

Challenge Mode: COVID-19's Impact on the Video Game Industry

COVID-19 has wreaked havoc on the entertainment industry, creating massive disruptions across many industry sectors. In the first two parts of this three-part series, we looked at the pandemic's impact on [the film and television business](#) and [the music business](#), finding a few bright spots amidst much gloom. Here, in the third and final part of our series, we focus on video games, perhaps the sector of the entertainment industry that, although beset with challenges of its own, is arguably best positioned to emerge from the crisis in good shape. Indeed, the coronavirus pandemic appears to be accelerating pre-pandemic trends of video games occupying a greater percentage of consumers' entertainment time and of their total entertainment spend.

Area of Effect

Almost as soon as Americans [began staying home](#), industry observers [predicted](#) that the gaming industry was one sector of the economy that would remain *relatively* unscathed—and perhaps even be strengthened—by the coming transformation of consumer life. Kept apart physically by social distancing and stay-at-home orders, [many around the globe](#) have sought [entertainment](#) and [social connection](#) through video games. Indeed, a week after the start of quarantine in the United States, Verizon reported that video game usage [had surged by 75%](#) during peak hours. A survey conducted during late March revealed that gamers are increasing the amount of time they are spending with their consoles in [the United States \(by 45%\)](#), [France \(38%\)](#), [the U.K. \(29%\)](#), and [Germany \(20%\)](#), while [Twitter saw a 71% increase in game-related tweets](#) during the second half of March.

Some industry insiders, however, have described the quarantine as more of a "[double-edged sword](#)" than a total windfall. True, [established studios](#) have seen [record sales](#) on [new releases](#) of already completed games, and servers for multiplayer online games [are scrambling to handle](#) the [unprecedented demand](#), with [varying levels of success](#). But the desire for such free content also reflects another, harsher reality: not every new player who has picked up a controller has been willing to open his or her wallet. [Newbies](#) (or N00bs) are typically [drawn toward games](#) that are [free to play](#), and limit both their [in-app purchases and engagement with ads](#), at a time when [online advertising budgets are being slashed and ad prices are plummeting](#). Still, there is room for optimism within the industry itself, as indicated by an informal poll of audience members at the [Los Angeles Games Conference Select](#), recently held as a virtual event. When asked how they saw their marketing spend changing over the next 12 months, 78% of attendees felt that their marketing budgets would increase or at least stay the same.

The [cancellation](#) or [postponement](#) of [major industry events](#) is also having an impact on the industry. Like many small businesses, independent game developers face a [lack of access to financing](#), and industry events have traditionally [presented smaller players with opportunities](#) to seek strategic partnerships and marketing, publishing, and financing deals, which represent a major lifeline for many. Industry events also have traditionally provided independent developers with a larger platform on which to announce new products than they might otherwise. While larger companies are able to [move their planned announcements to online streams](#), less established developers lack the resources to draw much attention to their own online announcements. Many developers have found themselves relying on [various industry initiatives](#), such as the [GDC Relief Fund](#), just to stay afloat as they wait and see how effective a replacement online industry events will prove to be.

Meanwhile, as both major corporations and smaller game developers cope with the [challenges of working remotely](#), some studios have reported a [20% decline in productivity](#) as a [number](#) of important [updates](#) and

blockbuster [releases](#) have been delayed. Even more worrisome, disrupted manufacturing and distribution pipelines [threaten to affect](#) the release of [major new game consoles](#). Because of their rarity, console releases are pivotal events around which the [release of major games are timed](#); a delayed console launch could have significant ripple effects throughout the entire industry. And even [legacy consoles are becoming difficult to find](#), due to [skyrocketing demand](#) combined with [disrupted supply chains](#).

Of course, that skyrocketing demand reflects the increasingly important role that gaming plays in consumers' lives. For example, video game streaming service Twitch reached a record-breaking [three billion hours watched](#) over the first quarter of 2020, [increasing 31%](#) over the two-week period from March 8 to March 22 alone. As with traditional sports, the biggest esports leagues have had to [shutter their live events](#), but, unlike other sports, esports continue to be [played and watched remotely online](#). Similarly, organized play tournaments that would have been held in person [have been cancelled](#) and moved online, with [one popular card game](#) substituting [physical cards with digital ones](#). For professional video game streamers—who have what has been dubbed the "[most virus-proof job in the world](#)"—and the companies creating tools to support them, the enormous growth in viewership has been a huge moment of economic validation.

Legacy properties have also benefitted from the gaming boon, accelerating a pre-pandemic trend of players [seeking out retro titles](#) from their childhood, and resulting in newer games [having to compete](#) not only with other recent releases but also newly revived [vintage games](#). Mojang Studios, for example, [celebrated eleven years since the release of the first Minecraft alpha build](#) by watching its sales top 200 million and 126 million monthly players, with new players increasing by 25% and multiplayer sessions increasing by 40% in April alone. When [one gaming company](#) offered a [popular legacy title for free](#) as part of an [ongoing weekly promotion](#), it promptly crashed the [company's online store](#) as users [overloaded the site](#).

As a previously [much-maligned](#) form of media, gaming has found social validation during the pandemic, including from the [World Health Organization](#), which, in the past, [warned against the risks of too much gaming](#), but now [supports gaming industry initiatives](#), such as the [incorporation of health messages](#) into games, and [other efforts](#) designed to teach users about the pandemic and encourage them to [stay home](#).

Indeed, users have come to rely on games to [ease loneliness](#) and fulfill increasingly varied roles in their lives, such as [going on dates](#) and meeting [new people](#), [touring virtual museums](#) and [viewing art from real ones](#), and even attending [digital history lessons](#). And business colleagues suffering from video conferencing fatigue have turned to the cowboy-themed *Red Dead Redemption 2*, with its atmospheric gatherings around a virtual campfire, as an immersive alternative to Zoom and Skype—[one that has the added benefit of allowing participants to "jump on \[their\] horses and do crime or justice"](#) when their chat session concludes. Gamers have looked to their favorite platforms to fill more serious needs as well, as reflected by the [organization of a virtual funeral](#) for a fellow gamer who died from COVID-19 complications.

Predictions

Despite some challenges, and perhaps unique among sectors of the entertainment industry, the months to come promise great opportunities for the gaming industry:

- As major tech companies expand their footprint in the gaming industry, whether by [developing apps for creating and watching live gameplay](#), expanding beyond live streaming into [creating games themselves](#) or by [expanding into streaming games](#), companies that are able to provide a responsive and stable online environment, or that can afford to [offer their products for free](#), may see the greatest gains in their subscriber base at a time when servers are frequently overwhelmed and many game users are re-evaluating every expense.

- With smaller developers feeling more of a pinch during the COVID-19 pandemic, companies looking to expand their presence in the gaming industry may find success by pulling out their checkbooks as some desirable acquisition targets may become available at bargain prices.
- With [major sports networks](#) and broadcasting companies relying on esports to fill scheduling gaps, [NASCAR](#) and other leagues creating their [first esports competitions](#), and sports agents [scrambling to set up gaming deals](#) for their clients in the MLB, NBA, and NFL, esports will emerge from the world of professional niche sports and finally cement its place within the mainstream.
- Traditional media is increasingly embracing the esports phenomenon, accelerating the move of esports into the mainstream and perhaps connecting legacy media to a new sports demographic. For example, legacy Spanish-language programmer Univision recently announced the creation of an esports soccer league, while local TEGNA television stations in Texas have announced the broadcast of local esports competitions.
- Look for an even more accelerated shift of consumer entertainment preferences away from traditional media to video games, as millions of new users embrace gaming and millions more discover new games and strengthen their gaming-related social networks.
- As users spend more of their lives in gaming spaces, traditional video games may provide an early peek at the kinds of fully immersive environments that are the [future of virtual reality](#). The [recent unveiling](#) of a [major game engine, set to debut in 2021](#), offers a glimpse into the future, where the [fidelity gap](#) between video games and film is finally closed, and developers can "[build worlds that are so seamless players never notice that things are loading in the background at all](#)." There is strong [reason for optimism about the future of immersive technologies](#), but the problems that arise, such as the [need to overcome walled gardens](#), may inform and shape whatever those virtual spaces might look like, many years in the future. At a time when billions of people are craving new experiences, VR has the potential to serve as the ultimate escape from within the walls of their own homes, [if the fledgling industry can overcome its challenges to do so](#).

Concluding Thoughts

Pre-pandemic, the video game industry had already quietly become [more successful than both the film and music industries combined](#). And although the coronavirus pandemic has created serious supply chain and production challenges for the industry, and many smaller players may have trouble surviving as financing dries up and investors reconsider valuations, the video game industry has avoided some of the dire existential threats currently confronting other sectors of the entertainment industry. Indeed, the gaming industry is poised to move to the next level, emerging from the pandemic with a significantly larger customer base and an even greater share of consumers' free time and entertainment dollar.

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