



Seasonality 2.0

This is the first installment of a SuperData Research study called *Virtual Item Insights*, commissioned by Live Gamer. The series is aimed at understanding the challenges and opportunities of the digital environment for gaming and interactive entertainment. As game companies find themselves in a position to cater directly to their target audience, they also face questions about how to reach these customers and maximize their sales.

Introduction

Like climates, the dynamics of virtual item sales differs from one geographic region to the next. Online spending habits vary greatly across the world. Despite the fact that digital stores generally have no presence in the physical world, seasonality does drive the underlying economic dynamics. National holidays, back-to-school periods, and religious celebrations all influence how and when people spend money.

Relying solely on conventional wisdom from traditional retail sales, however, is insufficient to understand the nature of virtual item sales.

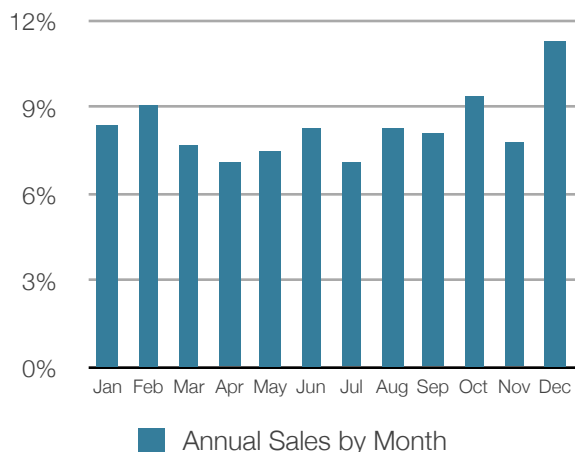
In this brief we take a look at the seasonality of virtual items sales by looking at the sales trends in Asia, Europe and North America. The total sample involved consists of 2,661,225 unique virtual item transactions across 23 different titles in Asia, Europe and North America.

To get a reliable sense of fluctuations in annual sales, only those titles were included for which a full year of sales was available.

Virtual Sales by Month

When aggregating the numbers overall, the following monthly graph emerges. After a peak early in the year, overall sales dip in April and July,

Graph 1: Monthly Sales for Virtual Items, Worldwide



representing only 7.1% of annual revenue each. By October sales have increased again 9.4%, but drop to 7.8% in November, before climaxing at 11.3% in December.

Those familiar with the games industry immediately recognize a difference with traditional software sales, which are much more skewed toward the holiday season. Packaged entertainment software sold through brick-and-mortar retail can generate anywhere around 40% to 50% of annual sales in November and December alone. For virtual item sales that number is roughly half at 19%.

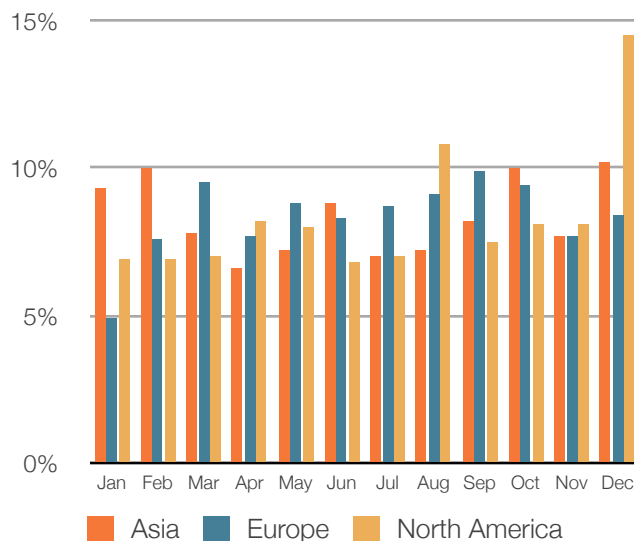
So why the difference? The explanation is twofold: locality and price point. First, graph 1 is based on the aggregated sales across three different continents. Just because North America skews heavily toward the end of the year, does not mean this also applies to Asia and Europe. Because each region will have a unique pattern for seasonal expenditure aggregating sales data creates an odd-looking graph with only moderate peaks and valleys. To reveal the differences in digital consumption for each locale, one must dig deeper.

When organized by region, we immediately see a few key differences. For instance, the highest grossing months for Asia are February, October and December (all three hovering around 10% of annual sales). But for Europe March (9.5%) and

September (9.9%) show the biggest numbers. Finally, North America follows the trend of packaged software sales more closely, as December sales total 14.5%.

Despite the greater degree of transparency emerging from slicing the data by continent, it is obvious that slicing the data down further to, say,

Graph 2: Monthly Sales by Region



a national level will reveal even greater insight. We may speculate on possible reasons for these differences. But clearly a singular virtual goods strategy for an entire continent runs the risk of missing crucial nuance, and therefore sales.

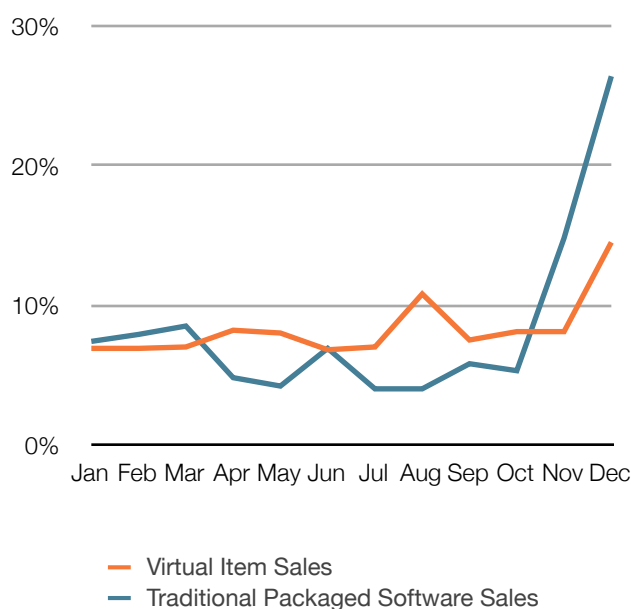
Second, the much lower price point of an average virtual item lies around a few dollars. This is very different from the \$50-\$65 price tag on an AAA title released right before the holiday season. The average revenue per paying user in our sample is \$12.46. A lower price point enables a steadier stream of transactions throughout the year, rather than toward the end. Graph 2 shows this difference for North America.

So What Does This Mean?

Traditionally, the games industry has been heavily dependent on its end-of-year sales. Consequently, developers and publishers time the release of new titles right when the most people

head to the store at once to buy. And with many companies competing for the same attention, marketing budgets have been an enormous cost on publisher's balance sheets.

Graph 3: Sales Comparison (monthly, %)



The sale of virtual goods does not follow the same pattern. A more equally distributed revenue stream throughout the year both allows and demands more equally distributed marketing effort. With reduced reliance on the increasingly cramped holiday season, digital entertainment companies are in a position to better spread their financial risk.

Next Topic: Days of the Week

In our next research brief, titled **Days of the Week**, we discuss how purchasing behavior fluctuates during an average week. (Expected: late October.)

About SuperData Research

SuperData Research is a research provider on digitally distributed entertainment. We help clients think through challenges and opportunities emerging at the intersection of traditional retail and online entertainment, ranging from smartphone business models, monetization using alternative payment methods, location-based analytics and virtual item sales.

SuperData Research employs a multi-disciplinary approach in compiling the data that drive our analyses. This includes ethnographic observation, expert interviews, retail-level transactions, downloaded contact, financial information, and surveys.

In January 2010, SuperData Research secured multi-year angel funding. Our client base includes brand owners, developers, retailers, publishers, VCs, and payment providers.

For more insight and data please look for our [Virtual Item Sales Research Series](#) online.

URL: www.superdataresearch.com

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About Live Gamer

Headquartered in New York with offices in Palo Alto, CA and Seoul, Korea, Live Gamer is the global leader of total commerce solutions for micro-transaction based businesses. We provide an advanced offering that goes beyond payments to drive core business metrics and optimize new transaction-based revenue streams.

Live Gamer technology has powered micro-transactions since 2001 in Korea and proved that publishers and developers could create a thriving game with millions of users and increase revenue beyond the traditional fixed-fee business model. Today, Live Gamer powers core commerce for over 145 titles in 23 countries supporting 80M users and is the proven leader in delivering a total commerce solution on behalf of the interactive entertainment industry.

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