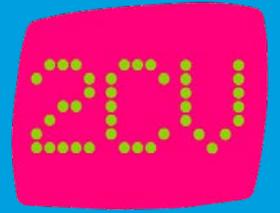


Mobile Games Research 2017

By 2CV, commissioned by
Facebook Audience Network

May 2017



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INTRODUCTION



About this study

This study takes a 360-degree look at advertising in the Mobile Gaming sector drawing on primary research with gamers, developers and advertisers, as well as industry stats to provide context.

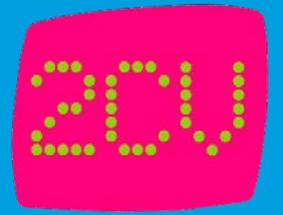
Commissioned by Facebook Audience Network as an investment in the industry with the objective to better understand the landscape of Mobile Games advertising, 2CV bring an independent viewpoint to the issues faced by advertising in Mobile Games and the impact these decisions have on gamers.

This report details the findings from this research process – it confirms some of the existing theories, while disproving others. This is a comprehensive look at the impact that advertising has on gamers in the mobile gaming environment.

About 2CV

2CV are an international research company, headquartered in London, with over 20 years researching in the Games industry as part of our broader Tech and Entertainment Practice. We cover everything from strategic landscaping, branding, concept development, consumer playtesting, proposition testing, advertising evaluation and beyond.

With an extensive client roster we've worked with companies both big and small, helping them improve what they do and make better decisions. As Mobile Gaming has grown over that time, we've grown with it. We have broadened the horizons of traditional publishers, while at the same time supported smaller developers.

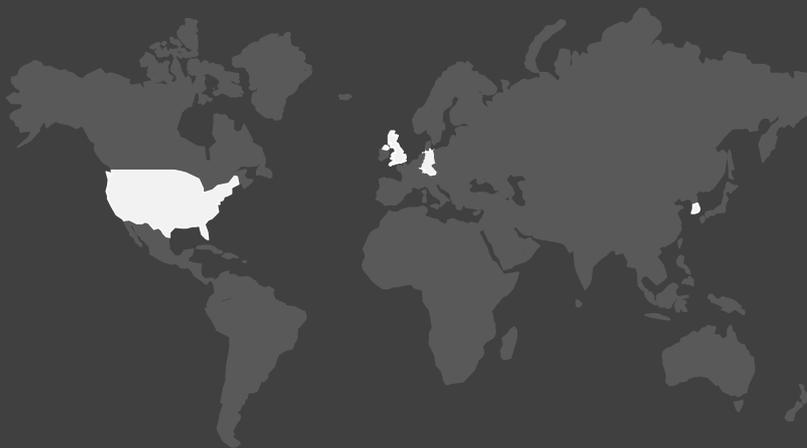


RESEARCH APPROACH



In order to get the full picture of Mobile Gaming, we conducted primary research across three regions: Europe, North America and East Asia. All regions featured qualitative and quantitative elements covering our three key audiences: Gamers, Developers and Advertisers.

QUALITATIVE RESEARCH



GAMERS

*Play Mobile Games Daily.
Download multiple
versions annually*

8 x 2 hour focus groups
(2 in UK, 2 in Germany, 4 in South Korea)

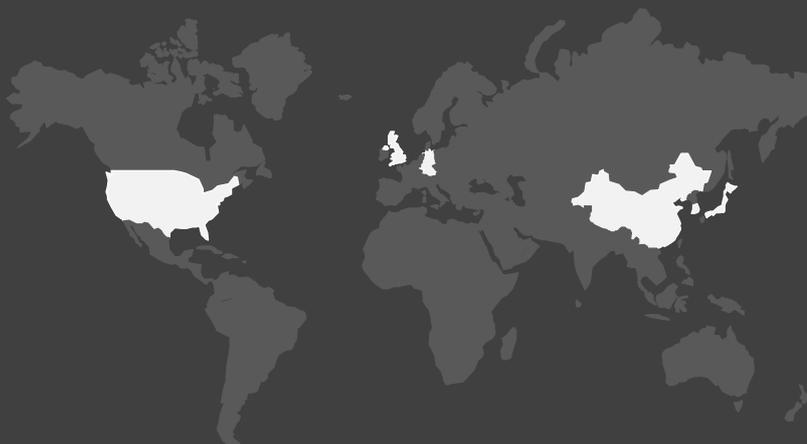
DEVELOPERS

9 x 1-hour depths
(3 in each of EMEA, NA, APAC)

ADVERTISERS

9 x 1-hour depths
(3 in each of EMEA, NA, APAC)

QUANTITATIVE RESEARCH



GAMERS

*Play Mobile Games at
least once a month*

6,000 online interviews
(1,000 in each of US, UK, Germany,
Japan, China, South Korea)

DEVELOPERS

230 Online interviews
145 F2F interviews across 3 events
(PGC in London, LevelUp in Seoul, GDC in San
Francisco)

ADVERTISERS

100 online interviews

OVERVIEW OF THE INDUSTRY



Mobile Gaming

Mobile phones are now widely acknowledged as the primary screen among younger age groups with the older ones not far behind. 80% of time spent on mobiles is in-app and Games is by far the biggest category of apps:

<http://www.performics.com/advertising-in-mobile-gaming-apps-pm/>



Volume (millions)

1,920

Games

1,851

Entertainment

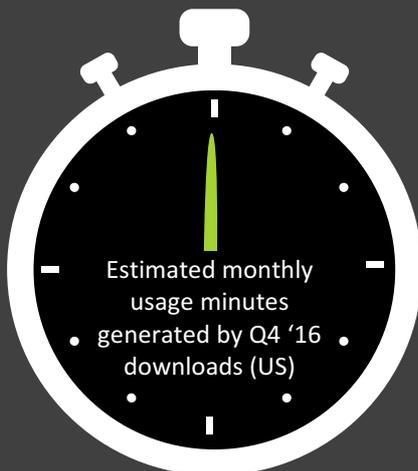
Photo & video

Social Networking

Utilities

Sources: Sensor Tower via Statista.com

In terms of downloads, Games has grown to be bigger than the next four largest categories combined, and those downloads produce 3.6X more usage minutes than the next largest app category



Games

138 Trillion



3.6X

Entertainment

38 Trillion

25%

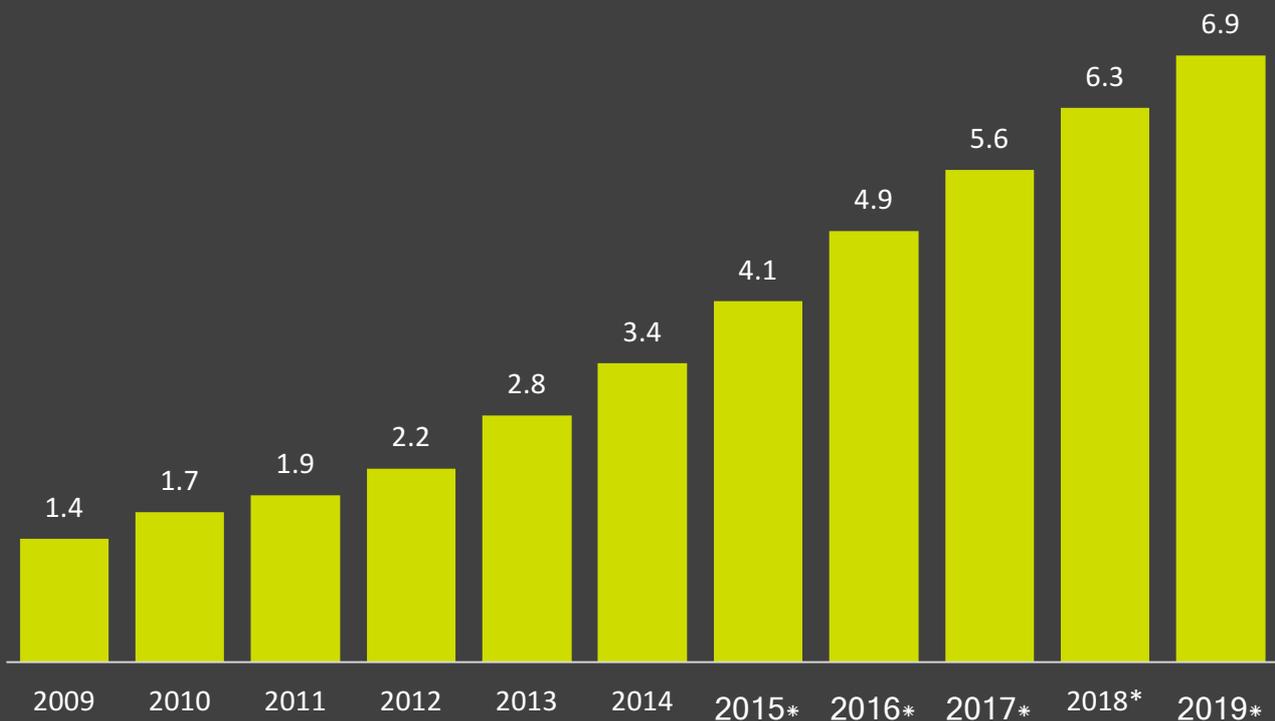
of all apps in the App Store are Games

Mobile Games Advertising



Global digital advertising is set to become the biggest ad sector this year with a 40% share in spend, overtaking TV's 36% share. This is a staggering achievement for a relatively young channel. Within digital specifically, Games is one of the faster growing category, set to expand +97% in 5 years between 2014 and 2019, with no signs of slowing down.

Video games advertising revenue worldwide from 2009 to 2019 (in billion US dollars)



SOURCE: Wilkofsky Gruen Associates; McKinsey via Statista 2017

The industry as a whole may be in robust health, but as Game developers look to sustain individual businesses among a highly competitive field, the important question is: how to get a share of this expanding revenue source?

THREE MYTHS OF IN-GAME ADVERTISING



This study explored Mobile Gaming advertising from all angles; we heard what developers think of it and what gamers think of it. We took an open approach to the research, looking to hear individual experiences in the qualitative phase and at the broader scale in the quantitative phase. There were some surprises in our findings, including some myths that need dispelling.

MYTH 1: PEOPLE REALLY 'HATE' ADVERTISING

You hear it all the time, *'I hate the ads'* – it's an easy, top-of-mind response that gamers give. Getting something for nothing is such an easy thing to wish for, but the reality is our audiences are more sophisticated than that: they understand and accept that a transaction is taking place. Furthermore, when presented with a choice between paying for a game or seeing advertising, gamers have voted with their thumbs – and their wallets.

73%

of gamers are happy with the ad funded model of app games

"you're getting a game for free, so we understand that the people who make the game need to get paid"
- *gamer*



This goes beyond being an acceptable surprise, it's actually the expectation of gamers that if they haven't paid for an app then it is likely to have advertising in it.

"I'm fully aware that because I've downloaded a free game, I'm going to have ads."
- *gamer*

Digging deeper into the reasons and rationale underpinning this attitude, there were three key areas:

- **Everyone is used to advertising:** Pre-roll advertising for video and audio services has helped accustom people to more engaging advertising online and in-app.
- **They're not expecting developers to work for free:** something for nothing is a nice idea, but gamers expect to pay in money, time or effort.
- **Advertising can be a positive for gamers:** it stems from a self-serving desire on the gamers' behalf, they want to get more out of the games they enjoy. With more revenue, developers are able to add more levels and features to enhance the games for the gamers.

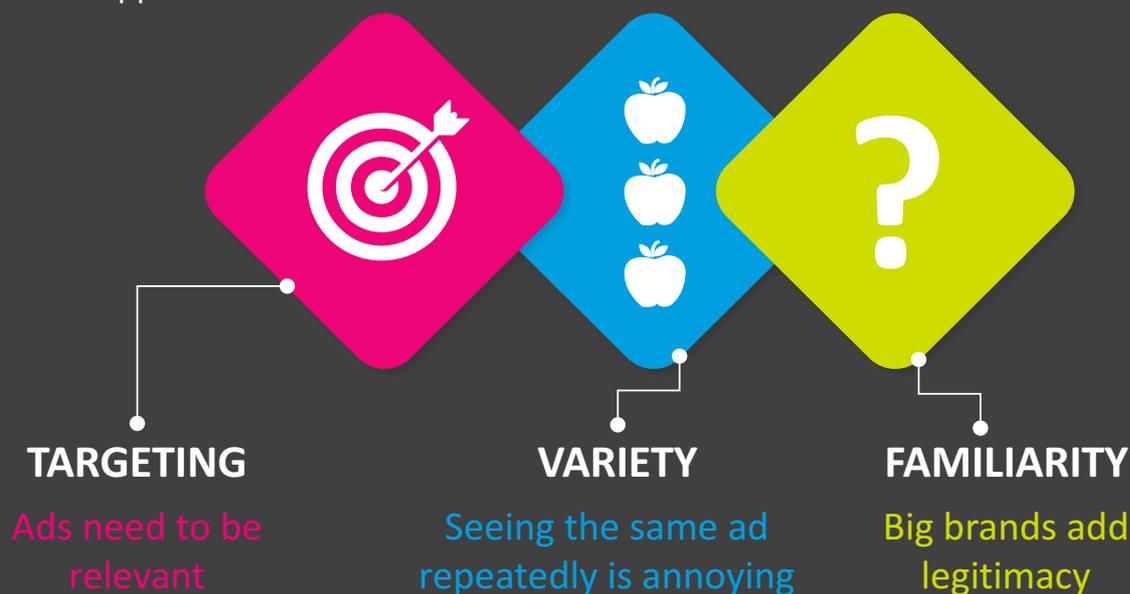
THREE MYTHS OF IN-GAME ADVERTISING



MYTH 2: ADVERTISING INEVITABLY DETRACTS FROM THE USER EXPERIENCE

There's no point denying it, advertising will detract from user experience if badly implemented, but this is by no means a fixed point and is equally applicable to other channels, TV being a classic case. There are lots of ways that advertising can detract from user experience, but the same is true for most elements of a game – bad level design, tricky controls, long load times, high battery usage and many more.

Advertising can be a positive addition to a game and there are three key elements that help that happen:



TARGETING

This may seem an obvious point, but time and again we heard just how important it is to gamers that the ads they see are relevant and appropriate for them. As we have seen, they understand the necessity of advertising in a free-to-play mobile game, but to minimise disruption to the user experience, they want to see ads for products, services and games they are interested in. When the ad is completely irrelevant, it can be highly frustrating. When this goes wrong, it can negatively impact perceptions of the game and the advertiser. Targeting is already challenging due to the breadth of the Mobile Gaming audience. More and more sophisticated methods are needed to get the right ads in front of the right gamers.

“you’d think they’d know who’s playing the games – I keep seeing an ad for baby formula. I’m not a woman and I don’t have kids”
- *Young male gamer*

THREE MYTHS OF IN-GAME ADVERTISING



MYTH 2 CONTINUED : ADVERTISING DETRACTS FROM THE USER EXPERIENCE

VARIETY

It is important to ensure that there is a range of different ads for gamers to see. It is a frustration when they are confronted with the same ad again and again and this repetition detracts from the overall gaming experience.

FAMILIARITY

When gamers see familiar and “big” brands advertising in a mobile game it can lend legitimacy and credibility as it gives the impression the game is popular enough to be courted by these leading companies. They trust these brands and this is conveyed onto the game. As gamers recognise and know these brands, there is less frustration when they see them in the game (especially as these are often relevant brands for them).

MYTH 3: “IT JUST WON’T WORK IN MY GAME”

From a gamer’s perspective, this is easy to debunk – it can work in all games when done well – ‘it doesn’t work’ in principle is just not something we heard from gamers.

Beyond providing better targeted, more varied or more familiar advertising, there is more that can be done to improve the user experience. The key to this is putting the power in the hands of the gamer by giving them the conscious choice of whether to engage with the advertising or not. By allowing someone this choice you immediately improve both the experience of the gamer and the outcomes for the advertiser.

“I like the in-game advertisements that you can chose to watch if you wish. You have the choice, rather than it being in your face”
- Gamer

Ads that give gamers the choice to engage offer a better user experience, and are more effective

Rewarded video ads are
53% more likely to be described positively
than interstitial video

Gamers are **23% more likely to buy**
or use the product being advertised when Rewarded Video is used vs. Interstitial Video

Some game designs lend themselves more naturally to particular ad types than others, but we saw a consistent uplift in user experience across genres. This was driven by use of ads that allow gamers more choice to engage. A consistent 10-15% uplift in 5* ratings across all types of games:

THREE MYTHS OF IN-GAME ADVERTISING



MYTH 3 CONT: "IT JUST WON'T WORK IN MY GAME"

★★★★★ 5 star ratings

MIDCORE/HARDCORE

Games with rewarded
video generate

+15%
more



than games with less
choice to engage

Games with
native advertising
generate

+10%
more



than games with less
choice to engage

CASUAL

Games with rewarded
video generate

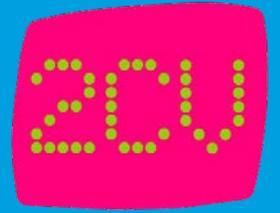
+11%
more



than games with less
choice to engage

It is important that this is a genuine choice within the game and not disguised in a way that tricks people into clicking on the advertising, only to discover it takes them away from their game, which is disruptive for their overall gaming experience. This can undermine their trust in the game and their likelihood to continue playing as they feel that the game is taking advantage of them in order to increase advertising revenue.

Getting ads right in mobile games requires more than just a haphazard approach. Thankfully, some simple steps help with integrating advertising into Mobile Games in a way that has a positive impact for gamers, developers and advertisers.



PRACTICAL STEPS FOR IMPLEMENTATION

PRACTICAL STEPS FOR IMPLEMENTATION



Mobile gaming is a competitive business – the volume of games available is immense, matching the demand. There are blockbusters, the most successful games are only a tiny fraction of the total number available but collect a massive amount of revenue. Every game would like to be the next *Candy Crush* or *Clash Royale*, but the reality is that for the majority of developers there is a need to understand how to build a successful and sustainable business using advertising revenue without detracting from the gamers' experience.

Here are three practical steps to making the most of your audience...



CONSIDERING MONETISATION EARLY

Clash of Clans may survive on microtransactions, but unless other games have the same volume of gamers, most will need more revenue streams. More revenue streams equate to more opportunities to earn, but this comes with the challenge of implementation.

The need for multiple revenue streams is widely recognised these days, Game Developers feel that any monetization strategy needs to have multiple approaches in order to maximize revenue and ensure they are not dependent on one form of revenue-generation.

The question of implementation arises: if you've built a game with one monetisation method at launch then want to add another, it requires time and investment to retro-fit.

AVERAGE # OF METHODS
DEVS ARE PLANNING FOR
THEIR NEXT GAME:

1.8

Top methods are in-app purchase and in-app advertising



On top of that, particular monetisation types have pre-requisites – native requires extra design work, microtransactions need something worth buying separately – something that doesn't ruin the game if you don't buy it, but also doesn't ruin it if you do. Rewarded Video and In-app Purchases are felt to work symbiotically, but even if you are just adding one to the other you need to consider what it will do to balance and progression. All of these issues are easier to deal with if they are built in from the start. However, half of developers don't start thinking about monetisation until after the concept stage, and nearly a quarter don't get to it until much later in development.

53%

of devs are not thinking about monetisation until after they have started development



23% not until they are late in development

If you are thinking about using advertising in a game, there are three things beyond what type of ads to use that you should consider right at the beginning of the process:



ECONOMY

An influx of currency from rewarded advertising can unbalance an in-game economy, especially if it affects competition with other players



PROGRESSION

Gating levels with rewarded advertising as an alternative to earned currency can speed up progression and push gamers through an experience faster, you don't want run out of levels before you can make more



CLARITY

Being able to clearly differentiate advertising from game content is essential for gamers; build a platform that clearly differentiates native advertising



CHOOSING THE RIGHT FORMATS

There are two key ad formats that the industry is moving towards: Rewarded Video and Native. Rewarded Video is much more widely used currently and that trend is set to continue, while Native is just beginning to come in.

Common Mobile Games Ad formats

We tested the seven most common Mobile Games ad formats in our research:



CHOOSING THE RIGHT FORMATS



What these ad types have in common is that they give gamers the choice to engage which enhances the user experience and outcomes. Each comes with additional advantages over the alternatives:

Advantages of Native Display

Display advertising has been the bedrock of digital advertising since the dawn of the internet, it is cheap to buy and cheap to make. Engagement rates are lower than video advertising, but it's a volume game and delivers the numbers needed.

The two standard types of digital display are banners and static interstitial, both of which drive high numbers of impressions but come with flaws. Banners interfere with an app's interface and accidental clicks during gameplay can be very disruptive. Static Interstitial are disruptive to the user experience by nature and take away the gamer's choice of whether to engage with advertising or not.

Native advertising provides a strong alternative to both, improving the user experience by removing disruption and allowing gamers the choice to engage. This leads to better outcomes when the advertising is engaged with.

Advantages of Rewarded Video

Rewarded Video makes gamers feel good; they feel smart for being able to gain additional benefits in the game without having to wait or pay. This positivity reflects on both the game and the advertiser: they feel positive towards the game for giving an alternative to making in-game purchases and they have positive associations with the brand who is advertising as they are the one "helping them out" – as long as it is relevant and not the same ad they have seen before.

Gamers are
23% more likely to buy
or use the product being advertised
when Rewarded Video is used vs.
non – choice based advertising

Gamers are **18% more likely
to make in app purchases**
when Rewarded Video is used
vs. non – choice based
advertising

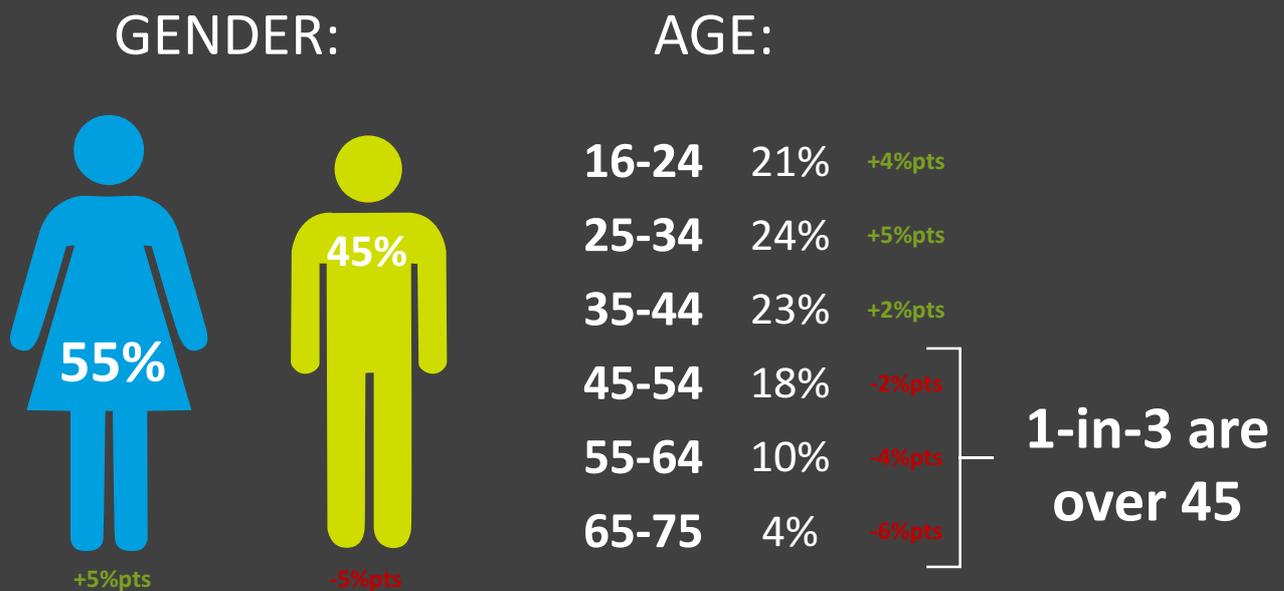
This double positive improves outcomes. Gamers who see Rewarded Video are more likely to spend money on microtransactions within the game and more likely to go on and buy the products advertised. This is a well-documented effect known to Behaviour Science as 'reciprocation': as they got something from the game, they are more likely to give something back.

CHOOSING THE RIGHT FORMATS



There is a noticeable trend that Mobile Games advertising skews heavily towards advertising other Mobile Games. It makes sense: the audience are already playing games so are a captive target market. However, outside of the industry, advertisers are still thinking about “gamer” archetypes and they are not investing heavily because of who they think “gamers” are. The word “gamer” for advertisers is loaded with images of the stereotypical console gamer – young, male and a bit disengaged with the real world (and certainly not spending any money on anything other than games). Not everyone playing mobile games consider themselves ‘gamers’, and this is true of advertisers as much as it is of the rest of the population. Whether they self-identify or not, their behavior makes them equally reachable with in-game advertising.

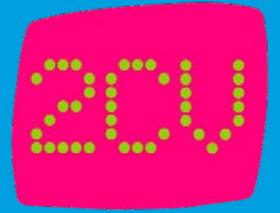
In reality, Mobile Games is a truly mainstream channel, with over half the population (54%) of the countries we surveyed playing in the last month. On top of this, the profile of the audience is also very broad.



An individual game may target a specific group of people, but collectively Mobile Games hit a very broad audience; thinking about the medium as a whole opens up a much bigger opportunity with advertisers.

Recognising that opportunity presents a further challenge. Beyond misconceptions about the audience, advertisers see games as a direct response only medium. This is an association driven by their link to the digital universe, which puts advertisers in the space of click-rates and other direct response metrics as their default way of measuring the campaign.

In contrast, gamers try to avoid going ‘out of app’ when playing unless they really intend to buy/use the product advertised. Based on user behaviour, Mobile Games provide strong potential as a platform for brand advertising in addition to direct response.



THE FUTURE OF IN-GAME ADVERTISING

THE FUTURE OF IN-GAME ADVERTISING

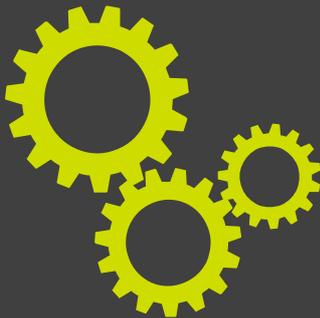


The mobile games industry is still young and growing – developers need sustainable solutions to monetisation to ensure their ongoing business success. Our research has shown that despite huge growth and success, this is just the beginning for mobile games and particularly for their role as an advertising channel.

Through newer ad types and better implementation, mobile games advertising can provide a sustainable ecosystem for everyone, a WIN-WIN-WIN:



GAMERS GET BETTER EXPERIENCES

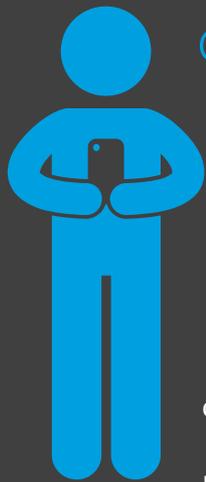


DEVELOPERS GET TO MAXIMISE REVENUE WHILE IMPROVING UX



ADVERTISERS GET A STRONG NEW CHANNEL FOR BRAND ADVERTISING

If the industry can implement advertising well and educate advertisers on the audience they can get access to, there is a bright future ahead.



GAMERS GET BETTER EXPERIENCES



73% of gamers are happy with the ad-funded model of app games

Native advertising and Rewarded Video generate **+10%-15%** more



5* ratings than other ad types

AND drive better ad relevance improving the ad experience itself

DEVELOPERS GET TO MAXIMISE REVENUE WHILE IMPROVING UX

Multiple revenue sources are needed

1.8

Average # of planned revenue streams for games currently in development



Increases the likelihood of in-app purchases

IN-APP PURCHASE

IN-APP ADVERTISING

Gamers play longer

REWARDED VIDEO

Improves LTV both directly and indirectly

NATIVE ADVERTISING

Provides the benefits of other display ad types with fewer drawbacks

ADVERTISERS GET A STRONG NEW CHANNEL FOR BRAND ADVERTISING



54%

of the population play mobile games in a month

3.6X

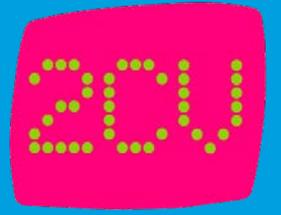
more usage minutes than the next biggest app category

A mainstream medium

55% 1/3rd



over 45 years old



Thank you

