities by market incumbents

Consumer Pull

- **Size of youth segment**- The youth segment, which is the biggest segment on the Internet, is driving the demand for games on multiple platforms like PC, mobile handsets and consoles. The gaming market in India comprise mainly of young men and college going students falling within the age group of 17–25 years. They form the largest segment of the active internet user base; are more technology savvy and most of all carry an attitude to try everything new.
- **Increasing broadband penetration** in Indian households will drive usage of online gaming and vice-versa as the gaming experience is enhanced due to higher speed and bandwidth when compared to Dial-up connections. International experience suggests that online gaming took off as in-home penetration of broadband increased in countries like South Korea & China. Broadband ISP's are also offering Games on demand packages to users to encourage them to spend more time online.
- **Entertainment seeking behavior on the rise**: Entertainment appeals to internet users of all age, gender and affluence. As a genre, entertainment related applications are accessed by 54% active internet users (Source: I-Cube 2006). Online gaming will add another platform to whet the appetite of Indian users. Causal games can be positioned as another arena for entertainment to appeal to no-core segment like women and older men.
- **Increase in Mobile gamers**: Mobile gaming has grown many-fold in India and downloads of mobile games is a fast growing component in the overall Mobile VAS pie. Mobile gaming is serving to introduce a large base to gaming. Over a period of time many users who seek an enhanced gaming experience can be graduated to online gaming
  (see: Creating opportunities for growth: Targeting mobile users)

Game development activities by market incumbents

In India the focus in online gaming has traditionally been on content development for the overseas market. Now to grow the domestic market several companies are taking various initiatives such as:

- **Localization of games/content** to better address the gaming needs of the target audience: Though most of the development work is being done for overseas market, however, in future the focus would shift to the domestic market. Currently several Indian companies are starting to focus on customizing content for the Indian market using local themes, icons & games. It would also include spicing-up the available international content/ idea to appeal to a larger audience. A special mention needs to be made of Kreeda.com & Games2win.com both of which are focused on customizing the online gaming experience for the Indian palate.

> The formula for success in the Indian Market is **'targeting the right niche with the right content'**.
>
> - Content Aggregator

- **Creation of gaming zones/ Organised cyber café chains**: They play a critical role in development of the online gaming ecosystem and various companies are doing different things to maximize this opportunity. Some are opening their own gaming zones while others are tying up with existing café and helping them upgrade to gaming zones by providing marketing support.
- **Mainstream Advertising:** To drive traffic and build awareness, Zapak.com has taken the mainstream advertising route. This is generating interest & driving traffic to the site. The key challenge would be to retain the users through sticky content. **Mainstream advertising from Zapak would also help other companies operating in the space as it is working at popularizing the category per se**. Once users get hooked on or like the experience of gaming they would also look at other avenues fro online gaming.
- **Enabling payment mechanisms:** Recognizing that the low penetration of credit cards & debit cards can be a potential bottleneck, several companies are taking an initiative in enabling online payment though other platforms. This is all the more important because the core gaming segment of users, school and college students do not have access to bank cards. One of the initiatives being experimented with are pre-paid gaming cards. These cards would enable both subscription for the gaming service and purchase of in-game add ons.

  One of the schemes: *Pre-paid cards would be available through outlets selling mobile card recharge coupons and also at cyber café. The seller would be given a fixed commission on*

every card. The card would be available in multiple denominations. Some players are also experimenting with SMS based activation, where the end user pays a shop/café owner and the shop owner notifies the game carrier. The carrier sends an SMS with the required code for recharging the account of the user.

- **Offshore work translating into work for local market:** Most of the game development work is currently being done for overseas clients. Outsourcing has started with low-order labour-intensive development work like porting (*for mobile games*) and part game development (cut scene animation for game cinematic, single level design, or a specific sequence of a game), which does not account for more than 10-15 per in the total volume of the entire game development cycle. **This work is also important because it is creating a critical mass of knowledge and would give the Indian studios the necessary confidence to undertake end-to-end work for the Indian market.**

  A good example is **Dhruva** which has been in the content development space but is evaluating a direct consumer facing game carrier role.

Issues facing the gaming industry in India

Given the current factor conditions, online gaming has a huge potential in the country, but there exist various roadblocks that may restrain the industry from reaching full potential. Each of these roadblocks is connected to various aspects of the market and the environment. A few stakeholders believe that the content being developed for the domestic consumption lacks quality and innovation and most games are copies of famous overseas games. For some, the major challenges in the online gaming space are issues like PC, Internet and Broadband penetration; access to right content (*right content was defined as quality content, feature and community driven; local content).*

Given the situation, the stakeholders need to work together to address each roadblock and enable the domestic market to grow. Some of these are specific to the Indian market while some are faced by incumbents in any country at this stage of gaming maturity.

These roadblocks have been clubbed into various heads elaborated as follows:

Consumer facing issues

- **Prevalence of anti-gaming culture**

Unlike other developed markets, playing electronic games is not a part of the mainstream culture. In India great importance is placed on academics in an intensely competitive academic culture. Parents do not prefer their children to play for long, and especially not online. Their resistance is based on fears about the potential fear of addiction or adverse health consequences. Online gaming compnies would have to work against this well entrenched perception. Recently China banned Cyber café for a year on account of similar concerns. In India IIT Bombay banned Internet at late hours in the student hostels as students where see to be getting addicted to gaming & blogging leading to reclusive social behaviour.

"China bans Cyber Café for a year"

"It is common to see students from primary and middle schools lingering in Internet bars overnight, puffing on cigarettes and engrossed in online games," Xinhua quoted NPC deputy Yu Wen as saying in a separate report. China has banned minors from cyber cafes and levies heavy fines on operators who defy regulations in a bid to curb soaring rates of addiction that have accompanied the rapid spread of the Internet in recent years" ***Xinhua Press Release, 6th March, 2007***

- **Creating the online WOW! factor:** For the average Indian users there are enough opportunities to play games offline or on mobiles. There may not be strong "Reason to Belive" to induce trials for online gaming. Online gaming portals would need to get over any such resistance and demonstrate a strong WOW! factor in online gaming to induce trials & retain users. They wuodl need to strongly differentiate online gaming from other formats for gaming.

Bottlenecks in the Eco-system

Poor enabling Infrastructure: Though the status is improving , at the moment the market has low PC pentration in households, limited broadband penetration and cyber café with poor infrastructure. As each of these plays an important role in developing the market , these are significant roadblocks to be overcome.

- **Availability of game development skill-set**: A quality game can be developed by the appropriate blend of design, programming and creative effort. Each of these require a specialized set of skills for various activities like writing codes, graphic designing, animation, etc. and the required skill-set is not easily available. Hence the real challenge for a game development company is to, first build teams by recruiting the right talent and then to provide them the required training; only then can it look at building its expertise.

> "Most development studios in India do not have the capabilities to make a game from start to end"
>
> - Portal

- **Lack of advanced courses on game development**: Game development is not considered as a serious career option by most of the computer technology students in the country. This is driven by 'anti-gaming' attitude of the parents and lack of success stories in the industry. Moreover, there is lack of reputed institutes providing a course on the skills required for game development.
- **Lack of financial resources**: Though the market is attracting a lot of VC funding, but it gets directed towards large developers. There are a number of small scale development studios in the country, which lack resources to hire better people; train effectively and/ or invest in better technology.

Internal industry issues

- **11-Click Phenomena**: According to a leading international publisher, when it takes a user more than 11 clicks to download and play a game online, it is very unlikely that the user will return to that site. If too many clicks are required to play a game, it might make one lose interest in downloading or purchasing the game. **Site design & navigation will play a key role** especially as most users will be new and would need to be engaged in the online gaming category by hand holding.

- **Localization of content**: Most of the games available for consumption by the Indian audience are replicas of the overseas developed. More often than not users are not able to connect to them and soon loose interest. Connecting to the users in their language will play a key role in creating local success stories.

- **Demonstrating advertiser value:** Online advertising *per se* is only slowly being accepted by large advertisers in India. Specialised forms of online gaming advertising such as Advergames & In-Game placements are perhaps too early for the Indian market. Industry stakeholders felt that banner ads also have inherent limitations for online gaming sites. While they can be placed on the home page or when a user is making a selection they cannot be deployed while the game is on, as it would intefer with the gaming experince. **It could therfore be a challenge for online gaming portals to demonstrate value to advertisers in the traditional manner.**

- **Developing & Managing online communities** Online gaming, particularly for Multiplayer games, is a lot about bonding & being part of a larger community. Though communities exist amongst online gamers in India, they are extensions of offline communities (A group of real life friends who play games together) In developed gaming markets, communities are also "online", people who may or may not know each other but are part of the same team or clan. For Indian gaming portals it would be a challenge to first develop and then manage these communities, especially as this aspect plays a key role in the success of multi-player games. The revenue contribution from MMOG's & MMORPG's can be significantly high if the games are managed well. At this stage these genre of games are in a nascent stage in India but will become increasingly important over the next 3-4 years.

Creating Opportunities for Growth: Top 5 To-Do

Beyond addressing the hygiene issues, such as improving the enabling infrastructure, there are other initiatives which would help in taking growth to the next level, beyond the expected. A strong collective effort by content providers & platform enablers would help develop the category faster.

The top 5 actions on the to-do list would be:

- **Feeding the hen that lays the golden eggs:** The current revenue sharing model does not encourage the game developing community. With an increase in consumer demand for quality content, development studios need to be incentivised to spur innovation and creativity. Indian portals & carriers could take a cue from Microsoft Casual which has announced a plan internationally to share a percentage of in-game advertising revenue from its MSN Games with casual game developers. The company estimates developers of the top five games could share up to $250,000 annually, based on current in-game advertising revenue rates. This is surely a step taken in the right irection to develop the gaming market & should be emulated in the Indian market.

- **Gaming for education:** There is a need to change consumer perception towards gaming. For that, it needs to be associated strongly with positive values; a new outlook for gaming should be promoted.

  Games built around educational themes for children can be based on their school syllabus. These games can be incorporated as the part of the curriculum. Lessons incorporating multimedia features would not only help recall information faster but make learning fun.

  This is already being exercised by Department of Education, Delhi and has recently won a prestigious Government of India award as an e Governance initiative. Mainstream portals can help work together with the Government.

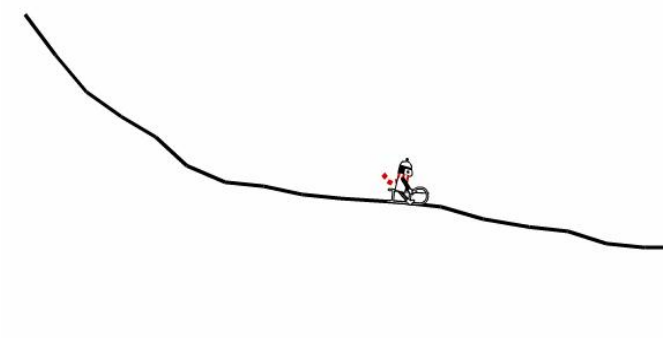
  Appropriate games could also be developed based around management lessons for use in the corporate world. These might be based on various case studies and would help develop decision making, leadership, team building skills of employees..

- **Focus on beyond Tier I & II towns- Rural India:** There is a need to recognize the opportunity that lies in the small towns & in rural India subsequently. There is a significant market for gaming in rural India, as it only needs rudimentary ICT skills & language is often not a barrier.

Online gaming companies can look at association with various digital divide programmes being run by the Government & by other corporates. Infrastructure in the form of Kiosks is already available across many areas, content could be provided by portals. The content could help in drawing users who do not have many avenues for entertainment. While it would be difficult to monetize most of these users, it would help in widening the user base.

- **Not just localization: Simplicity too:** Another challenge is the availability of content to which the end user can relate. Localization of content has started happening with the aim of appealing to a wider audience and games based on local themes like snakes and ladders, *gulli-danda*, etc. are being developed. However the aim should also be to bring simplicity in the games that are being developed. **3-D and graphics heavy games would appeal to a very small section of the Indian market. International experience suggests that games with simple themes often get a larger user base.** LineRider is a case in point**.**

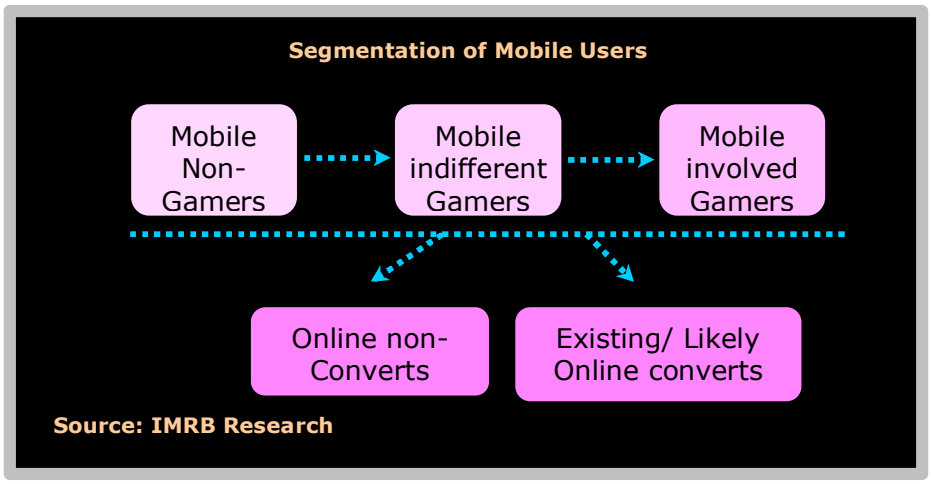
CASE: Simplicity is the Key-LineRider



It is game that has caught many by surprise. First hosted on the website deviant art, the game has become an international rage. The key highlight of the game is its simplicity. The object of the game is to draw "lines" for the rider to ride a sled without crashing. Users have made entire towns for the rider and have posted videos of their creations on various fan sites on the Internet. YouTube.com, features hundreds of such videos.

- **Mobile Users- Potential online gamers:**

The base of users playing games on mobiles phones is growing rapidly in India. Mobile users can be potential converts to online gaming. These can be segmented into three buckets:



Mobile involved gamers have the highest probability to be become active online gamers. They would shift to PC based online gaming for an enhanced gaming experience. The young users within this segment can also be potential users for online multiplayer games.

Mobile indifferent gamers have no preference for a gaming platform. They play occasionally, mainly to kill time. With the right strategy, they can be converted into regular PC-based gamers. Many of them are likely converts for casual gaming.

Non gamers would be more difficult than the other two segments to convert as they first need to be introduced to gaming category and then subsequently engaged with online gaming. The focus therefore, should be on the first two segments.

Future of Online Gaming in India

The Indian online gaming market is at base level currently. Over the next 2-3 years some of the key developments would be:

- **Bipolarization of gamers**: A significant segment of online gamers would continue to be casual gamers. These *casual gamers,* mainly women and older men, will drive Online Gaming. Games built around Bollywood, popular TV characters would intensify the attraction to gaming.

  The rest, *Highly engaged gamers* would form the nucleus of the "core gamer" segment and would move towards Multi Player games. Those graduating to Multi Player and MMORPG's games would be young males and most of them would use pre-paid cards for payments.

- **Rise of the home gamers**: Gaming from home will be big, given rising broadband penetration and falling PC prices. Non-core segments like housewives and older people will also be initiated. However, access by children would be regulated / monitored closely by parents; only a few set of games would be allowed. Due to this, youngsters would also be attracted to café chains for enhanced gaming experience, resulting in the prominence of organized gaming zones and merging of various small café chains to get into gaming to earn better revenues.

- **Growth in both PC & mobile gamers:** The rise in number of subscribers and the replacement market for mobile handsets would help the mobile gaming industry to grow. The attraction of playing multi-player games and higher quality games would also attract a significant user base towards online PC-based gaming. Premium pricing of Consoles would limit their penetration to the higher strata of the society. There would be a growth in the unorganized markets of consoles.

- **Advent of Micro Payment Model**: As MMOG's & MMORPG's become popular, a pure advertising model would no longer be feasible. There would be a need of a model that combines monthly subscription fees with incremental purchasing opportunities so that the whole burden is not passed onto the customer at one go.

> "…the content would ideally be free as over the internet today, and the money would be generated from data transfer..."
> - Game Developer