



BroadBranch Advisors

Play-and-Earn: The Gaming Industry's Next Disruptor

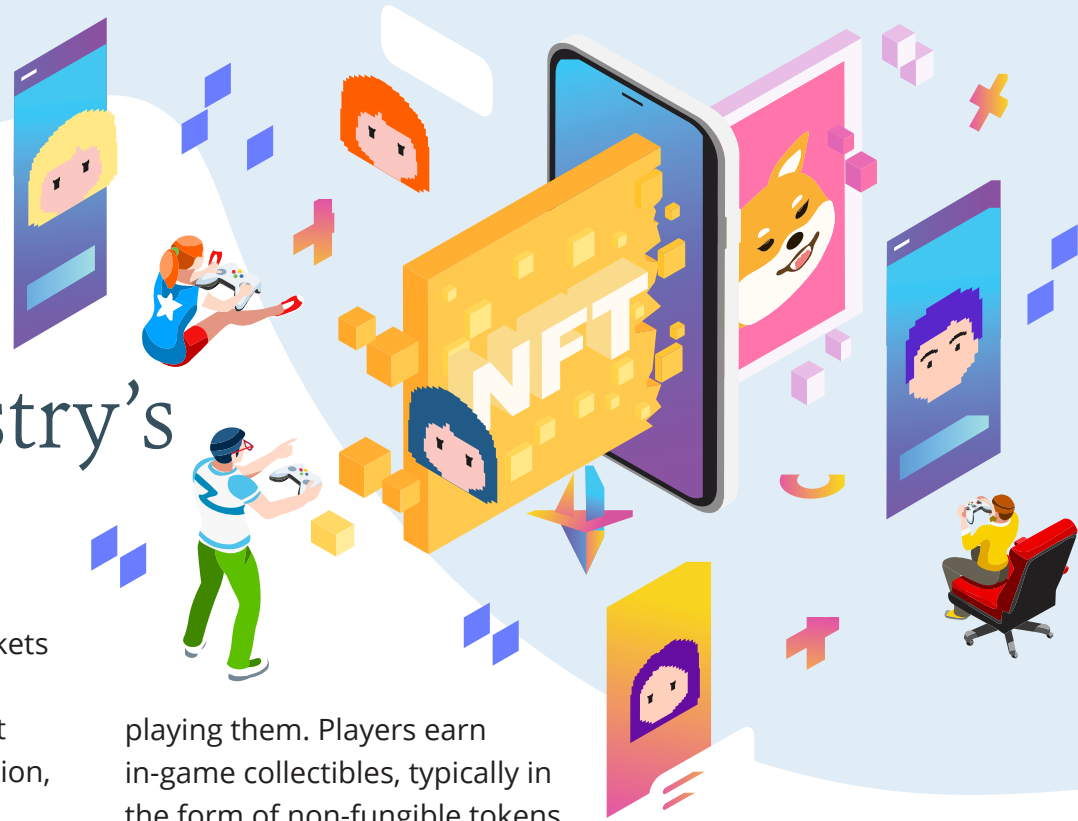
With the massive growth in technology and data, markets that were once dominated by a few legacy players are prone to disruption by newer, innovative entrants that excite consumers. For legacy players, a lack of innovation, future thinking and understanding of the competitive landscape can alter market foothold in a matter of months. One such area undergoing rapid transformation with consequences for legacy vendors is the digital gaming industry.

Valued at \$180 billion by Newzoo, the digital gaming industry is poised for disruption by a revolutionary new business model called play-and-earn, where games offer customers the opportunity to earn real money just by

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playing them. Players earn in-game collectibles, typically in the form of non-fungible tokens (NFTs). Developers deliver in-game assets (often minted on a blockchain) to players, who can purchase them directly from the developers or win them inside the game. Unlike traditional games, these assets are owned by the players and can be sold for real money to other gamers, collectors, investors, or traded for in-game upgrades. Play-and-earn games exploded onto the market in 2021, generating \$5.17 billion in revenue according to Nonfungible.com, an increase from \$321 million (as reported by Bitcoinist.com) the year prior.

As crypto-based play-and-earn studio Sky Mavis rocketed from a tiny independent studio to a \$30 billion valuation in 2021 on the back of Axie Infinity, developers capitalized on massive demand by hastily releasing low quality play-and-





earn games targeted at speculators. Lacking the gameplay and cultural appeal to give in-game assets entertainment or collectible value, these glorified and overvalued companies were largely wiped out when the crypto market crashed in 2022. Despite the current headwinds facing the industry, early crypto-based play-and-earn projects exposed the vast untapped market of consumers seeking the opportunity to monetize their in-game collectibles. The high budget, gameplay-focused play-and-earn projects like Illuvium, Skyweaver, and Embersword are poised for massive traction when the crypto markets and broader economy start to recover. Major tech players like Apple have recognized the opportunity in this market and are using the downtime to embed cryptocurrency payments within games on their platforms.

Play-and-Earn's Trajectory is Familiar

Fifteen years ago, free-to-play games turned the digital gaming industry's business model on its head.

Free-to-play or "freemium" games emerged in the late 2000s along with the mobile gaming market, and they disrupted traditional gaming as they spread to other platforms. Instead of paying for games upfront, customers could start playing for free, paying only for in-game upgrades, cosmetic items, and additional content if they enjoyed the experience. Soaring user bases (and profits) for these games incentivized more and more developers

to enter the space. For the first twenty years of their existence, digital games like any other consumer product were purchased with a single upfront payment. Since then, the free-to-play model has become increasingly popular.

Still, many developers dismissed free-to-play as a fad. In 2013, popular online game Dark Age of Camelot developer Mark Jacobs predicted that free-to-play would experience an "apocalypse" within a few years time. Free-to-play enabled a new generation of industry giants to emerge as studios discovered how to attract customers and incentivize in-app spending. The tremendous success of games like Angry Birds (Rovio Entertainment), Candy Crush (King, shrewdly acquired by Activision Blizzard in 2016) and Clash of Clans (Supercell) has demonstrated the viability of free-to-play on mobile.

While these new entrants became industry juggernauts by capitalizing on the growth of the free-to-play market, legacy console gaming leaders like Sony, Nintendo, and


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SKYWEAVER BETA

← Back BRIMSTONE SILVER

2

 **Brimstone**
#FIRE & UNIT

Death: Add Burn to a Crisp to your hand.

Art by: Edvan Soares

Core Set

"May your soul be as fire,
warming your beloved, and
burning your foes to ash."
- Oni Blessing

1.05 (\$1.05 USD)

Grade	Owned	Market Price	Stock	Supply
Base	Locked	N/A	N/A	N/A
Silver	0	Buy: 1.05 Sell: 1.02	65	476
Gold	0	Buy: 5.84 Sell: 5.59	45	464

Name	Brimstone
Prism	Strength
Element	Fire
Cost	2
Type	Unit
Attack	3
Health	2

In the example above, a player can see the market price for buying and selling a card and the current supply of the card in the game.

Microsoft missed the opportunity to establish a foothold on an expanding market. In addition to the billions in lost revenue, they now face an uphill battle against well-established free-to-play competitors. This lesson is key to watch as the similarly disruptive play-and-earn model continues to emerge.

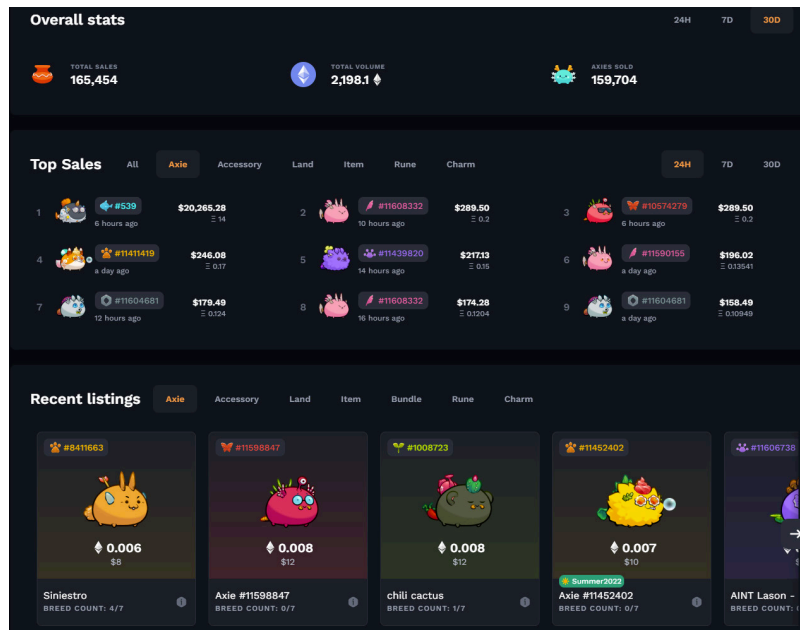
Why Play-and-Earn is Succeeding

Developers are using play-and-earn to attract enormous amounts of players and money. In a play-and-earn model, consumers are incentivized to be early adopters

to earn higher profits on digital assets. As a result, new and unpolished games are able to rapidly scale their player-bases and generate network effects such as reduced waiting times to match players, which in turn improves gameplay experience. Financial incentives and corresponding player base growth compounds the network effect allowing new play-and-earn studios to attract more and more players. As a greater number of players join, more money pours into play-and-earn games.

The ability to trade and sell in-game assets to other players or collectors incentivizes more in-game spending, and having real money at stake also makes the game more engaging. Additionally, players who think the game will do well over time can buy in-game assets with the intent to sell them for a profit as the game becomes more popular. This radically changes the way customers interact with digital games: they see games not just as entertainment, but also as opportunities to trade assets and grow their wealth. These financial incentives and network effects have been critical in drawing consumers to play-and-earn games and industry disruption.

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The Axie Infinity marketplace is another good example of an NFT game marketplace.

Opportunities for Market Participants

While the U.S mobile gaming industry was worth \$13.2 billion in 2020 alone, as estimated by WePC, legacy market participants cannot ignore the prospective revenue to gain from entering the play-and-earn space. The rapid market growth has prompted companies like Meta to begin investigating and innovating opportunities with the model. Oculus, a leading virtual reality (VR) company owned by Meta, recently announced that it would cultivate a digital asset marketplace within its Horizon Worlds platform

and charge a commission on peer-to-peer transactions. The platform would thus be well-positioned to support VR play-and-earn games, unlocking the potential to participate in a lucrative market with a set of enthusiastic customers.

As other developers follow suit, marketplace providers such as Apple (which currently takes 30% of the revenue generated by games on its platform), and Google (which takes 15%), are exploring new ways to incorporate play-and-earn and block-chain-based systems in their gaming ecosystems. Widespread adoption of play-and-earn will pressure even slow-to-adapt closed console gaming ecosystems such as Microsoft, Sony, and Nintendo to support this new business model. In a 2021 interview with Protocol, Twitch's co-founder Justin Kan said "Everybody in gaming that I know, if they weren't working on an NFT game already, they are thinking about how they'd do it or are pivoting hard to it right now."

Innovation Imperative for Legacy Vendors

Established gaming companies must get onboard and would be smart to build the play-and-earn games of tomorrow or be left behind. If they don't make considerable investments now, they stand to lose out on the next wave of innovation to early adopters like Meta and Valve. Pokémon is an example of a digital game that has a huge untapped monetization potential in secondary markets. Currently, customers can own and exchange



their Pokémon within Nintendo's console system, but they cannot sell their Pokémon to other customers. Outside the Nintendo console system, rare and top-tier Pokémon are worth pennies because there is no way to verify the authenticity of a Pokémon. Hackers can create as many as rare Pokémon as they'd like and flood the market with these assets. Introducing play-and-earn mechanisms – establishing secondary marketplaces and investing in technologies like blockchain to ensure the authenticity of digital assets – would enable Nintendo and other established players to control their intellectual property both within and outside their console systems. Charging small-percentage marketplace fees on assets that go from worthless to highly sought after could unlock tremendous value for these legacy players.

Network effects are critical to the success of any multiplayer game, and also make it difficult for copycat games to displace successful early entrants. This has already occurred in the free-to-play space, where the vast player base and cultural appeal of early participants Epic Games (Fortnite) and Riot Games (League of Legends) have made it difficult for new studios to enter the battle

royale or multiplayer online battle arena (MOBA) genres respectively. Similarly, companies late getting into play-and-earn risk losing significant market share to early entrants, while those that build, buy, or partner wisely can establish a strong position in a market experiencing explosive growth.

To be successful in building and marketing this new paradigm, gaming companies need to understand 1) the ecosystem and competitive landscape, 2) what players and investors are looking for, 3) the right organic or inorganic go-to-market strategy based on their current position.

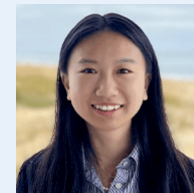
[BroadBranch Advisors](#) has deep experience helping clients be leaders in innovation and understand their market landscape through go-to-market strategies, competitive benchmarking and voice-of-customer analysis. If you are interested in better understanding disruptive patterns and growth opportunities in your sector, please reach out to Courtney Matson (courtney@brbradv.com) or Greg Thompson (greg@brbradv.com) to learn more about how we can collaborate. You can also read other market perspectives written by our team [here](#).



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