Case 17

Microsoft X-Box Live!
A. Basic facts

1. Microsoft
2. Video Gaming Industry
3. Competitors + 5 year life cycle
4. Xbox (Xbox 360 + Xbox Live!)

B. Case Study Questions:

1. What Stage of the product life cycle is Microsoft’s Xbox currently experiencing in comparison to other game console market products?
2. Discuss how Microsoft is trying to implement a growth strategy in the games console arena. (using the Ansoff Matrix)
3. What are the key success factors of launching the Microsoft Xbox Live! Platform? (using the marketing mix 4-Ps framework)
4. What are the key weaknesses of Microsoft Xbox Live! Business model?
Microsoft

- Dominates in its core markets of operating systems (PC) and desktop application software
- Almost has monopoly power
- High revenues and profits have been healthy and steady
- Sales of PC software will not last forever! One day growth will stop
- That's why Microsoft now has to look for new ways of future growth. It has decided to enter the video-gaming industry
Video-gaming industry:

- 2002 Console and hardware sales nearly 33% of the market

- The video-gaming industry is characterized by a **5-year cycle**: the games console has roughly a 5-year life cycle before being replaced with new, improved technological hardware

- **Very competitive area**: many industry giants have come and gone: Sega has retrenched from games console market due to Sega Dreamcast flop in 1999. Now they are only games developer

- The console industry sells its products at prices that are below costs and makes only money through the sales of games in the form of licensing fees

2 veterans are the Strongest competitors:

- SONY
  - PlayStation
    - 1995
  - PlayStation 2
    - 2000
  - PlayStation 3
    - 2006
- Nintendo
  - N64 GameCube
    - 2002
  - Wii
    - 2006
Basic Facts

History of popular games consoles
(roughly 5-year life cycle) 1/3

<table>
<thead>
<tr>
<th>Year</th>
<th>Console</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>Sega MegaDrive</td>
</tr>
<tr>
<td>1995</td>
<td>Sega Saturn</td>
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<tr>
<td>1999</td>
<td>Sega Dreamcast</td>
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</table>

1989 Sega MegaDrive

1995 Sega Saturn

1999 Sega Dreamcast

6 YEARS

4 YEARS
### Basic Facts

**History of popular games consoles**  
(roughly 5-year life cycle)  

<table>
<thead>
<tr>
<th>Year</th>
<th>Console</th>
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<tbody>
<tr>
<td>1985</td>
<td>Nintendo Entertainment System (NES)</td>
</tr>
<tr>
<td>1989</td>
<td>Nintendo Game Boy</td>
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<tr>
<td>1996</td>
<td>Nintendo 64</td>
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<td>2002</td>
<td>Nintendo GameCube</td>
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<td>2006</td>
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</tbody>
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- 1985 Nintendo Entertainment System (NES)  
- 1989 Nintendo Game Boy  
- 1996 Nintendo 64  
- 2002 Nintendo GameCube  
- 2006 Nintendo Wii
Basic Facts

History of popular games consoles (roughly 5-year life cycle)  3/3

1995 Sony PlayStation

2000 Sony PlayStation 2

2002 Microsoft Xbox

2006 Sony PlayStation 3

2006 Microsoft XBox 360
Basic Facts 2003

Time spent on playing video games?

Which of the following game consoles do you own?

Console Hardware Sales in Amerika: (mio)

<table>
<thead>
<tr>
<th></th>
<th>PS</th>
<th>PS2</th>
<th>Xbox</th>
<th>Gamecube</th>
<th>Gamboy Advanced</th>
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<tr>
<td>US</td>
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<td>Worldwide</td>
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<td>99,3</td>
<td>13,7</td>
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<td>49,5</td>
</tr>
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</table>
Xbox Launch:

• Launched in 2002 (slow sales due to Nintendo’s Game Cube launch in 2002)

• The most sophisticated and powerful games console ever built and released due to their **highest technological specifications**: Play DVDs, broadband gaming capability that allows real-time Internet gaming and downloading of software, games and films.

• **Real reason why Microsoft has entered the games console industry.** Use of Xbox and its future followers as a platform for distribution of other Microsoft products and gaining subscription fees from subscribers to the broadband gaming network.

• **The marketing campaign:** global estimated $500 mio. Microsoft has poured millions into development, and sells the Xbox at a loss by hoping to build a large customer base of future potential subscribers and make money from licensing arrangements with games developers.
Xbox Launch:

- Making the money not through the hardware but the number of games sold, Microsoft receives a licensing fee from the games developer for every Xbox game developed.

- 3 months after launch: **bitter price war** with Sony & Nintendo
  - Sony & Nintendo reduced price of its games consoles
  - Microsoft also reduced price of Xbox.

- Microsoft Xbox captured # 2 position (10 mio units sold), way behind Sony’s PS2
  - (50 mio). 3rd place Nintendo’s GameCube (9 mio).

- **In 1999 market analysis:** Xbox could lose $ 900 mio to $ 3.3 billion depending on Sony undertaking price war. Microsoft is pinning its hopes on Xbox Live! by investing
  - $ 2 billion into online gaming. (Microsoft has nearly $ 42 billion cash reserves)

- Microsoft did not expect to make profit with its Xbox until 2005. And yet is not making profit in 2006.
Xbox Live!

• Microsoft hopes to boost profit with Xbox Live!, that is a special service of Xbox

• Launched 2003. Login and a password is needed for access to Xbox Live! platform

• With Xbox Live! Microsoft wants to seduce customers to buy Xbox. Users can play games online vs. people from around the world; it allows gamers to talk, banter, chat, taunt and trade while competing online

• Sony responded and launched its own online gaming service (Alliance with AOL and broadband access)

• Microsoft has launched 12 new online games exclusively for Xbox Live!

• **Difference of Xbox Live! to Sony PS2 Online:** By online gaming is a central server involved.
1. What stage of the product life cycle is Microsoft’s Xbox currently experiencing in comparison to other games console market products?

2002: Launching Xbox is still in the **introduction phase**, due to slow sales, no profit and dragging growth. Sony’s PS2 is two years in sale ahead and located at **growth phase** due to fast sales. Nintendo’s GameCube behind PS2 but close to Xbox sales rate in **introduction phase**.

2006: Launching Xbox360, is selling faster but still making no profit. Currently referred to **introduction phase**. Sony’s PS2 is located at **maturity phase** due to tremendous sales. Nintendo’s GameCube way behind Xbox and Xbox 360 sales rate but in **growth phase**. Xbox in **declining phase**, few sales, no profit. Xbox Live! In **growth phase** is gaining more user and profit.
Case questions

2. Using the Ansoff Matrix, how is Microsoft trying to implement a growth strategy in the games console arena?

2002: Diversification strategy by offering a new product (Xbox) for a new market.

2006: Xbox became obsolete and replaced by Xbox360 that is extreme upgrading of Xbox. It can be seen as product replacement at Product development strategy. -> New technology, new features (Xbox Live!)
3. What are the key success factors of launching the Microsoft Xbox Live! Platform? (using the marketing mix 4-Ps framework)

Product:
- Superior technology (broadband-ready) Hard disk for data safe
- Exclusive games from developers,
- Variability – community character (subscribers find friends at online chat, download games, additional levels, weapons and characters,...)
- Safety aspect (disable downloading content)
- With special emulator programs Xbox enables to play Playstation games.
- Enable DVD and all other video and audio files as well as web live streaming.
- With Linux software, mouse, keyboard and USB ports it’s like a computer.

Price:
- gamers only pay costs of starter kit for the Xbox Live! Service (€ 52 in UK)
  Price covers 1 year online subscription, Headset, and Xbox communicator.
- After 1 year automatic renewing subscription with credit card. (quick and easy)
3. What are the key success factors of launching the Microsoft Xbox Live! Platform? (using the marketing mix 4-Ps framework)

Promotion:

- First broadband-ready games console.
- the Xbox Live! service provides a powerful word-of-mouth marketing device for Microsoft because players interact with one another and recommend games to play.

Distribution:

- Microsoft distributes its software products over the Xbox Live! platform exclusively for gamers to download fast, easy and safe.
4. What are the key weaknesses of Microsoft Xbox Live! Business model?

- the Xbox Live! service requires broadband-access, but majority of European households are not yet broadband-ready. this lack of broadband-access will not enable future revenues streams as Microsoft expects.

- for the subscription to the Xbox Live! service gamers need credit card, only adults can afford. Some (children, …) can not afford a credit card.

- € 60 p.a. or € 6 p.m. only for use of Xbox Live! Plattform. after 1 year, subscription is automatically renewed and credit user card automatically charged without previously user permission.
Sources:

• http://www.video-games-survey.com/
• http://forum.pcvsvconsole.com/
• http://www.xbox.com
• http://www.wikipedia.com
• Principles & Practice of Marketing by David Jobber

Thanks for your Attention