

# Microsoft's Xbox Cloud Gaming service offers operators the opportunity to target new types of gamers

July 2021

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Revenue from digital gaming has grown significantly during the COVID-19 pandemic. Operators can benefit from the growing cloud-gaming market in several ways, but need to think about how to best-position themselves to maximise gain. One option is to form partnerships with other stakeholders in the gaming market. Indeed, Microsoft is now more-actively seeking operator partnerships for its cloud-gaming service, Xbox Cloud Gaming. In this article, we explore the potential for Microsoft's cloud-gaming proposition and identify which of the groups of operators' customers are most likely to engage with it.

## Microsoft has expanded its gaming services to include cloud gaming

Cloud gaming is becoming increasingly popular and will soon no longer be niche. Retail revenue is expected to grow from USD265 million in 2019 to USD14.5 billion in 2024,<sup>1</sup> and operators are well-positioned to benefit from this. Cloud gaming services are typically cheaper for end users than the non-cloud alternative of buying a console and various games. The former are also sometimes available through free trials. Both of these factors broaden the audience for games. However, getting consumers to pay even these reduced prices continues to be a challenge and this contributed to the shutdown of several cloud-gaming services in the past year: Rovio shut down its cloud service, Hatch, at the end of December 2020 and Google shut down its game development division, Stadia Studios, in February 2021.

The Xbox Cloud Gaming service complements Microsoft's hardware strategy; it allows device owners to play games how they want using a device of their choice, but it does not have hardware requirements. Microsoft launched the first customer preview (pilot) of the Xbox Cloud Gaming service (Project xCloud) through operators in South Korea, the UK and the USA in 2019, before expanding to further parts of Asia-Pacific, Europe, Latin America and North America in 2020. Microsoft's 2020 annual report shows that the Xbox Game Pass service had more than 15 million subscribers at the end of 2020 and that revenue from Xbox content and services increased by 11% year-on-year.<sup>2</sup>

## Operator-hyperscaler partnerships have yet to fully identify their target audience

Microsoft has formed numerous partnerships with operators, as detailed in Figure 1. Operators are better-placed to promote cloud gaming than any other potential Microsoft partner. They can use their relationships with current customers to explore upselling and can educate consumers about why cloud gaming is valuable to them.

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<sup>1</sup> For more information, see Analysys Mason's [Segmenting the gaming market for telecoms operators](#).

<sup>2</sup> This includes revenue from Xbox Live (transactions, subscriptions, cloud services and advertising), video games and third-party video game royalties.

**Figure 1: Selected Microsoft–operator partnerships, 2019–2021**

Operator	Location	Date partnership was formed	Details
SK Telecom	South Korea	September 2019	SK Telecom is Microsoft's exclusive operating partner for delivering 5G-based cloud gaming in South Korea.
T-Mobile	USA	September 2019	T-Mobile is the US wireless partner for the public preview of Project xCloud.
Vodafone	UK	September 2019	Vodafone signed a technical partnership with Microsoft for the preview of Project xCloud.
Telstra	Australia	August 2020	Telstra has an exclusive partnership with Microsoft for its Xbox All Access programme.
Telia	Sweden	March 2021	Telia signed a cloud-gaming partnership deal with Microsoft.
BT	UK	April 2021	BT started to offer its broadband customers Xbox Game Pass Ultimate as an add-on.

Source: Analysys Mason, 2021

We have identified three categories of gamer: casual, core and hardcore. Two of the key differences between these segments are how much members are prepared to spend on gaming and which types of content they wish to play. Neither Microsoft nor its operator partners have articulated a clear view of exactly whom the Xbox Cloud Gaming service is aimed at as yet. Indeed, Microsoft's solution is priced at a level that best suits the high spend of hardcore gamers (around 10% of the population), but the game selection more closely matches core gamers' preferences. This issue is not just limited to Microsoft. For example, Deutsche Telekom's Magenta Gaming service includes a range of games that appeal to casual gamers (the segment with the lowest spend on gaming), but the service is currently priced at EUR6.95, which might be more than a casual gamer is willing to spend.

## The diversification of Xbox hardware to include smart TVs and a streaming stick improves operators' ability to target core gamers

The Xbox Game Pass has historically only been sold to Xbox console owners, which means that it has primarily been aimed at hardcore gamers. However, the inclusion of the Xbox Cloud Gaming service within the Pass means that consumers no longer need to own an Xbox console to play. As a result, Microsoft's addressable market now includes core gamers (25% of all adults); operators that bundle the Xbox Game Pass can also target these users.

Furthermore, Microsoft has been working on diversifying its hardware to bring down the price of on-TV-set gaming to such an extent that even casual gamers (who historically have paid little-to-nothing for digital games) may be tempted by extended free trials bundled with a telecoms service upgrade. Indeed, it plans to launch a dedicated streaming device (similar to an Amazon Fire Stick) and smart TV apps. This 'affordable-hardware-plus-discounted-service' approach may even attract casual gamers to spend more and become core gamers.

Ultimately, the best way to educate a consumer about the benefits of any service is to allow them to try the service out for themselves. This was achieved through demonstrations in brick-and-mortar stores and shopping malls prior to the pandemic. Many services are now enabled by the cloud and people are spending more time at home, so providers may instead demonstrate their services from the comfort of the user's own home. As such, cloud gaming enabled by a cheap (or discounted) dongle and bundled with a telecoms service upgrade could be an excellent way to encourage certain categories of consumer to spend more on both games and core telecoms services.