The Video Game Industry

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Why Video Games?

FACTS

• 35% of American parents play video games, 80% of them play with their kids, 66% of whom think that gaming has brought their family closer.

• New studies show that gamers make accurate decisions faster than non-gamers.

• In 2011, the industry's value added to U.S. Gross Domestic Product (GDP) is expected to be $17.7 billion.

• 190 million households will use a next-generation video game console in 2012.
Agenda

- Industry Overview
- Console Market
- Video Games & Software
- Online Gaming
- Recommendations
Video Game Industry

- Industry at a glance
- Industry structure
- Life Cycle & Revenue
- Concentration / HHI
- Timeline
- Key success factors
- Key external drivers
- Video game statistics
- Competitive landscape
Industry at a Glance
Video Games in 2011

Key Statistics Snapshot

Revenue: $40.7bn
Annual Growth 06-11: 4.6%
Annual Growth 11-16: 8.3%

Profit: $2.3bn
Exports: $5.5bn
Businesses: 5,948

Products and services segmentation (2011)

- 67.6% Games and software
- 17.1% Consoles
- 7.5% Online subscriptions
- 7.8% Accessories

SOURCE: www.ibisworld.com
Video Game Industry

- Industry at a glance
- Industry structure
- Life Cycle & Revenue
- Concentration / HHI
- Timeline
- Key success factors
- Key external drivers
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- Competitive landscape
# Industry Structure

<table>
<thead>
<tr>
<th>Life cycle stage</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue volatility</td>
<td>Medium</td>
</tr>
<tr>
<td>Capital intensity</td>
<td>Medium</td>
</tr>
<tr>
<td>Industry assistance</td>
<td>None</td>
</tr>
<tr>
<td>Concentration level</td>
<td>Medium</td>
</tr>
<tr>
<td>Regulation level</td>
<td>Light</td>
</tr>
<tr>
<td>Technological change</td>
<td>High</td>
</tr>
<tr>
<td>Barriers to entry</td>
<td>High</td>
</tr>
<tr>
<td>Industry globalization</td>
<td>Medium</td>
</tr>
<tr>
<td>Competition level</td>
<td>High</td>
</tr>
</tbody>
</table>
Video Game Industry

- Industry at a glance
- Industry structure
- **Life Cycle & Revenue**
  - Concentration / HHI
  - Timeline
- Key success factors
- Key external drivers
- Video game statistics
- Competitive landscape
Industry Revenue

![Bar chart showing industry revenue growth from 2002 to 2016. Revenue in millions of dollars, with years from 2002 to 2016 on the x-axis and revenue on the y-axis. Revenue has increased steadily over the years.]
Video Game Industry

- Industry at a glance
- Industry structure
- Life Cycle & Revenue
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- Key external drivers
- Video game statistics
- Competitive landscape
Video Game Industry Concentration

Major Companies
Sony Corporation | Nintendo Co. Ltd. | GameStop Corp.
Microsoft Corporation | Activision Blizzard Inc. | Electronic Arts Inc. | Other Companies

Major players
(Market share)

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microsoft Corporation</td>
<td>8.3%</td>
</tr>
<tr>
<td>Electronic Arts Inc.</td>
<td>6.0%</td>
</tr>
<tr>
<td>Nintendo Co. Ltd.</td>
<td>17.0%</td>
</tr>
<tr>
<td>GameStop Corp.</td>
<td>16.0%</td>
</tr>
<tr>
<td>Sony Corporation</td>
<td>21.3%</td>
</tr>
<tr>
<td>Other</td>
<td>25.2%</td>
</tr>
</tbody>
</table>

HHI = 1142

SOURCE: www.ibisworld.com
Video Game Industry

- Industry at a glance
- Industry structure
- Life Cycle & Revenue
- Concentration / HHI
- **Timeline**
- Key success factors
- Key external drivers
- Video game statistics
- Competitive landscape
VIDEO GAME timeline

As the world of video games continue to evolve, we take a look back at popular consoles and video games that helped make Nintendo, Sony, and Microsoft the giants they are today.

1972
The world's first home video game console, the Magnavox Odyssey, sold 330,000 units in its lifetime.

1974
Gran Turismo, the first racing arcade game, is released. It is the first arcade game to use ROM.

Maze Wars is released. Considered to be the earliest first person shooter.

1967
German-born television engineer Ralph Baer and his coworkers design the first video game console that works on a standard television and dub it "Brown Box." They develop a chase game, allowing players to control two squares chasing each other on the screen. A modified toy gun is made and able to distinguish spots of light on the screen. 12 other games are made.

1976
Atari releases Breakout. The prototype was designed by Apple co-founders Steve Jobs and Steve Wozniak. Blackberry's current variant is called Brick Breaker.

1977
Atari releases the Video Game Computer System (Atari 2600 or VCS). It is the most successful video game console of its time.

1978
Atari opens Time Traveler, a pizzeria.

1979
Mattel releases the Intellivision video console, releasing a total of 125 games during its lifetime.
### Industry

#### Consoles

**2004**

- Sony releases the first handheld console to use an optical disc, the PlayStation Portable.

**2005**

- Microsoft releases its second console, the Xbox 360.

**2009**

- Nintendo releases the Nintendo DSi and Sony releases the PSP Go.

### Video Games

**2001**

- Sony releases the PS2, 138 million units sold and is the best selling console to date.
- With their first venture into the video game console market, Microsoft releases the Xbox, 24 million units sold.

**2004**

- Nintendo releases the Gamecube, Nintendo's first console to use optical discs; 21 million units sold.

**2006**

- The Sony PlayStation 3 and the Nintendo Wii are released just 8 days apart from each other; both enter the 3 way console war.

### Online Games

**2001**

- Gran Turismo 4, Guitar Hero

### 6th Generation

**2001**

- Nintendo releases the Gameboy Advance. With several different variants and colors, 81 million are sold.

**2002**

- Notable Releases: Socom, Animal Crossing, Kingdom Hearts: Vice City, Splinter Cell, Medal of Honor.

**2004**

- Nintendo releases the Nintendo DS, sporting a touchscreen and stylus.

**2006**

- Fable, Halo 2
Video Game Industry

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- Life Cycle & Revenue
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- **Key success factors**
- Key external drivers
- Video game statistics
- Competitive landscape
Key success factors

- Ability to quickly adopt new technology
- Aggressive marketing/franchising - given the high level of competition
- Development of new products
- Downstream ownership links
- Establishment of brand names
- Economies of scale
Video Game Industry

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  - Key external drivers
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Key external drivers

- Industry systems and technology
- Time spent on leisure and sports
- Video game console sales
- Per capita disposable income
- Attendance at spectator sports
Video Game Industry

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The percent of US households that play video games is 65%. 2 out of 5 gamers are female. The age of the average gamer is 32 years old.
Primary Console Players:

- **XBOX360**
  - Female: 11%
  - Male: 41%

- **Wii**
  - Female: 80%
  - Male: 38%

- **PS3**
  - Female: 9%
new gamers vs established gamers

(percentages)

17 16 19 22 27 20 20 20 17

12-17 18-24 25-34 35-44 45-54

new gamer: less than 2 years playing
established gamer: more than 2 years playing

18 HOURS

Average time spent PER WEEK by gamers playing video games
VIDEO GAME SALES by rating

- Everyone: 42%
- Everyone +10: 12%
- Teen: 28%
- Mature: 15%

SOFTWARE SALES (annual units sold in millions)

<table>
<thead>
<tr>
<th>CONSOLE</th>
<th>PC</th>
</tr>
</thead>
<tbody>
<tr>
<td>154</td>
<td>36.4</td>
</tr>
</tbody>
</table>

TOP 5 Best selling video games

1. Wii Sports (Wii)
2. Super Mario Bros. (NES)
3. Pokemon
   Red/Green/Blue (GB)
4. Tetris (GB)
5. Duck Hunt (NES)
138 MILLION

Sony Playstation 2 units sold; the best selling console ever

23.7%
Percentage of CONSOLE FAILURE within FIRST 2 YEARS of ownership

10%

2.7%

The Mario franchise is the most successful video game series, selling over 225 million games
## Console Wars
(units sold in millions)

<table>
<thead>
<tr>
<th>Console</th>
<th>Total Sales</th>
<th>US Sales</th>
<th>Japan Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>PS3</td>
<td>31.59</td>
<td>12.35</td>
<td>4.58</td>
</tr>
<tr>
<td>XBOX 360</td>
<td>37.14</td>
<td>21.50</td>
<td>1.23</td>
</tr>
<tr>
<td>Wii</td>
<td>65.32</td>
<td>30.56</td>
<td>9.67</td>
</tr>
</tbody>
</table>

## Handheld Console Wars
(units sold in millions)

<table>
<thead>
<tr>
<th>Handheld</th>
<th>Total Sales</th>
<th>US Sales</th>
<th>Japan Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSP</td>
<td>55.5</td>
<td>18.82</td>
<td>13.68</td>
</tr>
<tr>
<td>NINTENDO DS</td>
<td>124.27</td>
<td>44.16</td>
<td>29.48</td>
</tr>
</tbody>
</table>
Video Game Industry

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- Concentration / HHI
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- Key success factors
- Key external drivers
- Video game statistics
- **Competitive landscape**
Competitive Landscape

(Millions of units sold worldwide, consoles and portables)
Console Market

- Market Overview
- Distribution Chain
- Pricing Strategies
- Other Strategies
Console Market Overview

- $6.49 billion in revenue
- Includes traditional and portable consoles

Games and Software 68%
Online Subscriptions 7%
Accessories 8%
Consoles 17%
Major Players

- Market Share 2010 (units):
  - Microsoft: 11,418,250 units, 25%
  - Nintendo: 21,466,310 units, 47%
  - Sony: 12,788,440 units, 28%
- Founded in 1889 as a card company
- Market value of over $85 billion – 3rd most valuable listed company in Japan
- 2009 revenue = $19 billion/$6.9 billion – US, net income = $2.9 billion
- 15.2% net profit margin
- Nintendo of America: majority owner of MLB Seattle Mariners
Sony Computer Entertainment, Inc. established in 1993 in Tokyo
SCE handles R&D, production, and sales of video games and video game systems
2009 revenue = $77.8 billion/$8.7 billion from SCE
• Net income = $ (440) million
Microsoft Game Studios introduced in 2002
- Produces the Xbox & Xbox 360 consoles
- 2009 revenue of $62.5 billion/$3.4 billion from MGS
  - Net income of $18.8 billion, and net profit margin of 30%
## Market Concentration

<table>
<thead>
<tr>
<th>Firm</th>
<th>Market Share (% by units)</th>
<th>Market Share $^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nintendo</td>
<td>47%</td>
<td>2209</td>
</tr>
<tr>
<td>Sony</td>
<td>28%</td>
<td>784</td>
</tr>
<tr>
<td>Microsoft</td>
<td>25%</td>
<td>625</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>HHI = 3618</td>
</tr>
</tbody>
</table>

### Market Concentration
- Highly concentrated market for consoles!
- Entering the market = expensive
- The “Big Three” tend to elicit considerable loyalty from gamers

Source: market share data from IBISWorld
Console Market

- Market Overview
- Distribution Chain
- Pricing Strategies
- Other Strategies
Distribution Chain

Hardware Manufacturing
- Design
- Development

Electronic Packaging and Final Assembly

Marketing
- Advertising
- TV Commercials

Production and Manufacturing

Software Manufacturing
- Design
- Marketing
- Modeling
- Programming

Distribution
- Retail Stores
- Internet Stores
- Steam & Amazon

Consumers
Console Market

- Market Overview
- Distribution Chain
- Pricing Strategies
- Other Strategies
Pricing Strategies

- Intertemporal Price Discrimination
- Technological Tying & Mixed Bundling
- Versioning
Intertemporal P.D.

- **Sony’s PlayStation 3:**
  - At its 2006 release, PS3 20GB = $499.99, PS3 60GB = $599.99
  - Today, PlayStation 3 160GB sells on Amazon for $299.99

- **Nintendo Wii:**
  - At its 2006 release, Wii sold for $249.99
  - Now sells on Amazon for $199.99

- Avid gamers pay a premium
- Price subsequently lowered to penetrate the amateur player market
Technological Tying

- Ex: Wii console only plays Wii video games
- Accessories are unique to each console
- Mixed bundling: can be purchased together or separately

<table>
<thead>
<tr>
<th>Walmart Product</th>
<th>Price</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wii Console + Wii Sports &amp; Fitness + Nunchuk + Remote + Super Mario Galaxy 2 Game</td>
<td>$304.00</td>
<td>$304.00</td>
</tr>
<tr>
<td>Wii Console + Wii Sports &amp; Fitness + Remote</td>
<td>$289.00</td>
<td></td>
</tr>
<tr>
<td>Nunchuk</td>
<td>$19.96</td>
<td></td>
</tr>
<tr>
<td>Super Mario Galaxy 2 Game</td>
<td>$49.96</td>
<td>$358.92</td>
</tr>
</tbody>
</table>
Versioning

- PlayStation 3 320GB
  - $349.00 at Walmart
- PlayStation 3 160GB
  - $299.00 at Walmart

- A form of second-degree price discrimination
- Allow companies to induce customers into high-valuation & low-valuation consumers
- Intense gamers vs. recreational gamers
Console Market

- Market Overview
- Distribution Chain
- Pricing Strategies
- Other Strategies
“Technological Leapfrogging”

- Conditions:
  - Network externalities prevalent
  - Few dominant firms
  - Firms attempt to displace the current standard by introducing a radically improved technology that “leapfrogs” the current generation

"Technological Leapfrogging"

Value of old technology’s functionality, installed base, & complement goods

<

Value of new technology

Xbox/GameCube/PS2

Xbox 360/Wii/PS3

“Technological Leapfrogging”

- Sales of consoles follow a cycle
- Companies would introduce new technology at the risk of cannibalization

Other Console Strategies

- Aggressive discounting
  - Ex: PlayStation 3
- Pricing based on target market personality
  - Wii vs. Xbox 360
Video Games and Software

- Background Information
- Competition
- Organization
- Pricing Strategies
- Raw Data Analysis
Background Information

- Market definition
- Quick facts
  - 67.6% of total industry revenue
  - Rapid technological growth
  - Growing segment
  - Broadening demographics
Video Games and Software

- Background Information
- Competition
- Organization
- Pricing Strategies
- Raw Data Analysis
# Competition

<table>
<thead>
<tr>
<th>#</th>
<th>Company</th>
<th>Revenue 2009</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nintendo</td>
<td>6,799</td>
<td>22.15%</td>
</tr>
<tr>
<td>2</td>
<td>Activision Blizzard</td>
<td>4,279</td>
<td>13.94%</td>
</tr>
<tr>
<td>3</td>
<td>Electronic Arts</td>
<td>3,728</td>
<td>12.14%</td>
</tr>
<tr>
<td>4</td>
<td>Sony</td>
<td>1,914</td>
<td>6.24%</td>
</tr>
<tr>
<td>5</td>
<td>Microsoft</td>
<td>1,741</td>
<td>5.67%</td>
</tr>
<tr>
<td>6</td>
<td>Konami</td>
<td>1,594</td>
<td>5.19%</td>
</tr>
<tr>
<td>7</td>
<td>Ubisoft</td>
<td>1,249</td>
<td>4.07%</td>
</tr>
<tr>
<td>8</td>
<td>Take-Two Interactive</td>
<td>916</td>
<td>2.98%</td>
</tr>
<tr>
<td>9</td>
<td>Square Enix</td>
<td>916</td>
<td>2.98%</td>
</tr>
<tr>
<td>10</td>
<td>THQ</td>
<td>909</td>
<td>2.96%</td>
</tr>
<tr>
<td>11</td>
<td>Namco Bandai</td>
<td>860</td>
<td>2.80%</td>
</tr>
<tr>
<td>12</td>
<td>Sega Sammy Holdings</td>
<td>836</td>
<td>2.72%</td>
</tr>
<tr>
<td>13</td>
<td>Capcom</td>
<td>767</td>
<td>2.50%</td>
</tr>
<tr>
<td>14</td>
<td>Shanda Interactive</td>
<td>704</td>
<td>2.29%</td>
</tr>
<tr>
<td>15</td>
<td>Nexon Corporation</td>
<td>608</td>
<td>1.98%</td>
</tr>
<tr>
<td>16</td>
<td>NCSOft</td>
<td>549</td>
<td>1.79%</td>
</tr>
<tr>
<td>17</td>
<td>MTV Games</td>
<td>329</td>
<td>1.07%</td>
</tr>
<tr>
<td>18</td>
<td>Perfect World</td>
<td>313</td>
<td>1.02%</td>
</tr>
<tr>
<td>19</td>
<td>Zynga</td>
<td>270</td>
<td>0.88%</td>
</tr>
<tr>
<td>20</td>
<td>Tecmo Koei</td>
<td>260</td>
<td>0.85%</td>
</tr>
<tr>
<td>21</td>
<td>Changyou</td>
<td>260</td>
<td>0.85%</td>
</tr>
<tr>
<td>22</td>
<td>Disney Interactive</td>
<td>252</td>
<td>0.82%</td>
</tr>
<tr>
<td>23</td>
<td>NetEase.com</td>
<td>247</td>
<td>0.80%</td>
</tr>
<tr>
<td>24</td>
<td>Atlus</td>
<td>208</td>
<td>0.68%</td>
</tr>
<tr>
<td>25</td>
<td>Giant Interactive</td>
<td>189</td>
<td>0.62%</td>
</tr>
</tbody>
</table>

Source: http://www.softwaretop100.org/top-25-gaming-companies-2010
Competition

- Concentration statistics
  - CR4 = 54.47
  - HHI = 1013.951
- Both indicate low concentration
- Most competitive segment in the video game industry
- Low barriers to entry
Video Games and Software

- Background Information
- Competition
- Organization
- Pricing Strategies
- Raw Data Analysis
Organization

- Game publishing is similar to book publishing
  - Developers
    - Development team of 20 to 100 members
    - Mainstream games cost 3 to 6 million dollars
  - Publishers
    - Provide funding for developers
    - Market the video games
    - Distribute games to retailers
  - Retailers
    - Sell the games
Video Games and Software

- Background Information
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Pricing Strategies

- Uniform Pricing
- Intertemporal Price Discrimination
- Bundling
- Tying
- Advance Selling
- Post Purchase Microtransactions
Uniform Pricing

- Why price all games the same?
  - Simplicity
  - Tacit collusion
  - Price is not a measure of quality
  - Uncertain demand
  - Consumer expectations
Anatomy of a $60 Video Game

- Retailer Margin - $15
- Returns - $7
- Distribution, Cost of Goods - $4
- Platform Royalty - $7
- Publisher - $27

Data Source: OnLive
Chart: Alex Pham / Los Angeles Times
Intertemporal Price Discrimination

- **Raw Data Procedure**
  - Collected prices of 300 console games by hand on Amazon
    - 100 from each console
    - Top 50 most popular, and 50 of medium popularity
  - Also collected their release dates
  - Plotted those prices against the time since release
  - Ran regressions

- *Important Assumption: All games begin at the same price*
Intertemporal Price Discrimination

Aggregated Intertemporal Pricing Data

Days Since Release

Video Game Price

$10.00

$20.00

$30.00

$40.00

$50.00

$60.00

$70.00

$80.00

$90.00

$100.00
Intertemporal Price Discrimination

PlayStation3 Combined

Video Game Price vs. Number of Days Since Release

$-\rightarrow$ $10.00 \rightarrow 20.00 \rightarrow 30.00 \rightarrow 40.00 \rightarrow 50.00 \rightarrow 60.00$

$0 \rightarrow 200 \rightarrow 400 \rightarrow 600 \rightarrow 800 \rightarrow 1000 \rightarrow 1200 \rightarrow 1400 \rightarrow 1600 \rightarrow 1800$

Industry Consoles Video Games Online Games Recs
Intertemporal Price Discrimination

PlayStation3 Popular

Number of Days Since Release

Video Game Price

$10.00
$20.00
$30.00
$40.00
$50.00
$60.00
$70.00

$-
Intertemporal Price Discrimination

PlayStation3 Semi-Popular

Number of Days Since Release

Video Game Price

$10.00
$20.00
$30.00
$40.00
$50.00
$60.00

0 200 400 600 800 1000 1200 1400 1600 1800
Intertemporal Price Discrimination

PlayStation3 Combined (ln)

$ r = .7316 $
Intertemporal Price Discrimination

Xbox Combined

Number of Days Since Release

Video Game Price

$-$

$10.00

$20.00

$30.00

$40.00

$50.00

$60.00

$70.00
Intertemporal Price Discrimination

Xbox Popular

![Graph showing the relationship between video game price and number of days since release. The graph plots video game prices ranging from $10.00 to $60.00 against the number of days since release, with a trend line showing a downward curve.]
Intertemporal Price Discrimination

Xbox Semi-Popular

Video Game Price vs. Number of Days Since Release

- $10.00
- $20.00
- $30.00
- $40.00
- $50.00
- $60.00

0 500 1000 1500 2000 2500

Number of Days Since Release
Intertemporal Price Discrimination

Xbox Combined (ln)

$r = .6112$
Intertemporal Price Discrimination

Wii Combined

Video Game Price vs. Number of Days Since Release

- $70.00
- $60.00
- $50.00
- $40.00
- $30.00
- $20.00
- $10.00
- $ -

0 200 400 600 800 1000 1200 1400 1600 1800

Number of Days Since Release
Intertemporal Price Discrimination

Wii Popular

Video Game Price vs. Number of Days Since Release
Intertemporal Price Discrimination

Wii Semi-Popular

Video Game Price vs. Number of Days Since Release
Intertemporal Price Discrimination

- Final word?
  - Intertemporal pricing is evident in the Playstation 3 and Xbox 360, but not the Nintendo Wii
  - The fact that Wii games “age better” might be due to extreme differentiation counteracting the effect of time on prices
Bundling

- Common practice in the video game industry
- Usually mixed bundling
- Games with other games
- Games with consoles
- Games with peripherals
- Takes advantage of heterogeneous demand
Tying

- “Razors and Blades” approach
- Games can only be played on one console
- Majority of revenue comes from games
- Consoles can be sold at low margins or even at a loss
Advance Selling

- Consumers can preorder games, usually at a discount
- This capitalizes on consumer uncertainty (reviews are not out yet)
- Often incentivized with “preorder bonuses”
- Portal 2 “potato sack”
Post Purchase Microtransactions

- Consumer pays for extra content after buying the game
  - Could be extra songs in guitar hero, bonus levels in Mario, or even multiplayer in a previously single player game
- A form of second degree price discrimination
  - Separates consumers who like the game a great deal and are willing to pay for more content from those who are not
- Often purchased with digital currency
  - Nintendo points, Xbox Live points, etc...
Online Gaming

- Market Overview
- Xbox Live
- Case Study: World of Warcraft
- Pricing Strategies
- Mobile and Social Gaming
Online Gaming Characteristics

- Games designed primarily for the internet
- Multiplayer
- Cooperative and/or competitive
- Social
- Consistently updated
- Typically played on computers
- Free or subscription based
Online Gaming Growth

- In 1999, nearly nonexistent revenue
- Now, over a 3 billion dollar industry
- Average annualized growth rate of 40.1% from 2005 to 2010, compared to industry 4.6%
U.S. Subscribers to Massive Multiplayer Online Games

Source: IbisWorld
MMOG Active Subscriptions
200,000+

Source: mmogchart.com
Online Gaming Production

- High initial development costs
- Significant capital requirements
- Continued maintenance and development costs
- High risk
  - Matrix Online and The Sims Online
Online Gaming Profitability

- Consistent revenue stream
- High profitability: 15% vs. 5.7% industry
- Significant economies of scale: information good
- Circumvent retailers
- Prevents piracy
- Network effects
Online Gaming Business Models

- Free-to-play, upgradable
- Free-to-play, microtransactions
- Pay-to-play
- Pay-to-play, microtransactions
Xbox Live

• Most successful subscription model for consoles
• Live Free and Live Gold
• Microsoft Points
• Downloadable Content
Online Gaming

- Market Overview
- Xbox Live
- **Case Study: World of Warcraft**
- Pricing Strategies
- Mobile and Social Gaming
World of Warcraft
World of Warcraft History

- Released November 23, 2004
- Expansion packs
  - The Burning Crusade: January 16, 2007
  - Wrath of the Lich King: November 13, 2008
  - Cataclysm: December 7, 2010
MMOG Active Subscriptions
World of Warcraft

Source: mmogchart.com
World of Warcraft Statistics

- 50% of online subscription revenues in 2009
- $1.2 billion revenue in 2009
Online Gaming

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Pricing Strategies

- Two-Part Tariff
- Versioning
- Microtransactions
- Strategies Combatting Churn Rate
- Additional Services
Two-Part Tariff

- Initial purchase
- Trial period
- Monthly subscription
Versioning

- Collector’s Edition
- Expansion packs
- Network externalities?
Microtransactions

- Secondary for World of Warcraft
- $2.1 billion market in 2007
- Real Money Trading (RMT)
  - Virtual currency
  - Exclusive items
    - “Horse Dung?”
- “Gold Farming” problem?
Combatting Churn Rate

- 4 to 5% monthly churn rate
- Subscription options
  - 1 month subscription: $14.99
  - 3 month subscription: $41.97 ($13.99/month)
  - 6 month subscription: $77.94 ($12.99/month)
- Game time cards
- Recruit-A-Friend
Social and Mobile Gaming

• Market Overview
• Xbox Live
• Case Study: World of Warcraft
• Pricing Strategies
• Mobile and Social Gaming
Mobile and Social Gaming

- Applications for smartphones
- Applications for social networking sites
- Simpler than traditional video games
- Targets female and older demographics
Pricing Structures

- Free-to-play with advertisements
- Free-to-play with microtransactions
- Purchased applications
Recommendations

- Investor recommendations
  - Software vs. consoles
- Firm recommendations
  - Transition to online sales
  - Xbox & PS3 to market toward females
  - Expand to the “app” market
  - Focus more on innovative gameplay