EA SPORTS NATION: A STRATEGIC ANALYSIS

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ABSTRACT

The objective of this paper is to provide a strategic analysis of the online video gaming market with a focus on EA Sports. The paper was written with the use of secondary research, industry documentation and information provided directly by Electronic Arts. The paper also uses the results of a user survey conducted by the authors to provide a behavioural analysis of video gamers, to differentiate between hardcore and mass-market gamers and to establish and support the recommendations that follow.

A conjoint analysis was performed on a sample group of 504 gamers over the age of 18. Several differences were found in the likes, dislikes and habits of various segments. Those respondents most likely to use EA Sports Nation were found to place an emphasis on statistics, league play and stable competition and had less need for the social aspect of online gaming. These findings support the notion that sports gamers desire an emulation of real world sports competition. On average, respondents showed a dislike for credit systems of payment, and resented paying for online gaming in its present state.

Based on a console industry analysis, internal analysis, survey results and analogous industry lessons, several potential business strategies have been generated. These strategies take into consideration how the emerging online industry will emerge, how relationships with the gatekeepers will be affected, how EA can best establish a foothold in the online value chain and how the goals and mandates of EA as a whole will be satisfied. Ultimately, one solution was selected as best and has been recommended as the most feasible and potentially beneficial to EA Sports Nation. This recommendation is for EA to increase its investment in EA Sports Nation by creating a consistent cross-game front-end and infrastructure that all future games must adapt to, rather than online enabling each game separately.

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1 Introduction

1.1 Purpose of This Paper

Currently in its infancy, online gaming has the potential to change the videogame industry forever. Companies who consider venturing into the online market have a unique opportunity to take a detailed look at what has and has not been successful in online offerings to date. Massively Multiplayer Online Role Playing Games (MMPs) such as Ultima Online and Everquest, have been successful to date and have established a revenue model which works for this format of online game. Similarly, advertising revenues for free mass market puzzle games have found a niche. Revenue models for session based action games have had less success in monetizing users, and currently most offerings of this genre provide their services for free or at little cost to the user.

Looking at these successes and failures can guide the development of an online gaming "experience" that provides mass appeal and motivates the user to pay significantly for the services. In this paper we establish a framework for the various attributes that would most likely appeal to EA Sports Nation's target market. We do this with a focus on the various characteristics of that target market, and we analyze EA's position in the industry and its relationship with the various players in the value chain.

Existing revenue models are examined in the context of EA's short and long term goals, through assessment of the roles at influential fan-sites and middleware providers and how these relationships could develop to best benefit Electronic Arts. Analogous lessons learned from the film and music industries demonstrate the importance of turning enemies into allies.

Online gaming is touted as a potential equalizer in the publishing world. Smaller developers enjoy the potential to publish and sell their games directly online thereby cutting out the traditional publishers, manufacturers and retailers from the current value chain to provide themselves with a larger share of the profits. In other cases, however, the online component has become more of a “necessary evil” with consumers demanding online gaming but without the willingness to pay for the services. The result is that console games are sold in the traditional manner, with the connectivity offered free via a middleware provider such as Gamespy. In this paper we have sought to find financial or competitive advantages that can be developed by Electronic Arts to offer a successful online component to their line of sports video games.

This paper goes into a detailed analysis of Electronic Arts, provides a brief overview of the industry and then outlines strategic recommendations. The paper is written to provide both a base for those unfamiliar with the video game industry as well as detailed insight for more experienced industry executives and is broken down into logical self-supporting sections that will allow the reader to understand the industry and EA at several different levels. The main sections are; EA overview, industry players, strategic direction, industry analysis, consumers, growing the presence, solution analysis, recommendations and implementation. Through this paper, the reader should get a strong feel for the industry, the various forces that shape it and how EA can position itself for success in the online forum.

2 EA Overview

The following chapter describes EA's corporate structure and outlines key characteristics of the company. The chapter begins with a general description of the firm and then discusses both the sports business unit and EA's online component. EA is a large and complex corporation with several lines of business and this overview is designed to give the reader a basic understanding of the company and a foundation for understanding how the proceeding sections relate to EA as a whole and its online presence.

2.1 History

Founded in 1982, Electronic Arts has risen to become the world's leading independent developer and publisher of video game software for PCs and video game consoles. Headquartered in Redwood City, California, EA enjoyed revenues of $1.5 billion in fiscal 2002, and in its corporate information boasts $2.5 billion for fiscal year ending in 2003--an increase of 80% in the last three years. Since its inception, EA has garnered more than 700 awards for outstanding software in the U.S. and Europe.

2.2 Products

EA develops, publishes and distributes interactive software worldwide for video game consoles, personal computers and the Internet. Electronic Arts markets its products under five brand names: EA Sports™, EA Games™, EA Sports Big™, online game site EA.Com℠ and the recently acquired mass market gaming website Pogo.Com℠.

EA has had in excess of 60 titles that have sold over 1 million copies in the last five years.[1] These titles include *FIFA, Harry Potter, Madden NFL, Medal of Honor, SSX, The Sims*, and *Triple Play Baseball.* In addition to developing their own products, EA often publishes titles while outsourcing the actual production to independent developers.

[1] EA Headquarters, Electronic Arts Corporate Information [Online], 2003

2.3 Market Share

EA held a 15.2% overall market share of the video game market in 2001[2] beating second place Sony Entertainment which held 10.5% of the market. The recent console wars, in which Nintendo, Microsoft and Sony waged a battle for market supremacy, created an installed base of nearly 80 million console units. By publishing games for each of these platforms as well as for PCs and handheld units, EA currently enjoys a boom in business never before seen. While other technology companies have limped or folded since the recent tech crash, EA's stock hit an all time high of $86 in August 2003.[3] With the installed base of the next generation of consoles predicted to be in the range of 200 million in 2005 (over twice that of the current generation), the market in general seems destined to continue its double-digit growth. An amazing one in four video games sold this year is published by EA and in the fiscal year 2002, EA held three of the top 10 titles in the console market and five of the top 10 titles for PC games. Their nearest competitor only had 2 of the top 10 video and PC games combined.[4]

2.4 Resources

With over 2500 game developers working in five countries, EA enjoys a global network that is firmly in place to expand its market and leverage its brand. Currently, North America, Europe and Japan are viewed as the most attractive markets but with broadband penetration highest in South Korea, additional regions will likely be pursued in the near future. EA already has international subsidiaries in 28 other countries. It should also be noted that as a publicly traded company and with its stock reaching an all time high, EA's tendency to acquire smaller competitors will likely continue or even accelerate.

Due to its strong reputation, EA Sports has developed relationships with athletes and commentators in the sports industry. However, this must not be overstated since relationships tend to be fickle when based on the "cool factor"- if for example Sega were to become the leader in the industry, this talent pool could very well migrate to their products. Great amounts of capital would likely

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[2] Paul Abrahams, Nasdaq, *Playing to Win*[Online], 2002
[3] Gamasutra, *EA Stocks Hit an All time High* [Online], 2003.
[4] Electronic Arts, *EA 2003 Annual Report* (2003): 12

dissuade this from ever happening, and EA enjoys the resources to virtually *ensure* success through aggressive marketing, product tie-ins and celebrity endorsements.

EA also has access to an enviable catalogue of successful titles and licenses, as well as relationships with significant players in the entertainment industry, such as Steven Spielberg. With over 33 product franchises that have reached more than a million unit sales worldwide, it is estimated that 70% of their new releases originate from existing franchises, with the other 30% offering a home to riskier and unproven products. This formula has proven successful for EA throughout their history. In addition, the reuse of graphics and game engines to develop franchise sequels significantly reduces costs, thereby contributing to economies of scale.

One of the key strengths enjoyed by EA is its unique direct sales force established early in its inception.[5] Through retailers such as Electronics Boutique and Walmart, EA enjoys access to desirable shelf space for its weaker products in return for supplying them with its stronger guaranteed hits. This insulates potentially lower selling titles by pushing them through the channel to consumers who see the product and EA logo prominently displayed. It will be interesting to see how the future "socialism" of digital distribution will affect the competitive edge that EA currently enjoys.

2.5 Marketing and Distribution

EA publishes, produces and markets their titles under the EA Games, EA Sports and EA Sports Big umbrellas. It is also engaged in the co-publishing and distribution business that involves the publishing of games created by independent developers. For these developers, EA provides production assistance, marketing and other services for distribution. One of the largest co-publishing relationships for EA is with *Square* for the exclusive distribution of their products in North America.

Ninety-five percent of EA's revenues are generated through direct retail sales- field as well as telephone sales. Walmart was reported to represent 12%

[5] Geoff Keighley, Business 2.0, *Could this be the Next Disney?* [Online], 2002.

of EA's total 2003 net revenues. Outside of North America, a good deal of revenue is generated by distributors such as Sony, representing 60% of EA's net revenues in Japan. EA also sells products through their website and a toll-free number.[6]

2.6 Competitive Disadvantages

Due to the massive size and the secretive nature of the video game industry, Electronic Arts may find itself bogged down in its own bureaucracy. An inability to react quickly to new ideas and trends may result in missed opportunities that a smaller company could capture. Although EA offers greater salaries and benefits than most companies can afford, many employees can become frustrated by following the required channels of communication and procedures between individuals and departments. The inertia of large companies in terms of innovation and entrepreneurial spirit may find EA losing many talented and creative people for less corporate and unencumbered spaces.

Small developers enjoy flexibility that a larger corporation does not. It has been estimated that developers experience diminishing returns beyond 5-10 projects of concurrent development. EA combines both a system of outsourcing their development and of breaking the company into distinct divisions in order to best leverage their internal strengths and the creativity and flexibility of smaller developers.

As a publicly traded company, EA finds itself first and foremost accountable to its shareholders. For this reason, there is a significant reliance on proven titles, sequels and licenses, which results somewhat in a stifling of innovation and creativity. In addition, the growing market for mature games, which is expected to reach 25% by 2004, is one that has been mostly avoided by EA- likely for fear of offending stockholders. Rockstar Games' *Grand Theft Auto 3* and its sequel *Grand Theft Vice City*, have become the envy of the industry with the latter title selling nearly 9 million copies across all platforms.[7] EA can potentially break into this market by acquiring or forming a separate entity to

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[6] Electronic Arts, *EA 2003 Annual Report* (2003): 11-12
[7] Dean Takahashi, The Mercury News, *Electronic Arts is a Franchise Player* [Online], 2003

distribute these types of titles. This would be similar to Disney purchasing Miramax for distributing often risqué "non- Disneyesque" films such as *Pulp Fiction*.

3 Players in the Video Game Industry

This chapter serves to describe the world and environment outside of EA and to look at the video gaming industry as a whole. It describes various market players both on the software and hardware side as well as several other industry players such as middleware providers and potential disruptive technologies. EA is only one of the many contributors that have helped to shape and define the success of the industry. In some aspects, EA is a major force whereas in other regards they are minor in terms of the overall picture.

3.1 Sports Video Gaming Industry

The software portion of the videogame industry comprises $4.6 billion, or 52% of the entire $9 billion videogame industry. The sports genre of the industry accounts for over $1 billion in sales annually, having grown at a 19% average since 1999. On the PS2 platform, sports account for over 30% of all games sold.[8] In 2001, sports games outsold the role playing (RPG), fighting and adventure categories combined.[9]

3.1.1 EA Sports

The EA Sports division accounted for nearly half of EA's $1.5 billion revenue in 2002. Sports video gaming has long taken its lead from television broadcasts by emulating the experience and extending it to the interactive environment. EA has prompted itself to move past TV as its guiding light by implementing field level angles and replays unavailable in broadcasts. John Schappert, VP in charge of EA's Vancouver development studio states "I think TV may be taking some direction from us. We can simply do some things with our camera and our game that they simply cannot do".[10] Table 1 below provides an example of the total number of sports titles, publishers and the consoles they currently provide for.

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[8] Evan Ratliff, Wired Magazine, "Sports Rule!", January 2003: 96
[9] Evan Ratliff, Wired Magazine, "Sports Rule!", January 2003: 101
[10] Evan Ratliff, Wired Magazine, "Sports Rule!", January 2003: 100

	Titles	Publishers	PS2	Xbox	GC	GBA	PC
Baseball	5	5	4	4	2	2	1
Basketball	10	6	8	5	3	0	0
Boxing	2	2	1	1	1	0	0
Fishing	2	2	2	0	0	0	0
Football	8	5	7	7	5	2	1
Golf	1	1	1	1	1	0	1
Hockey	5	4	4	3	3	1	1
Soccer	8	6	6	4	2	1	1
Tennis	2	2	1	0	0	1	0
Volleyball	1	1	0	0	1	0	0

Table 1: Counts of Traditional Sports Games by Publisher and Console Type[11]

3.1.2 Sega Sports

In 2000, Sega announced it would cease production of its Dreamcast hardware console to concentrate solely on software development for other platforms. Its *NBA 2K3* basketball title actually outsold EA's *NBA Live 2002,* garnering a 30% market share. Its *NFL 2K3* football title managed a respectable 12% in comparison to EA's mammoth title Madden (19 million units since 1989). Sega has in essence announced war on EA Sports with a $35 million marketing campaign compared to EA's $30 million budget. The result will likely be a fierce branding war.

3.1.3 Activision

Activision has found its niche in action style sports such as Kelly Slater's Pro Surfer and Tony Hawk's Pro Skater. These types of games typically compete with EA Big titles such as *SSX, ATV Off-road Fury, Freakstyle* and *SledStorm.*

3.1.4 Sports Online

Although online sports are a new venture, the alliance of EA with Sony (an exclusive online agreement in which it will put several games online for the PlayStation 2 console on its Central Station newtork) and Sega with Microsoft (its online sports titles are being developed for Xbox Live) creates two rifts in the purchase decisions of the consumers; one of which is "Sony or Microsoft" the second being "EA or Sega".

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[11] Created by author, based on the work of Gary L. Cooper, Bank of America, 2003

It is possible that the choice in partnerships will ultimately give one or the other a competitive advantage. The strategy of the Xbox is distinctively different from that of Sony in which Microsoft seeks to control the activities and feature sets of its developers, while Sony (at this point) remains more "hands off". Should the Xbox model succeed, Sega may develop a stranglehold over the sports user base. Should Sony become the dominant online provider for sports, EA will substantially increase their user base. Both EA and Sega will be competing with each platform's premium sports networks of their own products- Sony's 989 and Xbox's XSN series.

The current online offerings or feature sets for online sports are very limited, offering only matchmaking, peer to peer chat, voice enablement and some league play. Online sports main draw is the ability to compete against various non-computer opponents. The future of online sports is vague but due to the competitive nature of sports gamers, one network will emerge victorious if sports gamers migrate to where the best competition is. The key is to "stick" the best players and create a network effect to grow the user base into the *premiere* online sports league.

3.2 Video Gaming Hardware

Over its lifetime, the video game industry has seen many different video gaming consoles come and go. The dominant systems of the past have faded into the limelight and new generations of hardware have risen in their place. From the massive supremacy of the Atari 2600 to the current domination of the PlayStation 2, different players have enjoyed their moment in the sun. Each new console brings with it the promise of a new generation of video games and a new level of gaming experience for the end users. This section describes the various gaming consoles, video game genres, hardware companies and other technology enablers.

3.2.1 Consoles

The consoles are the hardware units dedicated to enabling the software for the end consumer. Standardized technology makes development for the various consoles an attractive opportunity for software publishers. With an enormous installed base of over 80 million units provided by the three top console manufacturers (Sony, Microsoft and Nintendo), developers can create different versions of the same titles for release on various console platforms. This stretches out the sales cycle and helps to increase the target market.

3.2.1.1 Sony PlayStation 2

The Sony PlayStation 2 (PS2) was launched in North America at the end of 2000. It was the first 128-bit console released, boasting a 300 MHz processor, a DVD player and sophisticated sound and graphics. The add-ons available included a narrowband modem, Ethernet card and 40 gig hard drive. The continual popularity of the Sony brand name and the first mover advantage of being the first 128-bit machine to reach the market virtually guaranteed its initial success. The PS2 has reached an installed base of over 60 million units worldwide.[12] Even with hardware standardization, most developers find that the PS2 was not designed as "developer friendly" something that may change in the future with the increased competition and ease of development of the Xbox. In 2002, Sony launched its online component, with Japan now boasting over 100,000 PS2s connected to the Sony Network.[13]

3.2.1.2 Sony PSX and PSX TiVo

In an attempt to bridge the soft console and software sales between console generation releases, Sony announced plans to release a new version of the PlayStation 2, the PSX, later this year. It will include a new set of standard features including a DVD burner, USB and memory stick support, a 120 Gigabit hard drive, digital photography applications, online support and a TiVo receiver available on the top end model. This PSX TiVo combination offers the additional features of TiVo capabilities allowing the user to record not only television programming but also that of the video game play itself.[14] This may be a lead into the interactive television environment of gaming where targeted advertising can

[12] PVC, *Video Game Console Specs* [Online], no date
[13] IGDA Online Games Committee, *IGDA Online Games Whitepaper*, 2003
[14] PSX2.com, *News.Net* [Online], 2003

be amalgamated into the game. This could allow the console to display live online sports tickers, provide internet updates and potentially place targeted commercials or interstitials on the gaming screen.

One unique feature of the new PSX will be the Eyetoy, a device that will allow users to insert digital images of themselves into the gaming environment. This would allow players to put their faces on their video game characters as they play their games.

3.2.1.3 Sony PS3

Anticipated for a release in late 2005 or early 2006, the PS3 will likely be the first of the next generation of consoles. As each generation of consoles provides a significant boost in software sales with its initial release, the launch will be watched with much anticipation. Not much is known of the features of the PS3 but through Sony's recent patent filing it is believed that the system will run at 4 Gigs with 4 computer cells each featuring a PowerPC CPU and 8 vectorial processors (APUs) each with 128 K of memory.[15] Recent gaming tradeshows have also revealed that the units will feature distributed computing, harnessing the CPU power of idle sister systems online to substantially increase processing power.[16] Moore's law of CPU power doubling every 18 months appears to be far below what gaming developers desire, thereby leading to the foray into distributed computing.

3.2.1.4 Microsoft Xbox

Microsoft entered the console market in late 2001 with the Xbox and immediately found that acceptance in Europe and Asia was quite elusive. Boasting a superior 733 MHz processor, a built in 8 Gig hard drive and Ethernet card as standard features, the Xbox nevertheless seemed doomed to weak sales and low market acceptance. However, with the release of such top titles as *Halo* and *Splinter Cell* (developed and released specifically for the Xbox) combined with the successful Xbox Live feature for online console gaming, the Xbox began outselling Nintendo's GameCube, with recent North American sales rivalling that

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[15] Adman Rust, The Inquirer, *Play Station 3 Architecture Revealed* [Online], 2003.
[16] David Becker, CNet News.com, *Play Station 3: The Next Generation* [Online], 2002.

of the PS2. Sales of the PS2 have slowed down recently since it has been on the market more than two years, but Sony's installed base is still approximately 6 times that of the Xbox.

3.2.1.5 Microsoft Xenon

Little is known about the next generation of Xbox, but it is likely that many similarities will exist between it and the PS3. With Microsoft at the helm, there will be a higher emphasis on CPU computing power. In an effort to avoid playing "catch up" with the competition again, Microsoft may rush development of the Xenon to quickly enter the market and upstage the PS3. Online capability of the Xenon would allow users to instantly and painlessly download patches in the case of the product being less than perfect in its initial release- a practice not uncommon for Microsoft products

3.2.1.6 Nintendo GameCube

With the GameCube, Nintendo attempted to target their niche youth market by leveraging their own IP in such titles as *Mario Sunshine*. The selling price of the GameCube has remained about 2/3s of the price of the Xbox or PS2 and boasts a 485 MHz processor. Likely, due to an aging video game demographic, Nintendo soon found itself losing the battle for market share. An Ethernet card or dialup modem were among the peripherals offered, but it is expected that the youthful market that it caters to will not find it a necessary component. As of yet, Nintendo has expressed little interest in aggressively pursuing online gaming.

3.2.2 Handhelds

Handhelds are smaller video game units designed for portability, their appeal being both flexibility as well as a lower price point. They tend to be of lesser quality in terms of graphics and sound but excel in ease of use and remote entertainment when outside of the home. Mainstream video games often make their way onto the handheld systems but are not nearly as sophisticated as the console or PC versions. Handhelds typically appeal to a younger audience.

3.2.2.1 GameBoy Advance

The GameBoy Advance was released in 2000 and featured a handheld console with 32-bit processing and 500 colors onscreen. The only Internet connectivity offered is through cell phone connection and allows the user to download levels, chat, email and multi-play with others. The GameBoy Advance uses two AA batteries and offers up to 20 hrs of usage. Nintendo has long dominated the handheld gaming market, but the following declarations of war by Sony and Nokia may soon change that.

3.2.2.2 Sony PlayStation Portable

Sony announced mid-May 2003 that it would be releasing the PlayStation Portable (PSP) to compete directly with the GameBoy Advance.[17] The system has been lauded as the Walkman of the 21st Century, and will feature 3D graphics and sound, backlit screen, rechargeable batteries and USB port for data transfer. It should be noted that other major players have ignored the handheld market for years, but as the video gaming industry reaches the limits of its penetration, additional markets will be sought. The handheld industry seems ripe for competition.

3.2.2.3 N-Gage

Nokia recently unveiled its new handheld competition for the GameBoy Advance at the E3 conference in LA. The N-Gage features a digital music player, radio, web browsing, email, personal management, 4096 colors, Bluetooth connectivity for local multiplayer gaming, and a cell phone with Tri-band GSM capabilities.[18] Nokia has announced game development by Activision, Eidos, Sega and THQ in an effort to provide a balanced catalogue of high quality games for its system.

As a newcomer in the video game industry, Nokia will leverage its experience in mobile connectivity as a competitive advantage in the marketplace. Lack of experience in the gaming industry makes it unlikely that Nokia will

[17] CNN, *Sony Takes on Game Boy* [Online], 2003.

[18] gameinfowire.com, *Nokia N-Gage mobile game deck - the revolutionary gaming experience* [online], 2003.

venture into the publishing market at this time, although its status as a cutting edge technology supplier and its connectivity experience may make the temptation too much to pass up.

3.2.3 Personal Computers

Developing videogames for the PC comes with the hurdle of accommodating varying hardware specifications across target audience's different systems. Games must be developed to accommodate lower minimal hardware requirements in order to broaden the potential market size. A trade off must be made between performance and the potential user base, often resulting in a lesser gaming experience in terms of speed and graphical quality. This difficulty creates a need for greater numbers of versions to be created and packaged in one product (more sophistication for top end machines), continual update releases and patches as well as significant customer support. Although inconsistent between systems, CPU power, graphics, sound and hard drive space often out measure that of videogames consoles, often allowing for a superior gaming experience

3.2.4 PC Vs Console

Because of the lower cost and flexibility of PC development, EA often cultivates the higher risk, higher margin original IP in the PC market and uses less risky products like movies and sports in the console market. PC releases proven successful then often migrate to the console platforms.

The PC and console market differ in several fundamental ways. Over the years 1995 to 2000, the PC market grew by approximately a half billion dollars whereas the console market increased by a magnitude of 2 billion dollars. As the console market continues to evolve and integrate more of the commonly used features of the PC, it poses a greater threat to the PC gaming industry. Some of the other main differences of the PC and console market are:[19]

- The PC is typically catered to one player at a time using the keyboard or an add-on joystick. Multiple players on the same unit are rare. The console

[19] Tom Dembie et al, *Disney Interactive Strategy 6100 Phase 1 Report Group #2164*, (Walt Disney Corporation, 2002), 15

however, is built with multiplayer capabilities in mind and can typically accommodate 4 to 8 players.

- The PC can be upgraded by increasing processing power, hard drive space and graphics cards. The console, for the most part, is a stagnant piece of machinery that has a four to five year life before it is replaced with a newer model.
- PC's are multi-purpose and typically wired for online and is commonly used for email and messaging as well as word processing, spreadsheets etc. The console's sole purpose is to play games but is slowly bridging this gap by way of introducing online play, keyboards, headsets etc.
- Consoles games are immediately playable without registering, installing files or patches, and configuring the software to the hardware specifications of the machine. PC games have minimum requirements and are specific to certain operating systems. This makes it difficult for developers to create a game that plays on all PCs. In addition, the consoles are smaller and more portable.

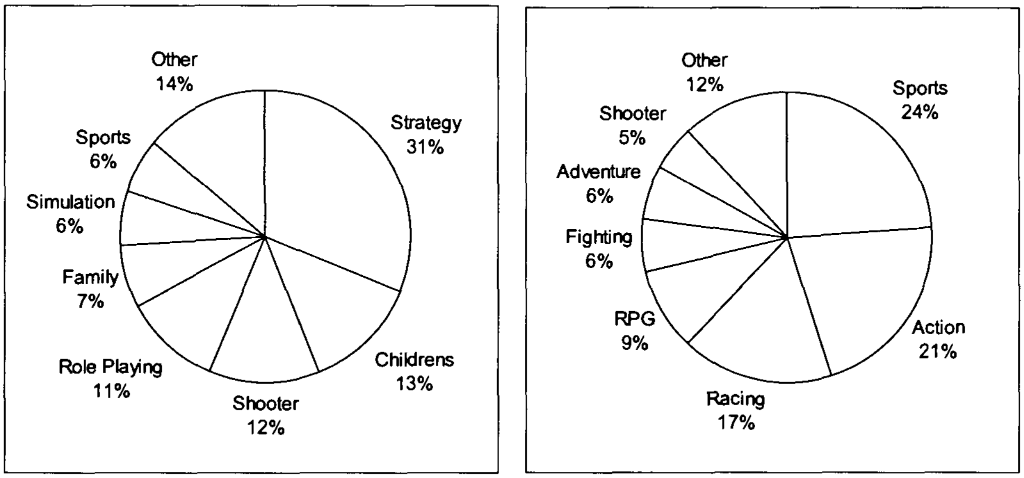

Figure 1: Popularity of PC (left) and Console (right) Games by Genre[20]

Software publishers tend to market more aggressively to the console market as it is significantly larger than the PC market. As figure 1 above shows, the two platforms cater to very different audiences. While the PC market concentrates quite heavily on family, role playing and strategy games, the console market leans towards sports and action titles. The console market has

[20] Created by Author based on the work of Gary L. Cooper, *Video Game Industry Update,* 2002

yet to gain the same mass as the PCs in terms of an online user base, however with time the console market will likely threaten PC gaming in this arena as well.

3.2.5 Broadband Connectivity

As users have come to expect a very high level of quality in terms of graphics, sound and the gaming experience in general, the wide acceptance of broadband is crucial to the success of online gaming. Lack of wide broadband penetration makes it a limitation for mass online gaming and will continue to be a constraint until broadband access increases.[21] "About 23 percent of U.S. homes had broadband access by the beginning of 2003 (16 million households) with the percentage increasing to the low-40s by 2006--just around the time a new generation of game consoles will arrive".[22] These metrics increase the attractiveness and potential for the online game play for the next generation of consoles, as North American broadband penetration should be nearing 50% of households by their upcoming release. Microsoft estimates that nearly 30% of Xbox users already enjoy broadband at home. As will be shown later, over 85% of male gamers who responded to our survey already had broadband in their homes. Although the survey was filled out online, the results still indicate that a large percentage of gamers already have broadband. Figure 2 outlines the forecasted penetration of broadband in North America.

Online gaming will alter the traditional video game value chain in very significant ways. Broadband providers will now become a key element in the gaming experience, and it should be noted that the world's largest broadband providers Comcast Cable (3.8 million subscribers) and Time Warner Cable (2.6 mm) dwarf that of AOL (650,000) indicating they may become important online gaming forces in the near future.[23]

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[21] David Becker, CNet News.com, *Playing Up the Online Game Market* [Online], 2001.
[22] David Becker, CNet News.com, *Slow Growth Seen for Online Console Games* [Online], 2001.
[23] IGDA Online Games Committee, *IGDA Online Games Whitepaper*, 2003.

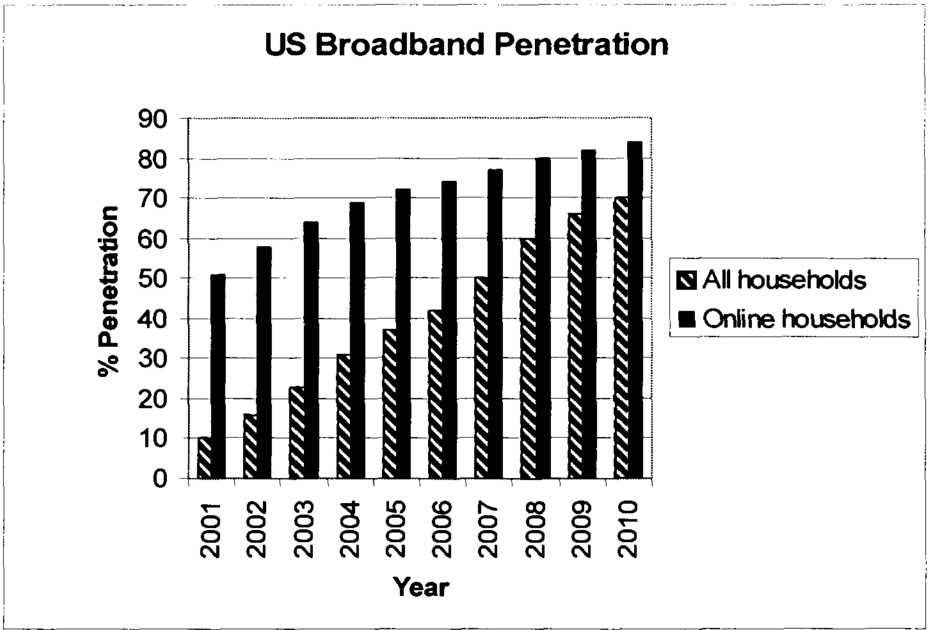

Figure 2: Broadband Forecast[24]

3.3 Online Strategies of the Hardware Providers

The market is currently dominated by three major players; Nintendo, Sony and Microsoft. These console makers define the specifications for the software, sign up major developers and titles and set the stage for the newest generations of games. It is a two-way relationship in which the success of the consoles often relies on the quality and quantity of video games available and the publishers in turn rely on the console suppliers to create powerful hardware to run their wares. These entities also define the movement forward for online gaming strategies. We also make note of the wireless industry that could potentially have its own online gaming presence.

3.3.1 Microsoft's Xbox Live

Microsoft is offering its audience "The Xbox Live Communicator", an add-on component that provides a voice enabled headset and unlimited online access to Xbox Live for one year. This package retails for $49.95 US- Microsoft has not yet announced its fee structure beyond the first year, but has opted to not share any revenue with the publishers. This forces publishers to rely solely on

[24] Created by author based on data in Lawrence Vanston, Ph.D., Technology Futures, Inc., *Residential Broadband Forecasts* [Online], 2002.

unit sales to increase revenues from their games. In addition, participating developers for Xbox Live must conform to the feature set and regulations that Microsoft has set forth. This allows very little freedom for the online attributes offered to users, thereby creating little momentum for creativity beyond what is permitted by Microsoft.

This tactic has alienated EA as a developer for Xbox Live and has resulted in EA signing an exclusive online strategy with Sony for the PS2. Currently Sega, one of the main competitors in the sports gaming market has joined Microsoft but are still unable to be a part of the proposed and exclusive XSN (Xbox Sports Network) which is highly touted as the future of online sports gaming by Microsoft. Users will enter the Xbox Live site through a single centralized interface. The service only supports online broadband connections and thereby limits its reach but provides for a superior gaming experience, and approach congruent with the Xbox's goal to attract the hardcore gamer. As of March 2003, Xbox Live had 350,000 subscribers.[25]

3.3.2 Sony Central Station

The Sony PS2 enjoys the largest installed base of all consoles, with over 16 million units sold in the US alone, passing the 50 million units sold worldwide in early 2003.[26] Through the use of an online adapter, a user will require only an Internet connection and an online enabled game to enjoy the experience. So far, Sony has allowed publishers to provide their own venue for online gaming thereby creating a self controlled space with the flexibility for designing their own online network. The drawback is that narrowband connections are still supported, thereby allowing a limited online experience for some users, with this experience in return reflecting poorly on the publisher of the game. Sony has shown signs that they will be dropping the dialup connection option for use with the Sony Central Station.

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[25] Joseph Moran, Gamemarketwatch.com, *Xbox Live Subscribers Reach 350,000 as European Launch Nears* [online], 2003

[26] David Becker, CNET News.com, *Nintendo Drops Aim for GameCube Sales* [online], 2003

To date, few games are available (only in the UK and parts of Asia) on Central Station. Sony has taken little control and not announced any plans for subscription fees, marketing plans or hardware/subscription bundling. Having recently signed an exclusive agreement with EA for 11 sports titles, Sony has recently shown signs that their online offering may take a somewhat similar form as Xbox Live. In mid August 2003, Sony announced plans to launch their own exclusive online sports network on Central Station featuring their 989 series of sports games. Although details of Central Station are not yet announced, Sony has indicated that soon all users must register through them. This direct contact with the end users may or may not remove the publisher from contact with the customer, but it is certain that Sony will utilize this direct link for their own benefit.

3.3.3 Nintendo's Online Strategy:

The GameCube and Xbox have been in a heated race for the number two spot in total console sales. Nintendo as of yet has no online presence, possibly due to the challenge inherent in its targeting of the younger gaming audience. The Children's Online Privacy and Protection Act impose strict requirements for gaming content to those under 13, making the process onerous for developers. With the success of Nintendo's GameBoy Advance, they may concentrate their online efforts in a wireless handheld format, although have announced no plans as of yet.

3.3.4 Wireless

The International Data Corporation estimates an increase from 7 million mobile wireless gamers in 2002 to 70 million in 2007.[27] Arenas such as Europe and Asia have seen great success in this format, most likely due to the wide use of public transportation and cellular penetration. North America has long lagged behind in mobile usage but this will likely increase as the 3rd generation of wireless (3G) grows in acceptance. In that vein, so should wireless gaming and other wireless services. The wireless revenue models will likely take the form of the PC Web based gaming model.

[27] Schelley Olhava et all, IDC, Are We Having Fun Yet? U.S. Wireless Gaming Forecast [Online], 2002

3.4 Online Software

Regardless of the accessibility of broadband, several online game titles in varying genres do exist. These games make use of several different revenue models and have several different characteristics.

3.4.1 Massively Multiplayer

Massively multi-player online role playing games (MMPs), also known as persistent state world games are those where thousands of players can simultaneously inhabit a certain arena and interact and participate with others to almost any degree they desire. Evolving from simple text based adventure games; the MMP has become the biggest success in online gaming, catering mostly to fantasy enthusiasts. Players inhabit these persistent state worlds earning virtual money or credits for their character in order to purchase tools, castles and even better characters to enhance their virtual home away from home. The ownership of characters and objects, as well as the credits themselves have emerged into an entirely different economy amounting to actual dollar sales of more than $300 million each year- more than the actual subscription rates generated by the games themselves.[28]

The most popular examples of these over the years have been *Ultima Online* (200,000 members), *Everquest* (500,000 members), *Asheron's Call*, *Dark Age of Camelot* and to a lesser extent the *Sims Online* (85,000 members). Although likely the best genre for monetizing its users, it has been hypothesized that the market for the dedication that MMP's demand is limited and therefore such highly awaited offerings such as *Lord of the Rings Online* and *Matrix Online* will be watched quite closely by the developers, consumers and competition alike. Differences of opinion on market saturation exist. The IGDA postulates that the total North American market for MMPs peaks at approximately 1.5 million subscribers, a figure has nearly been reached in the industry.[29] Mulligan and Petrovsky write "Analysts and industry experts differ on when and how fast, but the evidence is clear- the next big market sector expansion is going to come in

[28] Julian Dibbell, Wired Magazine, "The Unreal Estate Boom", January 2003:108
[29] IGDA Online Games Committee, *IGDA Online Games Whitepaper*, 2003

this area."[30] The recent launch of *Star Wars Galaxies* found 125,000 paying subscribers signing up within the first week of its launch, making it the fastest selling MMP in North America to date.

The basic revenue model for MMPs is to sell the software itself and then charge a monthly fee (usually around $10- $15 US per month), which often begins after a limited free trial. It is interesting to note that MMPs have caused a shift in the business model where software developers have turned into service providers. This difference may cause many eager developers or publishers entering the fray to learn painful lessons in satisfying MMP players with poorly tested offerings, billing systems and customer support. Crucial is a planned method of retaining user interest over a long product lifecycle. Figure 3 below outlines the ideal MMP game player lifecycle as postulated by Mulligan and Patrovsky in their book *Developing Online Games: An Insider's Guide*.

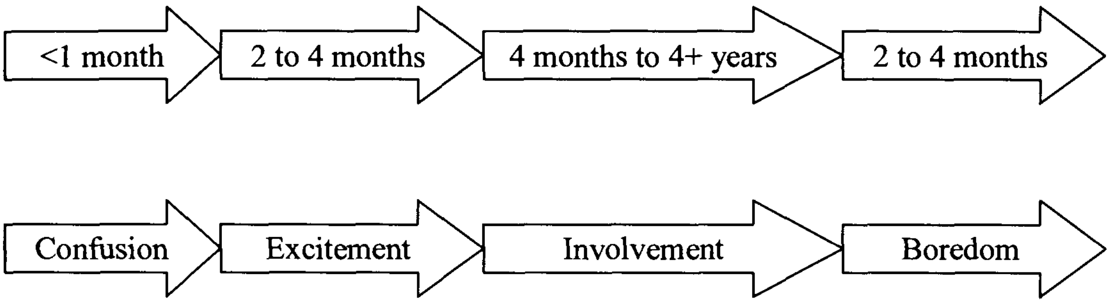

Figure 3: The Ideal Persistent World Game Player Life Cycle[31]

3.4.2 PC CD Based Games

Often supporting multiplayer capabilities of up to 64 players, CD based games such *as Battlefield 1942; Diablo* and *CounterStrike* offer a global multiplayer experience. This genre is often referred to as session-based games and focuses on finite goals such as number of kills in combat. Online support for these games has become a requisite feature over the years and the online environment for them is usually supplied at no charge using the capabilities of middleware providers such as Gamespy.

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[30] Jessica Mulligan and Bridgette Patrovsky, *Developing Online Games: An Insider's Guide,* (Indiana: New Riders Publishing, 2003), 7

[31] Created by author based on work of Jessica Mulligan and Bridgette Patrovsky, New Riders Publishing, *Developing Online Games: An Insider's Guide*, 2003.

Most often, additional revenues are not generated by the publisher over and above their standard unit sales, thus allowing any increased sales to be shared with manufacturers and retailers. In addition, it becomes difficult to measure the amount of packaged sales due directly to the online component, allowing little measurement of its economic benefit.

3.4.3 PC Web Based Games

Two unique features make PC web based games an interesting emerging market. First, the games themselves are simple and are played directly at the provider's website or are easily downloaded. Second, the format attracts a previously untapped gaming market- those consumers who use computers but do not usually play sophisticated PC or console games. Not surprisingly, these users are not accustomed to paying for gaming and therefore any subscriptions are either free or in the range of approximately $5 US per month. It is estimated by Jupiter that this market is at least 50% female.[32]

Often called mass-market online games, PC web based games are most often puzzle-based (Tetris, card, word games). The downloadable games sometimes entice the user via a free version and then charge a small fee for an unlocked full version. Web resident games accessed directly through the web generally rely on advertising revenue. It is estimated that PC web based games will generate over $750 million in revenue through advertising alone by 2006. Leaders in the industry include sites such as EA's Pogo.com and Gamezone Online.

3.4.4 Online Console Games

Console based online game find the lack of a keyboard for interacting with the front end of the gaming system is their main roadblock to mass acceptance. Although console players are quite accustomed to operating games without one, keyboards are becoming available for the consoles.

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[32] Dr. Kathryn Wright, Women Gamers.Com, *Video Gaming: Myths and Facts* [Online], 2001

3.5 Middleware

In order for EA to offer their online component, the users must connect via the Internet and communicate with their back end servers and databases. There are various different models for doing this, which includes hard coding a game to point directly to a specific server or the use of middleware.

3.5.1 Definition of Middleware

Middleware is the enabling technology between two applications allowing the electronic exchange of data between two objects. It is essentially a translation device between two independent entities. The relatively new concept of going online presents an entirely different challenge to developers that had not existed before, where the developer must host the users and have them communicate with one another for interactive play. The middleware in this case is an enabling server (or servers) capable of transmitting and storing the gaming information and connecting the users. This requires a completely new set of tasks, costs and competencies that developers may or may not be prepared for. There are two main ways for a developer to take on this task:

Host the middleware internally: The developer is responsible for the logistics and management of the gaming servers. This in itself could be a daunting task as developers must consider user base, growth rates, site management, cost of hardware, connectivity, support and other related items. Developers may not have the competencies or funds to perform this function.

Procure services from an external provider: The alternative for developers is for middleware services to be managed by an external provider. This allows the task to reside with those who are more familiar with the intricacies of middleware management. The issue becomes selecting the appropriate providers and integrating with their middleware.

Most video game developers are unwilling or unable to take on the internal hosting of the middleware. Although EA self hosts its online sports component, in the past they have found it more economically viable to contract the services of

Gamespy. In November of 2002, they signed a multi-year deal for the use of Gamespy middleware to be included in many of their PC games. The middleware provided easy to use code that ties in readily with EA's games.

3.5.2 Middleware Providers

Although middleware providers are currently limited in numbers, the emerging market is creating numerous opportunities in this field.

3.5.2.1 Gamespy

In 2001, Gamespy Industries launched Gamespy.net, an online infrastructure allowing publishers and developers multiplayer functionality without the need to create and maintain the services themselves.[33] Gamespy is a network of software, back-end servers, bandwidth and operations allowing games with online features to operate from one main website. This infrastructure has supported over 8 million installations and 300 million uses of the Gamespy client software since 1997. Since that time the Gamespy servers have been in operation round-the-clock with 99.9% uptime. Gamespy offers several Gamespy.net Toolkits, which are sold to developers individually or as a toolkit suite.

3.5.2.2 XBConnect

XBConnect is an example of the potential disruption with which middleware threatens the online console gaming. Although Xbox Live hosts online playability for most of its games, XBConnect fills in the holes of some popular titles not supported (Halo for example) and offers free hosting for all their games. In addition, XBConnect allows the user to employ the voice headset provided with the Xbox Live package- all with no membership fee charged. Once again, it will be difficult to monetize users who have become accustomed to free online game play.[34]

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[33] Gamasutra, *Game Spy Launches Gamespy.net* [Online], 2001.

[34] Game Zone Online Play Station 2, *Sega.com to Provide Network Multiplay Solution for Nintendo Gamecube and Playstation 2 Developers: Sega.com Signs Middleware Agreements with Top Console Manufacturers* [Online], 2002.

3.5.2.3 Sony

In March 2003, Sony released development kits as well as middleware that would allow developers to use their Butterfly.net computer grid as an environment for online games. As announced by Sony, this will significantly reduce the barrier to entry for online game development.[35]

3.5.3 Fansites

Fansites are web pages that have been created by users who have a certain dedication to a video game, console, sport or other interest. They create these web sites as a community based service for users who share the same passion for the topic. Creators of the fansites can either build the site out of a love for the topic or for revenues- mainly through advertising. Several examples of fansites exist across the globe. A good example of a popular and successful fansite in the gaming industry is soccergaming.com. Launched in October 1997 out of Australia, soccergaming.com has become the leader in soccer related video game websites, boasting over 8 million impressions per month. They concentrate heavily on promoting EA's successful *FIFA* series via web links, downloads and organized competition around the globe. Many *FIFA* fans look to soccergaming.com as the source for updated news on their sport and the *FIFA* series. EA has recently established a partnership with soccergaming.com allowing them built in access to their target market.

3.6 Analysis of Possible Revenue Models

There are several established revenue models available for EA to pursue in its end goal to monetize its EA Sports Nation subscribers. Different models work best within specific genres such as action, simulation, MMPs, sports etc. For instance, attaining a fee for basic puzzle games is unrealistic as there are many free substitutes for that type of offering. Ultimately, switching is a more feasible option than paying. For this reason, puzzle games typically rely on advertising to generate revenue. Below are several potential revenue models that

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[35] Joseph Moran, Game Marketwatch.com, *Sony to Support Butteryfly.Net Computing Grid for PS2 Development* [Online], 2003.

have worked in the past either for the gaming industry or for other external industries.

3.6.1 Free Subscriptions

In this model, EA's revenue would come from the physical sale of the game. EA is using this current model for their current sports games and may add a proponent of online advertising to supplement revenue. With the expectation for free games set in the minds of users, it may be difficult to monetize them in the future. Either a new benefit or feature set must be presented to justify a new pricing strategy or a market paradigm shift must occur where users become more willing to pay for online play.

3.6.2 Annual Subscription

As this requires a full upfront payment, the established price must not be so high as to prohibit adoption. The feature set must be significant enough that consumers see the value proposition immediately in order to commit to a large annual fee. Since this is a recurring revenue model, it must also be simple to renew and users must find value in the service over the entire year as a drop off in usage would decrease renewals. EA could consider automated renewal of subscriptions that are only cancelled based on user request. There may also be different levels and price points for subscription depending on usage- allowing 20 hours per month at the base rate up to unlimited usage for a higher fee.

If an annual subscription model is selected by a majority of different vendors then the end consumers could find themselves spending very large amounts of money to play online games each year which may result in a fierce battle for the consumer's dollars and a resulting price reduction. For example, a $9.95 per month subscription * 12 months would cost the customer nearly $120 not including the $60.00 for the game. The problem with the sports genre is that they are readily substitutable. It is imperative for the user to establish characters and assets in the service that they would be unwilling to give up, in essence increasing their switching costs. Examples of annual subscriptions from other industries include magazine subscriptions and insurance policies, with the cellular industry serving as a strong example where clients receive significant discounts for commitments up to 3 year contract. Users are often able to upgrade packages but penalized for downgrading them.

3.6.3 Monthly Fees

This price structure would allow users to try out a game without an extended investment or upfront commitment, with discounts offered for pre-purchasing a larger number of months in advance. Fees are most commonly withdrawn from the user's account and renewed at the end of each month unless a cancellation notice is given. Varying levels of monthly subscriptions could range from limited play for a few dollars to unlimited play for the full service fee. Price points must be small enough that the consumer finds it natural to pay that much for a monthly service.

This model allows for experimentation and users may jump from one game to another. A very strong product must be offered to retain the client on an ongoing basis. This revenue model works quite well in games such as *Everquest* and *Ultima Online* because, by the nature of the game, it continues to grow in the absence of the user, and provides new evolving content on an ongoing basis signalling to users that they are paying for this development of their world. In an online sports arena, the addition of persistence will need to be present to retain users and discourage switching. By persistence, this could mean environment growth, league standings, user rankings, etc. Examples of monthly revenue models are Match.com, telephone and cable companies.

3.6.4 Pay Per Use

In a pay per use system users set up an account and pay a small fee for each use- with a finite time limit for play (i.e. playing a full game, losing to an opponent). This method is very similar to the arcades where one enters payment for each game. At the end of an online session, the user would be prompted to press on a key on their play pad ("start" or "select") to continue play and have credits removed from their account. For online sports play, EA could charge fees for entering tournaments or league play. Similar pay per use systems are parking meters, arcades, pay phones, pay-as-you-go cellular services or toll bridges.

3.6.5 Micro Payments

Micro payments is a revenue model in which users are given the option for purchasing low fee items such as virtual jerseys, equipment or other digital assets. The basic service is often free, but as users immerse themselves in the online environment and get "stuck" to the site, they find the need for small items they may want to purchase at a small fee rather than earn by performance and usage. Once an initial purchase is made (usually a dollar or two) a direct link is created with the user, and more items can be targeted towards the individual in an attempt to monetize them more fully. The appeal of this for the user is that they get the basic service for free, and any purchases are low cost, and totally up to them.

Another appeal of the micro payment system is that the online offering would be able to more effectively measure the appeal of specific attributes available for purchase, which would aid them in establishing price points and develop other products that would appeal to the clients. Rather than collecting fees for bundles of attributes through tiered subscriptions, the cost and profitability of these individual items could easily and individually be assessed. Examples of micro payments include pay per view and long distance charges.

3.6.6 Credit System

The credit system is a revenue model in which users prepay for a certain number of credits in advance of its use. The user need not worry about paying each time they play nor are they committed to a distinct time period (month or annum). This credit system could offer discounts for the total number of credits that are paid for at the time i.e. 10 credits could be $5.00, 20 credits would then be $9.00, 30 credits for $17.00 dollars, etc. The greater the purchase, the larger the discount as they are essentially buying in bulk. Examples of the credit system are dating services and prepaid phone cards.

3.6.7 *Partnered Bundling*

The essence behind this model is to offer or embed the price of the subscription with something that clients are already paying for. Online play could be bundled with cable or ISP providers or a larger online game play "suite". Clients commonly pay approximately $60 per month US for their current cable/broadband packages- an additional $9.95 per month fee may seem nominal in relation to the total fee that is being paid. In essence, this partnering may allow EA to collect subscription fees through the cable bill and market to a completely different audience. This would allow users to have online access at their TV making it a natural location for online play. However there is such a wide variety of cable and ISP providers regionally that management and billing of this could be very difficult and is seen as presently unrealistic.

Partnered bundled could be included in the initial console purchase itself. This packaging would allow EA to immediately capture clients as they buy the console as well as secure future online subscription revenues. The incremental price of the games and the online subscription may be nominal to the user at the time of such a large purchase. Examples of bundling include cable packages and software suites.

3.6.8 *Version Pricing*

Version pricing of video games would be the sale of the basic game or a more expensive version with a built in online subscription. The pricing difference may be deemed acceptable by the consumer as there is an important feature warranting the difference. Using the distinction between the two packages, EA would be able to promote awareness of EA Sports Nation not only as a single feature but as a unified sport entity across many titles piquing consumer interest. Examples of versioning include many software packages and widescreen or full screen DVDs.

3.6.9 *Evaluation of Revenue Models*

Given the early stages of the online market, we propose that EA try out various different revenue models on different markets (global or regional) rather than putting all its virtual eggs in the basket of one revenue model.

Responses from our survey (see chapter 6 and Appendix B) indicate that although most consumers are very resistant to paying for online services, they find versioning more palatable than most types of billing. The credit or pay per use system seems the least desired of the models. Micro payments were not assessed in our survey but would work nicely in conjunction with the free price point EA looks to maintain for the short term. Table 2 outlines each revenue model with the benefits and pitfalls for each shown from both the point of view of the customer and EA.

Model	$ potential per user	Benefit to Consumer	Pitfall for Consumer	Benefit to EA	Pitfall for EA
Free	Very Low	Free basic subscription	-Company is not accountable to the user	-Enhance corporate reputation -High adoption -High usage	-No revenues -Sets consumer expectations
Annual	Moderately High	-Moderate fee	-Long term commitment -Payment upfront -Prohibits sampling	-Committed users -Upfront revenue	-Difficult to cancel offering -Low adoption -Price prohibitive -High consumer expectations
Monthly	High	-Allows switching	-High fee	-Recurring revenue -Greater annual fees	-Allows switching -Price prohibitive -High consumer expectations
Pay per use	Moderate	-Allows sampling	-More expensive in long run	-Potentially high revenues -Promotes sampling	-Unpredictable revenue -Unappealing for hard core gamers -Allows switching
Micro Payments	Moderate	-Users choose purchases	-Fees can quickly add up	-Establishes position in digital asset value chain -Contact with those likely to spend -Indirect user feedback	-Unpredictable revenue -Competition may offer the same for free -Revenues may be small -Allows switching
Credit system	Moderate	-Allows sampling -Volume discounts -Portable credits	-More expensive in long run	-Potentially high revenues -Promotes sampling	-Unpredictable revenue -Unappealing for hard core gamers -Allows switching
Bundling	Moderate	-Ease of payment	-May pay for a service they do not use	-Natural consumer purchase -Leveraged marketing Greater reach	-Billing nightmare -Lower revenues
Versioning	Low	-Low annual fee	-Some fee -Version of choice may be sold out	-Some revenue -Segregates users	-Increased manufacturing costs -Lower revenues -Sets consumer expectations

Table 2: Assessment of Revenue Models[36]

[36] Created by Author

3.7 The Supply Chain

The supply chain is designed to evaluate the flow of goods in an industry from initial concept to the hands of the end consumer.[37] Often, one entity (such as EA) can perform more than one role in the chain acting as a content provider developer, and publisher. The industry is not complicated in terms of structure but is complex in terms of negotiations and relationships. The supply chain diagram below (figure 4) shows a visual flow of goods. EA's overall role in this supply chain is described in the following "Value Chain" section.

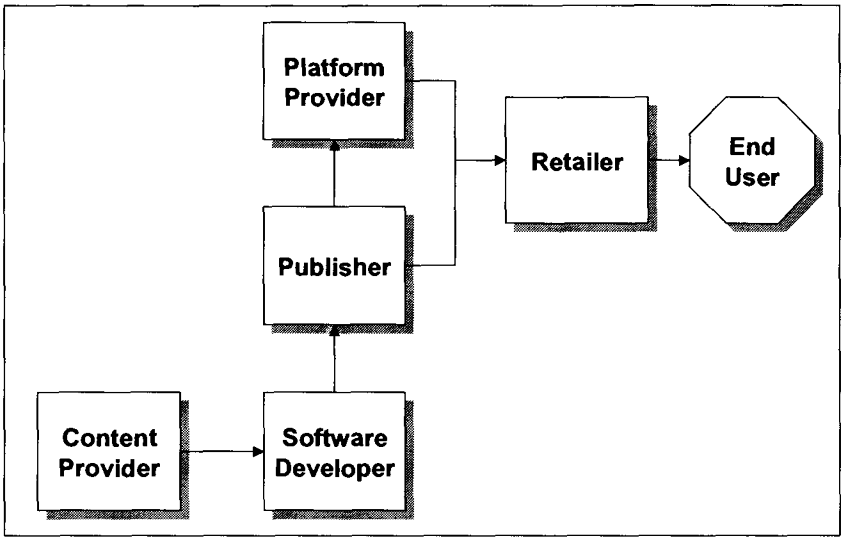

Figure 4: Supply Chain Diagram[38]

3.7.1 Content Providers

These entities provide the licenses for the video game industry. A majority of the top ten publishers have control over several licenses, selling to others the rights to use their content in return for royalties. Examples of licensed games include movie titles, super heroes, cartoon characters, TV shows, sports figures and car manufacturers. Licenses are an effective way to secure a dedicated audience as the characters or concept typically have a strong following and built in audience.

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[37] As summarized by Tom Dembie et al, *Disney Interactive Strategy 6100 Phase 1 Report Group #2164*, (Walt Disney Corporation, 2002), 7

[38] Created by Author

3.7.2 *Software Developers*

Software developers are those companies that physically create the graphics, music, sound, levels and other aspects that go into the game. Development is a costly venture and it is rare that developers are able to fund, publish, market and distribute their own games. They tend to seek out financing from publishers or other financial sources such as venture capital. The developer obtains royalties from the publishers after certain sales targets have been met while the publisher often takes over control of the IP.

3.7.3 *Software Publishers*

Publishers provide the completed game to the retailers and distributors. They finance the development and undergo the tasks required to bring the games to market that usually include; research, negotiating with retailers and platform providers and managing/producing the development. It is a risky business in which the publisher invests a substantial amount of money in a game that they expect to be successful and to provide a significant return on investment.

3.7.4 *Console Manufacturers (Gatekeepers)*

These are the developers of the hardware that is used to play the video games. Given that there is an intensive amount of technology and capital required to develop hardware, there are only a few players in this market. The current major players are Sony, Microsoft and Nintendo. The platform world is a risky undertaking and requires a specialized skill set and infrastructure as well as immense amounts of marketing and resources. Relationships with publishers are extremely important as the software line-up is a crucial part of consumer appeal.

3.7.5 *Retailers*

The retailers are those entities that distribute the video games to the end consumer. They are the specialty boutiques, department stores and e-commerce websites that sell to the users. Examples are Electronics Boutique, Walmart and Kmart.

3.8 Value Chain

The traditional value chain of the video game industry involves the original licensee (IP), publisher, developer, manufacturer, distributor and retailer. EA enjoys the enviable position of being a part of most of these links in the chain. With online publishing and digital distribution acting as an equalizer in the industry, how will the value chain evolve and how EA can retain its dominant position? Even though many of the portions of the value chain remain the same, depending on the platform, several key components may change.

3.8.1 Traditional PC and Console Value Chain

Electronic Arts is involved in the traditional video game value chain at most levels with manufacturing and retail sales being the only functions they do not perform or have competencies in. At present, the video game value chain revolves around publishers who typically fund the development of the games, thereby entitling them to retain a large but not complete portion of the revenue generated by the final product. The publishers employ manufacturers to efficiently produce the games and the retailers are in turn responsible for selling to the end consumer. Although primarily a publisher, EA has attained a unique position by having developed efficiencies in distribution, a process that is usually outsourced to independent distribution chains. The publishers perform the marketing function of the chain that generally occurs concurrently with the manufacturing through retail stages.

Console manufacturers exert significant control in the industry through their contractually stringent requirements. Their gatekeeper status ensures them the ability to command royalty revenue for every title sold for their platforms. The value chain diagram below (figure 5) does not display the process of content approval by these gatekeepers as it was drawn to encompass both PC and console games. However, this portion is depicted individually below in the separate PC and Console diagrams.

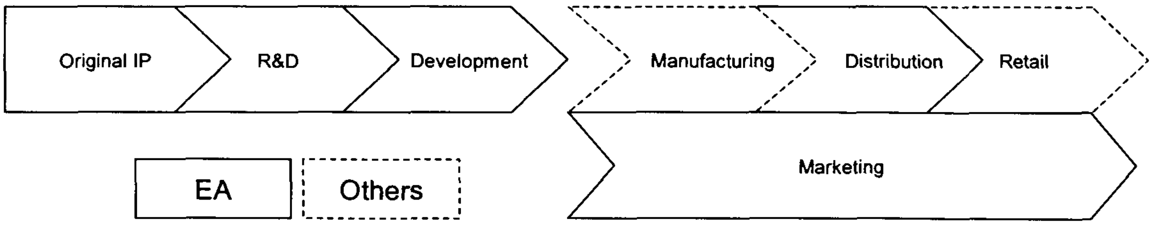

Figure 5: Traditional Value Chain[39]

3.8.2 PC Online Value Chain

Other than the publisher directed MMP model, the online enabled PC game value chain (see figure 6 below) involves little difference from the traditional value chain. The main difference is the activity of web servicing which most commonly employ middleware providers such as Gamespy for this task. This model therefore allows the service provider a direct link to the end user. However, the publisher still has content approval over the game itself.

In the transition from retail games to online products, quality of service will play an increasingly vital role in both winning, and most crucially, retaining paying users. It will require a strong physical network to provide access to games and to create an infrastructure for distribution. Even if an organization manages to create this extensive infrastructure, they will still be subject to the variation in quality experienced across the public Internet, with broadband penetration becoming a key requirement. Therefore, most often online enablement and web servicing is outsourced to companies who hold this as their main competence. Gamespy has leveraged their experience in this arena to become a major force in the value chain and currently provide their services at significant cost to such publishers as EA.

Since physical products must be purchased before any online services can be enjoyed, manufacturing and retailing are still necessities for distribution, although in the future digital distribution may change this requirement. Initial digital distribution networks, such as *Steam*, are limited to the small file size of PC games via streaming technology. Console networks are still years away, so most efforts are currently being focused on PC digital distribution.

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[39] Created by Author.

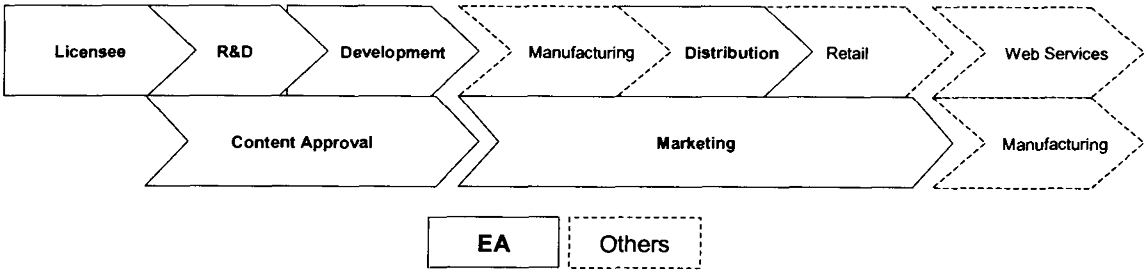

Figure 6: PC Online Value Chain[40]

3.8.3 Console Online Value Chain

The current online console value chain (see figure 7 below) is similar to the online PC value chain with the exception of content approval which is controlled by the gatekeepers, Sony and Microsoft.

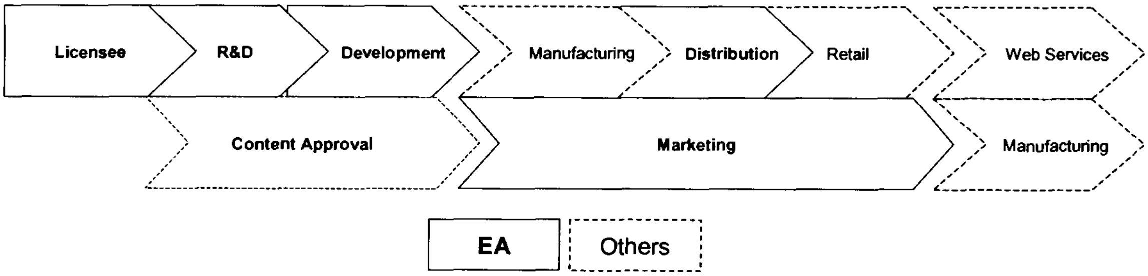

Figure 7: Console Online Value Chain[41]

At this time, several intermediaries pose threats to this ideal value chain, as all parties involved compete for larger portions of the pie. The console manufacturers themselves (except for Nintendo) have established infrastructures allowing them to offer online playability to the end user. Microsoft has heavily been promoting Xbox Live, which encourages users to purchase console games and subscribe to the Xbox online service. Sony is not far behind, having taken a similar approach recently with Central Station. This in turn gives them a great deal of power by establishing a direct link with the end user. Somewhat less "authorized" sites such as XBConnect provide similar (but less sophisticated services) at no charge for customers.

[40] Created by Author
[41] Created by Author

3.8.4 Digital Distribution Value Chain

Whereas the current online value chain holds little opportunity for increasing the publisher's presence in the value chain, digital distribution (see figure 8 below) allows them to replace the manufacturing, retailing and in some cases the web servicing function. Under this scenario, it is possible for EA to capture greater revenues by performing all the functions of the value chain itself. Recent trends suggest that new publishers will emerge and independent developers will increasingly find innovative ways to self-publish their own original titles. These newly liberated publisher/developers will eventually face the same issues of how to deliver the product to the consumer and how to provide a high enough quality of service that will ensure the retention of these customers.

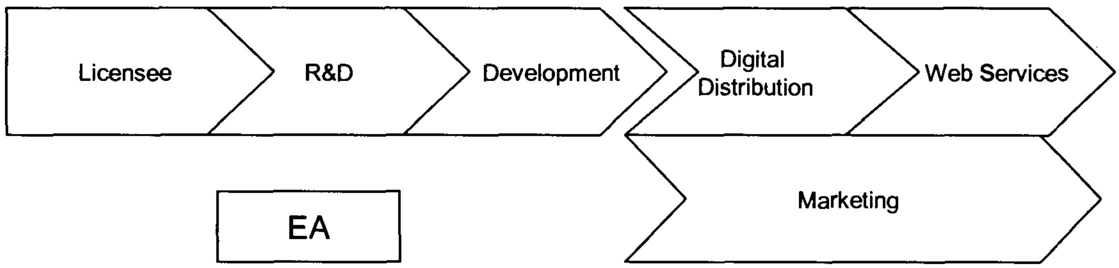

Figure 8: Digital Distribution Value Chain[42]

Many believe the introduction of digital distribution will eliminate the "middlemen" and allow publishers to sell directly to the end-user. The traditional roles of the retailer and distributor/wholesaler may indeed become obsolete. However, in order for the new distribution model to work, there will emerge the need for competencies in attracting paying customers for their service. This involves not only a shift in marketing techniques, but a billing model to most effectively meet the needs of the end user, and most importantly. Multiplayer.com, a recent entry into this market, offers users a plethora of downloadable games to play on its site for a monthly fee of $3.75, but there were only 30 members online at the time of this writing.[43]

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[42] Created by Author.
[43] Multiplayer.com, www.multiplayer.com [Online] 2003.

Publishers must be prepared to spend great amounts on marketing their website and promoting their games in an attempt to alert hardcore gamers and casual gamers to their product offerings. Even though such promotion is necessary, greater contact with the end user will allow for direct marketing, newsletters and targeted demos for their members. The need for securing co-distribution deals with high-traffic partners such as ISPs (Internet service providers) and search engines may be the logical solution. However, such partnerships would again eat into the value chain and revenue retention.

The current online video game value chain has become considerably more complex than expected. The advent of digital distribution on the horizon has opened up considerable possibilities that few publishers have been able to benefit from via the current model. New retail business models like pay-per-play, hourly rates, level rates, or monthly fees are emerging and most often taking their lead from the subscription based MMP model. Just as the MMP model dictates, it involves a shift from pure product development to that of becoming a competent service provider.

Ultimately, the end user would be able to bypass traditional retailers, and directly download games themselves. Publishers such as EA would in turn gain a direct link to their customers. This could provide them with direct user feedback and allow them to market to "pre qualified" users- i.e. ones who already subscribe to or have interest in their products.

If the digital distribution model were embraced by the market in the same way as packaged units, the ultimate goal of publishers would be to bypass retail sales altogether. If end users were still willing to pay the same or nearly the same price for the games they currently play, publishers such as EA would be able to retain virtually all of the profits (with the exception of the portion that go to the console manufacturers). As immediate immersion into these functions would not access all customers, undoubtedly both retail and digital distribution models would operate simultaneously, with retail sales becoming a smaller portion of the sales over time.

The results of the survey conducted by the authors (see Chapter 6) indicate that users are very receptive the concept of digital distribution. The main issue is when internet connections will become fast enough for digital distribution in order to satisfy consumer's download speed requirements for console content-particularly as the size of those files continues to grow with each new console generation.

3.9 Summary of Players in the Market

Although well established in terms of the overall video game industry, the various powers and influential entities are struggling to monetize users and establish themselves in positions of power in the emerging online value chain. EA must assess the current and predicted future power of these various entities in order to create as desirable a position as possible in the console sports gaming industry. This involves careful analysis of their current strategic alliance with Sony as well as their plans for leveraging community fan sites.

SECTION 2: ANALYSIS OF CURRENT SITUATION

4 EA's Current Strategic Direction

The purpose of this chapter is to describe EA's current performance within the industry. This analysis looks at EA from a competitive standpoint at the present time. It assesses the business and client relationships, the competition, the market and the customer profile and seeks to point out any transitions that are currently occurring in the industry.

4.1 Corporate Level Strategy

EA as a corporation continues to be the leader in the videogame publishing industry. Their ability to achieve corporate goals is extremely high and their revenue and market leadership clearly demonstrates this. EA has set several key goals for both their 2003 and 2004 fiscal years[44]. These goals are public and clearly outlined in their financial reports as addressed by their chairman, Larry Probst. For the 2003 fiscal year, EA set out six major targets that they also refer to as corporate "challenges" and are summarized below:

Challenge/Goal #1: Outperform *Harry Potter and the Sorcerer's Stone* previous year's sales: In Fiscal 2002, the first *Harry Potter* title set a record as EA's fasted selling game ever. In an attempt to outperform this release, EA published the game *Harry Potter and the Chamber of Secrets.* Timed with the release of the movie, EA launched the game in a total of 31 languages, 100 countries and over 7 platforms. Their result was a 22% increase and revenues of over $250 million.

Challenge/Goal #2: Make FIFA the number one soccer franchise worldwide: In fiscal 2002, EA's *FIFA* soccer encountered a good deal of competition from other market players. To counter this, EA met with fans and critics researching those factors that made *FIFA* great initially. When the new

[44] Electronic Arts, *EA 2003 Annual Report* (2003): 11-12, 15.

game hit the stores in October 2002, EA's *FIFA* took the top spot with over 4 million units sold that fiscal year.

Challenge/Goal #3: Grow EA's ownership of IP: EA voiced the desire to create quality in-house products. They sold approximately 5 million units of *Medal of Honor Frontline and* 25 million units of *The Sims* as well as enjoying a great deal of success with their release of *Command & Conquer Generals*.

Challenge/Goal #4: Dominate the Holiday Season across the Globe: EA looked to dominate the Christmas season. With the release of 32 games across seven different platforms in approximately 100 countries and 31 languages, they produced amazing record revenues of $1.2 billion in one quarter. They enjoyed a total of five of the PS2's, two of the GameCube's, three of the Xbox's and five of the PC's top 10 hits that season in North America.

Challenge/Goal #5: Make the Online Subscription Business Feasible: Despite the underperformance of their *Sims Online* and *Earth and Beyond* releases, EA is still committed to making online gaming a success. EA felt that they prematurely entered the online forum as this online development resulted in significant costs and little revenue. Currently EA has 450,000 fans registered and playing *Madden* and *NBA* online. Even though they are anticipating the dominance of online play, they do not believe that the mass market will be driven to it until the next generation of consoles.

Challenge/Goal #6: "Build on the Leadership of EA Sports": Although EA's Sports brand is second to none; they felt there was a possibility of losing their foothold as leader of the sports category. Titles such as *Madden NFL Football, NBA LIVE, FIFA, and NASCAR*, EA not only held their leading position but also increased their user base and remained on top of their competition for yet another year. This is extremely important to EA, as their sports titles are essentially a guaranteed recurring revenue stream.

As noted, EA was successful in meeting their goals and challenges as outlined in their 2003 annual report. Also found in the annual report was a new set of bold challenges for fiscal 2004. These self-imposed challenges are:

- Build on EA's intellectual property portfolio with games like *Medal of Honor Rising Sun, The Sims* and *SSX3.*
- Invest in wholly owned game properties.
- Increase EA Sports worldwide market leadership.
- Fully exploit titles tied to major movie licenses such as *Lord of the Rings, Harry Potter* and *James Bond.*
- Leverage the advantage of EA's online experience and infrastructure.
- Attack new opportunities with investment in people, process and technology.

The successes of their previous and recent challenges come with significant rewards. The following section of this paper will outline EA's financial revenues and highlight several of their more notable accomplishments.

4.2 Financial Performance

EA's financial performance has been favourable over the last two fiscal years. Sales for the current generation consoles and, to some extent, the PC world, have helped to secure ongoing revenues. This section uses highlights, excerpts and summaries from EA's annual report to outline EA's overall performance.[45] Table 3 below shows the significant revenue growth of EA products in various markets, and Figure 9 outlines their revenue by region.

(dollars in thousands)	2003 Fiscal Year	% change from 2002
N. America	$ 1,435,718	31%
Europe	$ 878,904	69%
Asia Pacific	$ 87,569	64%
Japan	$ 80,053	37%
Total Net Revenue	$ 2,482,244	44%

Table 3: EA Regional Revenues for Fiscal Years 2002 and 2003[46]

[45] Created by author, based on the work of Electronic Arts, *Annual Report*, 2003
[46] Created by author, based on the work of Electronic Arts, *Annual Report*, 2003

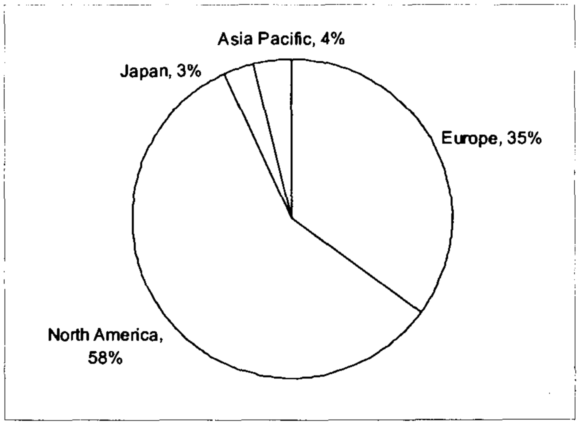

Figure 9: EA's Regional Sales Percentages[47]

Revenues for 2003 increased 44% over the previous year. This comes most notably from a 66% increase in revenues from international markets. Several reasons are given for these worldwide revenue increases and are detailed in Table 4 below:

- Revenues on the PlayStation 2 platform increased by 89% over the 2002-2003 fiscal years for a total of $910.7 million in net revenues.
- Increased exposure of the Xbox both nationally and internationally-net revenue for the Xbox went from $78.4 million to $219.4 million in 2003. It must be noted that the 2002 year only represents five months of net revenues for the Xbox given the launch date.
- The Nintendo GameCube also made it out of its exclusive Japanese and North American market and penetrated the European market. Revenues from the GameCube went from $51.7 million to $176 million.
- For the most part, strong sales of the co-publishing and distribution of *The Kingdom of Hearts, 1503 A.D., The New World* and *Battlefield 1942* increased by 40%. As well, PC products such as *The Sims* and *SimCity 4* increased in sales.

[47] Created by author, based on the work of Electronic Arts, *Annual Report*, 2003

(dollars in thousands)	2003 Fiscal Year	% change from 2002
Playstation 2	$ 910,693	89%
PC	$ 499,634	9%
Xbox	$ 219,378	180%
Nintento GameCube	$ 176,656	241%
PlayStation	$ 99,951	-47%
Gameboy Advance	$ 79,093	81%
Online Subscriptions	$ 37,851	22%
Advertising	$ 31,988	-16%
Gameboy Colour	$ 26,293	-31%
License, OEM and Other	$ 24,948	-46%
Co-publishing and Distribution	$ 375,759	40%
Total Net Revenue	$ 2,482,244	44%

Table 4: EA 2002-2003 Fiscal Revenues by Product Line[48]

4.2.1 Financial Performance of the PlayStation 2

PlayStation 2 net revenues increased by 89% over the last 2 years. See Table 5 below. The revenue increase is due to several factors:

- Strong acceptance of the PS2 in every major market that EA operates in.
- Price cuts to the console in both Europe (Aug 2002) and North America (May 2002) that resulted in an increase in the installed base.
- *Medal of Honor: Frontline, Lord of the Rings: The Two Towers, Harry Potter and the Chamber of Secrets* and *The Sims* generated $343.7 million in net revenues across all the territories.
- Franchise titles, *James Bond, FIFA, John Madden, Tiger Woods* and *NCAA Football* increased in net revenues over last year's titles. The total increase for all these titles is $96 million.

EA does not anticipate the same amount of growth for the PlayStation 2 in the fiscal 2004 year.

(dollars in thousands)	2003 Fiscal Year	% of total Net Rev.	% change from 2002
Playstation 2	$ 910,693	37%	89%

Table 5: EA 2002-2003 Fiscal Revenues for the PS2[49]

[48] Created by author, based on the work of Electronic Arts, *Annual Report*, 2003
[49] Created by author, based on the work of Electronic Arts, *Annual Report*, 2003

4.2.2 Financial Performance of the PC

As shown in Table 6 below, PC net revenues grew by 9% this fiscal year. This was due to the increase of the sales of both the *Sims* and *SimCity 4.* PC revenues are not expected to increase in 2004.

(dollars in thousands)	2003 Fiscal Year	% of total Net Rev.	% change from 2002
Personal Computer	$ 499,634	20%	9%

Table 6: EA 2002-2003 Fiscal Revenues for the PC[50]

4.2.3 Financial Performance of the Xbox

The revenue increase of 180% on the Xbox platform (see Table 7 below) was based on the following highlights:

- The Xbox was released in the US in November of 2001 and March 2002 in Europe. This meant that the installed base in 2002 was significantly smaller than that of 2003.
- Sales in North America of *Medal of Honor Frontline, NCAA Football 2003* and *Lord of the Rings* generated significant revenues of $41.2 million.
- In Europe, strong sales of *FIFA 2003, James Bond 007: Nightfire, Medal of Honor: Frontline* and *Harry Potter and the Chamber of Secrets* generated $24.7 million in revenues.

Growth is anticipated for the Xbox across the fiscal 2004 year but not at the same rate.

(dollars in thousands)	2003 Fiscal Year	% of total Net Rev.	% change from 2002
Xbox	$ 219,378	9%	180%

Table 7: EA 2002-2003 Fiscal Revenues for the Xbox[51]

4.2.4 Financial Performance of the GameCube

The GameCube's increase of 241% (see Table 8 below) was due to the following major factors:

- Release of the GameCube in Europe May 2002, increasing the overall installed base and covering the full market the EA operates in.

[50] Created by author, based on the work of Electronic Arts, *Annual Report*, 2003
[51] Created by author, based on the work of Electronic Arts, *Annual Report*, 2003

- The number of EA's titles for the GameCube went from five in 2002 to 17 in 2003. The strongest of these titles were *Harry Potter, Medal of Honor Frontline, Need for Speed: Hot Pursuit 2* and *Lord of the Rings: The Two Towers.* These releases generated $68.7 million in net revenues.

Growth is anticipated for the GameCube across the fiscal 2004 year but not at the same rate.

(dollars in thousands)	2003 Fiscal Year	% of total Net Rev.	% change from 2002
Nintento GameCube	$ 176,656	7%	241%

Table 8: EA 2002-2003 Fiscal Revenues for the GameCube[52]

4.2.5 Financial Performance of Online Subscriptions and Advertising

EA's online subscription revenues increased by 22% in fiscal year 2003. The main reason for this was the moderate successes of *Earth and Beyond, Sims Online* and increased revenues from *Motor City Online*. The aggregate total for these three titles were $8.6 million. EA feels that the *Sims Online* and *Earth & Beyond* has resulted in disappointing sales of units and a low take-up in subscribers and as such they have decided to cancel similar future online projects.

Previous expectations for EA's online offerings have been high, leading to disappointment over the last few years. Although the online arm of EA posted only $3.5 million in losses for the last quarter of 2002- a marked improvement over the $6.7 million loss in the same period in 2001- EA has opted to bury the financials of EA.com in its core operations. One of EA's few shining successes over past years is the MMP *Ultima Online*, boasting over 200,000 subscribers each paying $10 US per month, and has been successful since 1997. In the face of more sophisticated MMPs such as *Star Wars Galaxies* however, *Ultima Online* may soon fade in appeal and profitability.

Online advertising revenues dropped by 16%. AOL has reduced its advertising budget with EA by $3.8 million and the advertising of products on EA's website has declined by $1.8 million. AOL has also told EA to expect significant drops in the future. See Table 9 for details.

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[52] Created by author, based on the work of Electronic Arts, *Annual Report*, 2003

Although nearly 30% of EA PC sports game purchasers sampled the online component of the games that it offered, only an approximate 1500 users stayed past the 4-month free trial to pay the $5.95 US subscription fee.[53] It should be noted that with the disappointing subscriber rates of this recent online sports offering, disappointing subscriptions to the much anticipated Sims Online (85,000 to date) and consistent losses for nearly all online activities, EA has opted to no longer separate the earnings of its online services, with the losses likely appearing as a black eye on the otherwise burgeoning business of the company. Many at EA seem to be losing patience with the lack of anticipated usage and profits from this new industry.

(dollars in thousands)	2003 Fiscal Year	% of total Net Rev.	% change from 2002
Online Subscriptions	$ 37,851	2%	22%
Advertising	$ 31,988	1%	-16%

Table 9: EA 2002-2003 Fiscal Revenues for Subscriptions and Advertising[54]

4.2.6 Financials Related to Marketing

Expenditures for EA's marketing and sales include personnel, standard marketing, promos as well as those fees payable to AOL for the distribution of EA's online games on the AOL network. Marketing expenses also rose due to an increase in the total number of titles released over 2002 and 2003 (86 titles vs. 64 titles). $46.1 million was used to support *Madden NFL 2003, NBA Live 2003, The Lord of the Rings, The Two Towers, Harry Potter and the Chamber of Secrets, The Sims* and *The Sims Online*. In addition, there were increases due to the growth of personnel worldwide. See Table 10 below for a summary.

(dollars in thousands)	2003 Fiscal Year	% of total Net Rev.	% change from 2002
Marketing and Sales	$ 24,948	13%	-46%

Table 10: EA 2002-2003 Fiscal Revenues for Marketing and Sales[55]

4.2.7 Finances Related to Research and Development

R&D expenditures for EA increased by 5.4% in 2003 and were related to both and increase in personnel as well as development for the *Sims Online*. There was however a decrease in salaries as well as lower expenditures on

[53] Personal Interview with Michael Upton, Associate Producer of EA Sports Online
[54] Created by author, based on the work of Electronic Arts, *Annual Report*, 2003
[55] Created by author, based on the work of Electronic Arts, *Annual Report*, 2003

EA.com business. EA anticipates an increase in R&D for 2004 to begin ramping up for the next generations of consoles and the PC. See Table 11 below for a summary.

(dollars in thousands)	2003 Fiscal Year	% of total Net Rev.	% change from 2002
Research and Development	$ 375,759	16%	40%

Table 11: EA 2002-2003 Fiscal Revenues for R&D[56]

4.3 Current Online Structure

Many see the failure of *The Sims Online* to meet subscription expectations (85,000 users to date) as a strong indication that there is a limited market for subscriptions to online games. Other lukewarm titles such as EA's *Majestic,* which combined online play with faxes, telephone calls and emails, have recently shut down. As of December 2002, EA.com had lost $368 million to date.[57]

Recently, EA acquired the popular Pogo.com website company.[58] Pogo.com is a web-enabled forum for mass-market online gaming with offerings such as puzzle and card games. Advertising supported online play has been a successful revenue model in past years for many simple gaming websites, but with ad rates on the internet dropping steadily, this may be short lived and limited in its success.

Currently, successes such as *Battlefield 1942* are hosted by EA's servers in-house. Released only as a PC game, *Battlefield 1942* allows EA to bypass any potential gatekeepers in the online process and therefore manages to retain much control over the end product. However, this type of freedom in PC development is offset by the smaller unit sales inherent in that market; therefore, PC games typically bring in lower revenues than console releases.

As quoted in the EA 2003 financial report, EA's focus for the online world is to:[59]

- Offer engaging and accessible online games;

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[56] Created by author, based on the work of Electronic Arts, *Annual Report*, 2003
[57] EA Headquarters, *Electronic Arts Corporate Information* [Online], 2003
[58] Electronic Arts Inc. www.pogo.com [Online], 2003
[59] EA Annual Report, Fiscal 2003: 28

- Build a community in which consumers can interact with one another via chat, bulletin boards, events and match-making services for multi-player games and other contests;
- Deliver innovative content that continually entertains;
- Establish a direct relationship with each audience member through personalization and customization of experiences.

Just as the film industry separated itself from low budget films by offering more "splash" in its big budget movies, many sophisticated online offerings such as that of EA Sports Nation are distancing themselves from the free advertising supported services of Pogo.com by providing a far superior product for its members. It appears that for the online subscription business to work that it is integral to separate itself from the free substitutes that are available in the market.

At this time, EA Sports offers online play for *Madden, NBA, March Madness, NCAA football, Tiger Woods, NASCAR, NHL* and other titles. The titles with the most online members are *Madden* and *NHL*, with *NBA* and *Tiger Woods Golf* not far behind. As it exists now, EA Sports Nation only offers tournaments, some club organization, leader boards, competitive matchmaking and chat/voice capabilities. Although EA has recently announced the launch of this "initial version" of EA Sports Nation, the main page of the EA.com website surprisingly does not provide any link to an EA Sports Nation site, and makes little mention of the online features when promoting their sport games. This seems to indicate that there a lack of congruence of priorities between the marketing and development departments at EA. Even while "holding back" from promoting Sports Nation until more online sports games are launched, the lack of aggressive marketing and promotion to ensure the initial success of the venture indicates a lack of confidence and support from the upper tier of the company. It is a circular loop in which marketing dollars are typically spent only on those products that have proven to be successful.

4.3.1 Proposed Features of EA Sports Nation

Although in its initial conception, EA's long term vision for EA Sports Nation is a sophisticated and rich competitive gaming environment. Skill matchmaking, chat capability and various clubs, guilds or clan competitions will hopefully encourage users to turn to EA Sports Nation's functionality and online services to find the type of competition they seek.

With the varying skill levels that gamers bring to the table, many users may find online competition either too high or too low for them to find fair competitive matches. Although a few players may enjoy winning a game of *NHL* by a score of 82 -0, it is unlikely that the majority of players would find this type of play enjoyable. As such, rivalries and competitive league play would be unlikely to emerge under such unequal circumstances. It is imperative to not only identify the appealing attributes (such as chat, enhanced character appearances or skills) that gamers may want but also those areas of dissatisfaction such as inequality in skill, cheating and users quitting mid game which could dissuade users from playing, and in essence render competition moot.

In the long term, EA plans to create a consistent front-end interface so that users can easily switch from playing one type of sports game to another. Saved and consistent user settings, universal logins and cross title functionality will all be centralized to create as common and as positive an experience as possible across all EA titles. The intent is to encourage users to sample various sports, thus decreasing the likelihood of boredom and increasing usage.

Many technical challenges take shape in an undertaking like the one proposed by EA Sports Online. Dealing with situations such as users pausing, leaving or taking time outs from the game could provide a disruption of the competitive experience and negate the relevance of league play. In addition, games that become unexpectedly disconnected may lose statistical data and decrease the player's enjoyment of the experience, in turn creating a negative effect on the game itself. These "bugs" must be ironed out early in the development stages to pre-empt any initial negative effects for the user. Based on EA's demonstrated standards, the new offerings will be played by users with very high expectations. Disappointment with their first gaming experience could shape their opinion of EA, EA Sports or EA Sports Nation in a negative way, prompting users to move to the competition or delay their foray into serious online play. EA must be sure to overcome all the major obstacles that could hinder a positive competitive experience.

Just as with professional sports, statistics are the yardsticks that gamers use to measure their success against the competition. Rankings in season and post season play, statistical leader boards and career stats will become the main rewards to be sought after. Users will be able to download both their own and competitor's team rosters and have the ability to trade players and perform other transactions. The hope is that these types of features will aid in simulating the real life sports experience. The more closely that EA can replicate this experience, the more valuable the analogy of virtual and real competition will become. It has also been proposed to allow users not only to access statistics on the web but also by using their cell phone.

EA intends on creating various virtual rooms for teams to visit. Virtual trophy rooms, clubhouses and locker rooms will further aid in replicating the real life-sporting environment. EA may also add "secret areas" to be unlocked as virtual rewards. Just as Easter Eggs in DVDs, hidden tracks on CDs and hidden levels in videogames manage to hold attention and perpetuate usage; these rooms and other secrets are proposed as dangling carrots to encourage participation and exploration.

EA plans to extend the grassroots appeal of fansites by encouraging members to create the aforementioned customizable rooms for their own teams, clubs and leagues by offering software development kits (SDKs). Additionally, these communities may be able to create and run specific tournaments with customized rules, play or equipment- an intriguing test ground for player developed content. This would allow EA to leverage the efforts of these fansites for the overall community experience. Some policing is likely necessary to preserve the optimum experience for users without compromising the experience that EA is planning. One possible hitch in this proposition may be the contract with Sony (or in the future other gatekeepers) that may result in Sony demanding distinct control of the end online product.

EA Sports Nation has the potential for creating many types of rewards to entice gamers to continue usage. Just as digital assets signify status and achievement in fantasy MMPs, these assets can be used as rewards for performance. Enhanced character attributes, uniforms, customized rooms, trophies and the like will be used to signify status and "bragging rights". Another reward that EA Sports Nation can offer users is the prestige of being the MVP of ones team, community, league, or even the world. This could work on both an individual or team basis and could be used to enhance and extend the online interactive and social experience.

Just as the persistent state worlds of MMPs have managed to "stick" and addict its users, EA plans to create a similar persistent world for online sports leagues with standings and statistics acting as the persistence of the environment. Interestingly this becomes a bridge between session based gaming (a single sports match) to persistent gaming (ongoing accumulative standings). Such a unique product experience is perfectly positioned to attract an entirely different type of user than the traditional fantasy based MMPs – distinguishing between the traditional "geeks" and the competitive sports "junkies". In essence, by creating a new market, EA Sports Nation can avoid cannibalizing the possibly mature and maximized MMP market, by creating an entirely differentiated sports MMP market. Online sports gaming will offer more immediate gratification- that of winning- than fantasy MMPs, which take far longer to produce psychological rewards.

The potential for this offering to "stick" the user, provide effective rewards for usage and performance and perpetuate a distinct network effect could bring this MMP/session based hybrid into the mass market. Other than the obvious issue of creating a pleasing experience for its users, the most important aspect required to ensure success is increasing the user base to the point of making the global competition something that every sports gamer wants or needs to be a part of. Time will be of the essence, however, because being a second runner up to a player such as Sega, Sony's 989 or XSN could severely hinder membership and success.

4.4 Current Online Strategy

Within EA, each business unit is responsible for its individual targets and goals. For EA Sports, one of these goals is a movement towards online play. Although their online sports network, EA Sports Nation has been recently launched, initial proposed feature sets are limited as they move towards a long term vision of a sophisticated online sports video game infrastructure.

With its disappointing initial entry into the online sports gaming market last year, EA Sports is taking a more tempered approach in its next online thrust. For fiscal 2004, EA has announced that it will provide online play for 11 EA Sports gaming titles and 2 EA Sports Big titles exclusively for the PlayStation 2. At the recent E3 conference in 2003, Microsoft stated its disappointment in the inability to reach a contract agreement with EA for their online products but hopes to do so in the near future.

EA Sports is focusing its efforts on building a dedicated user base for its online gaming community. There is currently no charge for subscriptions or memberships. Community sites such as Soccergaming.com or Thunderpuck (with whom agreements have recently been reached) will be used to recruit members. In essence, EA's intention is to build up a significant membership base using their investment for online play as a loss leader and then to monetize these users later. This is scheduled to be 3 business cycles away for EA, timed for when their feature sets and environments have progressed to the point where charging for them is a feasible option. If EA Sports Nation at that time manages to provide reasonable features and a competitive community that users find valuable, EA anticipates that they will begin to charge subscription fees for the online service.

4.5 Analysis of Current Online Strategy

With PC online sports offerings having acted as a beta site of sorts in the past year, as well as the current PS2 usage acting as a testing ground, it is hoped that EA Sports Nation will eventually evolve into the end form that the EASO team envisions. With each game cycle, features will be refined and new attributes will be added. The market's acceptance will dictate the evolution of the product. This piece meal approach of individually online enabling every title as they are released runs the risk of creating far more work and a lack of congruence than if a centralized and integrated online sports environment was created up front. In addition, by not pursuing the end product of EA Sports Nation aggressively, EA runs the risk of its offering become a second rung sports league to anyone who employs a more unified and dedicated approach. As sports games are seen as easily substitutable for each other, EA must leverage its brand name and provide a consistent environment and experience for all games, thereby making it easy for users to adopt their services and to give them a reason to stay with the EA brand. However, with the long term plans of Sony and Microsoft remaining unspecified at this point, EA is likely hesitant about creating a grand online sports infrastructure for fear it will have to adapt to that of one or both of the gatekeepers in the future.

From a budget standpoint, the online sports gaming division of EA was this year granted less than half of the total resources that they requested.[60] The apparent reluctance of EA to dedicate significant resources to creating the desired online environment may severely hinder their competitiveness in the near to long term. As with several new phenomena on the Internet, initial expectations may be set too high and could lead to initial disappointment. Usage is forecasted to grow steadily as broadband adoption increases and is likely to eventually build to a strong user base. At present it is undoubtedly difficult to monetize users, and therefore the online service is seen as a cost centre.

In the "Additional Comments" section of our online gaming survey, many respondents mentioned that the concept of paying for the online enablement of purchased games was "offensive" to them. The rationale behind this statement seems to be that, since the game itself is purchased, charging additionally for its use is unfair. The low adoption rate of TiVo points to a similar train of thought where customers resent purchasing the unit for a considerable cost while still needing to pay again to subscribe to the TiVo service. Games however, are

[60] Personal interview with Michael Upton, Associate Producer of EA Sports Online

usable without the online service and great care must be taken in separating game play and online play in order to justify the two as separate entities.

EA's strategy of offering SDKs to various communities in order to create their own teams, rooms, clubhouses and websites is a strong concept and could garner them considerable favour -especially with an initial subscription fee of $0. When subscription rates are initiated, EA could offer tiered memberships allowing users to retain their identities at no charge. This technique serves to monetize those who would be willing to pay for services that are valuable to them without alienating the gamers who have helped to build the global community. EA is looking to the large installed broadband base of South Korea as a test ground for its subscription model. This idea seems sound, although a good deal of care must be exercised when making comparisons to the North American market. There may be distinct cultural differences when it comes to payment methods and for preferences in game genres and features.

Microsoft has taken a heavy-handed approach with Xbox Live. From the $50 US per annum that Microsoft received from subscribers for a headset and 1 year subscription, content providers do not see a share of that revenue. In addition, any online offerings by the content provider must adhere to the stringent criteria and the pre-established feature set imposed by Xbox Live. As can be expected, many developers and publishers are disappointed by this approach, with EA in particular taking a stance and partnering exclusively with Sony, whom so far has shown more flexibility.

With the launch of Xbox Live, Microsoft has established a role as one of the gatekeepers in the online industry. Although it remains to be seen what major plans Sony has for its own role in online gaming, they are currently allowing a much greater degree of freedom in regards to development by the publishers. Currently in Asia and Europe, *Sony Central Station* is being launched as a test ground for their online network and it is widely hypothesized that these test markets will inevitably prompt Sony to take a similar role as Microsoft in an attempt to extract a valuable portion of the emerging value chain. At present, gamers are only required to enter a minimal amount of information to play the limited number of PS2 online games available. Sony, at this point, allows nearly free reign for their publishers by allowing them direct contact with and control of the users. In the near future all online players will be required to register as members of Sony Central Station through the Dynamic Network Authentication System (DNAS). Sony will then be the direct contact link with their users, thereby granting them significant power. With the potential for monetizing and controlling the end consumer, it seems quite possible that they will end up taking a similar stance as Microsoft with a desire for more control over the process. The inevitable jockeying for position in this value chain may hold many surprises for the future as broadband providers, middleware providers, console makers, publishers/developers and fan sites attempt to leverage their user bases.

At present, one of EA's main competitors, Sega, has stated it is looking to refocus its online efforts for the next generation of consoles and has opted in the interim to participate with Xbox Live. The success of Sega in this venture depends on the success of Xbox Live and the structure, league play and environment that Microsoft implements in its online offering. As such, Sega will be at the mercy of Microsoft and will not be able to participate in XSN- the proposed exclusive Microsoft online sports environment. Due to the uncertainty posed by the gatekeepers, EA finds itself at their mercy as it decides whether to establish EA Sports Nation as a separate entity to either Microsoft or Sony's online networks. It thus raises the question as to whether or not these companies will even allow EA to define its own online gaming structure and strategy, as console participation is a necessity in accessing the users. Very recently, Sony announced the launch of its own *Sony 989* brand of sports video games on Central Station, just as Xbox Live will feature its XSN series.

To mitigate the control that Microsoft holds over the online environment, EA is focusing its efforts on creating a massive dedicated user base for its online products. The intent is to leverage the power of this client base to provide EA a stronger position when negotiating with Xbox Live. The greater the number of dedicated EA Sports Nation subscribers, the greater leverage EA will have in attaining a share of Xbox subscription dollars. The industry anxiously awaits

November 2003 when the free subscriptions to Xbox Live run out and users must begin to pay monthly fees. Microsoft will likely use a form of reverse billing where they will automatically charge their subscriber's credit cards (entered by the users at the time of initial signup).

In their ultimate goal of dominating the living room of the home entertainment user, it is difficult to predict who will win between Microsoft and Sony. Although Sony owns an immense catalogue of music and films, as well as significant experience in home entertainment components, Microsoft has nearly $50 billion in cash enabling it to purchase nearly any content it desires to compete in this field. Sony currently enjoys much of its profits from its gaming arm, and will look aggressively to expand that empire. While these giants play in this sandbox, it will be a challenge for EA to find a way to guarantee its own success. It has been hypothesized that if both Microsoft and Sony employ strong arm tactics with the content providers, that many of them may opt to develop titles for the Nintendo GameCube and potentially provide that failing console with a second life through a rich catalogue of exclusive online enabled titles.

Even though online gaming seems inevitable in the future, the direction of the industry is still quite uncertain. Those features and components that could make a game successful are still undefined and the market is distinctly immature. As such, EA is faced with a great deal of questions and issues that they will ultimately have to tackle.

4.5.1 Encapsulation of EA's Current Strategy

The following is an encapsulation of EA's current online strategy as ascertained through research and interviews with principals in the company.

- Develop online components for each sports game individually. Although there will be some leveraging of repeatability in coding, little effort will be made in developing a significant online standard to which future sports releases will be required to adapt. This is mostly due to the uncertainty of what infrastructure will become dominant in the future, to which EA would likely have to adapt.

- Appeal to the 18-34 male by offering them the definitive online sports gaming community. Promote EA Sports Nation as a dynamic and flexible community, promoted with tournaments and league play. Encourage people to become part of the online gaming movement.
- Leverage the user base of community sites to attract subscribers to EA Sports Nation. The free price point will win over many of the grassroots individuals.
- Measure the success in subscription numbers and increased SKU sales to assess the potential for the online sports gaming market. This success will annually affect how much focus and manpower is dedicated to EA Sports Nation.
- Continue to expand and enhance the feature set in order to grow the subscriber base.
- Strengthen brand name of EA Sports Nation causing people to seek out EA Sports products thereby increasing SKU sales.
- In approximately two years, leverage the large subscriber base of EA Sports Nation in order to negotiate revenue sharing with Xbox Live. With the uncertainty of the Sony Central Station revenue model, EA will attempt to use this subscriber base to attain respectable deals and creative input with both companies.

4.5.2 Expected Performance under Current Strategy

EA may win over many grassroots communities with their free product offering but will disappoint many sports gamers with high expectations for the initial online sports league. The feature sets will be minimal in the initial years as EA will be resistant to funnel their profits into developing a sophisticated online sports network. This allows XSN to steal market share if launched with a superior feature set and environment, and may boost Xenon sales significantly when released.

With Central Station, Sony will offer more freedom for developers than Microsoft, but as competition and economics dictates, both companies will establish a similar format in content, rates and revenue sharing in the long term.

Xbox Live will be more dedicated to a consistent user experience and established standards for the feature sets. EA risks losing market share in both online and packaged sales due to the emergence of XSN, which aggressively leverages their early entrance and experience in the online console market. They will still enjoy much success in the packaged sports games industry but many hardcore online gamers may defect to the XSN network and their packaged games that offer a consistent and well-developed experience and feature set. The brand name of EA Sports may be weakened as a result.

A sports offering built online from the ground up may emerge with a superior experience, and either land a significant contract with console manufacturers or leverage a dedicated PC user base to such an agreement. In any case, a slow and careful approach by EA risks allowing a competitor to rise and dethrone their existing role as the sports gaming provider of choice.

4.6 Description of Issue/Problem

As the online industry is still taking shape, this puts EA in a position where strategy, foresight and flexibility are keys to future success. There are several problems and key issues that EA will have to face. The main issues at hand for EA are as follows:

- How can EA develop an online sports video gaming environment for which people will be willing to pay?
- How can EA best monetize that environment to gain maximum revenues and optimize membership?
- How can EA establish a strong foothold and position itself firmly in the emerging online console value chain?

5 Industry Analysis

A powerful way to assess the attractiveness and competitiveness of the console video game industry is by performing a Porter's five forces analysis.[61] In this case, the five forces model is used to provide the reader with an overview of the console videogame industry landscape. Michael Porter contends that there are five industry forces that affect the attractiveness of an industry.

5.1 Porter's Five Forces- The Console Video Game Industry

1. **Competitive Rivalry**: These are the current direct competitors to a company that offer similar products.

2. **Threat of New Entrants**: The potential for new entrants to enter the playing arena.

3. **Availability of Substitutes**: The products that the consumer is able to procure as a substitute for the current product:

4. **Bargaining Power of the Suppliers**: The influence or amount of leverage that the suppliers to the company hold.

5. **Bargaining Power of the Buyers**: The power and influence that the customers hold.

Moreover, there is often a sixth force that is included which deals with governmental policy and how it affects the players in the industry.

Figure 10 summarizes the impact of Porter's Five Forces Analysis of the console video gaming industry: it is assessed to be of moderately high attractiveness; hence the profitability is expected to be relatively high. However, exceptional returns in this industry mitigates the negative impacts of competitive rivalry and potential new entrants and provides opportunities for strong profitability.

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[61] Michael E. Porter, *Competitive Strategy*, (Free Press, June 1998).

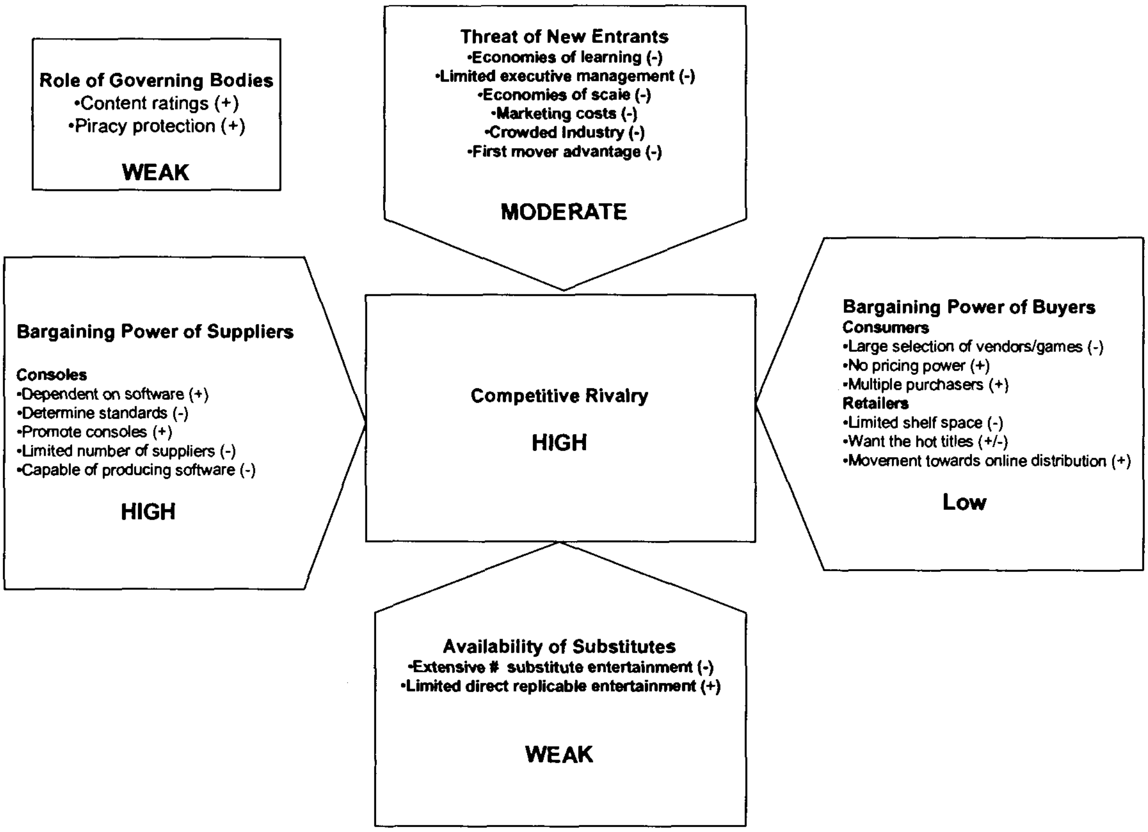

Figure 10: Porter's Five Forces Analysis[62]

5.1.1 Bargaining Power of the Suppliers- High

Microsoft, Sony, and Nintendo, the three major suppliers of video game hardware in the industry, are essentially the gatekeepers and hold a great deal of market power. These market players determine the quality of the video games, set the standard for the software, control the content on their systems and are responsible for drawing the market towards the consoles. The relationship with the software vendors, however, is unique and interwoven. Even though the console manufacturers determine the standards, it is the quality and availability of software that is ultimately responsible for selling the units. Hardware needs software and software needs hardware. It is a cyclical relationship in which the balance of power continues to shift as the lifecycle of the hardware grows and new generations of consoles are born.

[62] Adapted by permission of Michael Porter, *Competitive Strategy*, 1998

A console vendor first develops the hardware and makes the technology available to the software vendors for game development. Should the console not get enough support from the software industry, the system will not find a market. The industry has seen several examples of a new system rapidly exiting the market due to lack of participation on the part of the publishers. The TurboGraphix, 3D0 and Atari Jaguar failed miserably due to this. This initially puts the power in the hands of the software developers. It is thus the responsibility of the hardware producers to make their system as attractive as possible to the software developers in the early stages. This can be accomplished in several different ways, the most definitive of which is by providing strong marketing to signal that the new console will attract a large user base, thus enticing game development. Xbox literally secured its position in the industry by way of a huge marketing budget. Even though they were an unproven entity, they ensured high visibility and pre release demand for their console. It was hard for any software vendor to ignore the potential user base that the Xbox would attract. Other ways to attract software vendors is by making software development easier for the developers, pricing their product attractively or by building strong working relationships with the software vendors.

The battle for a strong initial line-up of content can often lead to alliances and exclusive development between console providers and software publishers and developers. The industry provides numerous examples where these strategic alliances have worked and where they have failed. The Sony PS2 came out with a very strong exclusive line up of proven quality titles giving them an edge over their competition. These titles included; Tekken Tag Team, Metal Gear Solid 2, Grand Turismo 3, Final Fantasy IV and a host of other highly desired games. The previous versions of all these games had been great successes and gave the PS2 a built in market. The Xbox, however, did not have a strong line-up of proven games and sales were sluggish initially. The extremely popular Resident Evil series exclusively licensed their game to Nintendo, which turned out to be a poor move as North American unit sales of the GameCube are low and the audience is much younger than what the Resident Evil series would attract. Software vendors must be careful in their predictions of power, as building software for a system that is doomed to failure can be a costly venture and ignoring one that in turn becomes successful is equally detrimental. Smaller players can often determine momentum by watching the actions of the larger vendors such as EA, Sega and Midway. As the larger players lean towards a specific platform, it may be a good indication of success of that system.

As the consoles build a dedicated user base, the power begins to shift. A publisher must then succumb to the stringent requirements of these gatekeepers to ensure ongoing development for that platform. Given that there are so few hardware providers, it becomes economically impossible for a software publisher to ignore a successful system. Publishers most often develop for more than one system at a time. EA and Sega for example, produce their line-ups for Xbox, GameCube and the PS2.

Generally, the hardware providers reduce their reliance on third party developers and develop games themselves. A large portion of the development of Nintendo and Sega's line-ups for their last generation of consoles was internally developed. For Sega this became the downfall of its platform as users began to demand a greater variety and quality of game. Sega could not sustain its user base and exited the console market to become a game developer for other platforms. Even though Sony develops their own games, they do not pre-empt competitive developers from selling the same types of games on their systems.

Another shift in power occurs once the hardware providers look to release their next generation of consoles, requiring a large initial catalogue of titles at launch. It is a cooperative engagement where the hardware and software providers trade bargaining power depending on the cycle that the industry is in.

The required capital to compete in the hardware industry is extensive and the economies of scale are prohibitive. It took a powerhouse like Microsoft to compete in the industry. A large software provider may never be the sole determiner of success or failure of a new console but their choice of non-participation would definitely send waves through the industry. This gives them a good deal of bargaining power but by no means provides them with immortality or immunity. A developer's ability to predict which systems will be successful, maintain these relationships and to create strong quality software will keep them in a profitable position well into the future.

5.1.2 Bargaining Power of the Buyers- Low

End consumers have very little power in terms of setting price or guiding the final product. For the most part the buyers purchase video games in relatively small and infrequent quantities giving them very little bargaining power on an individual basis. The consumer, however, does have the power to choose which games they purchase. In the past, consumers had the choice of Pong or Pong. Today the software industry has mushroomed and consumers have a wealth of games to pick from. For a publisher that invests a year of time and millions of dollars in development, the failure of one game can be disastrous.

With the high price of games, consumers are less likely to take risks. Therefore strong brand names and titles often carry much influence in the industry. If a publisher can secure a large enough and dedicated following or community of users, it may be able to lock them into the current title and future versions or upgrades. This may be accomplished by saving user statistics, upgrading stats and rosters based on length of play, creating a reward system or assets for dedicated users or making switching costly or laborious. Publishers must make switching vendors unattractive or inconvenient thus reducing the consumer's power or desire to switch.

Although some retailers hold significant power in determining shelf space and titles to carry, developers with a large library of proven products will be able to leverage more favour. The future of distribution could shift the balance of power to the developers/publishers if they can bypass the final distributor/retailer through digital distribution or e-commerce from their own website. In turn they would increase their own margin as the revenue would no longer need to be shared.

5.1.3 Availability of Substitutes- Low

In the grand scale, the video game industry can be loosely defined as entertainment. Using such a broad definition, it becomes replaceable by almost any other form of entertainment whether it is free or paid for. This includes sports, movies, music, TV or even hanging out on the corner with friends. Video games are not a necessity and are not irreplaceable. However, when it comes to a tighter definition, the substitutable products reduce in numbers. Video games are in essence a glossy, skill reactive tool that allows the users to inhabit a fantasy world. With features of video games continuously improving, it becomes more unlikely that they can be easily substituted. As online capabilities open up a new playing experience, the potential entertainment value of each game increase as new competition arises and additional levels can be downloaded.

The Internet and advent of online gaming has produced many inexpensive substitutes for console games. Companies such as Wild Tangent produce relatively high quality games easily downloadable for use on PCs. This combined with the plethora of advertising supported puzzle and card games online offer many choices for individuals looking to play video games. The nature of the industry however is evolution, and therefore most hard core gamers are not satisfied by anything less than cutting edge technology.

One form of substitutable product becoming readily available is that of pirated games. With DVD and CD copying and writing becoming less expensive, piracy in turn becomes more prevalent. The low cost of these reproductions cause this to be a major concern in the industry, but video games sales continue to increase even in the face of this threat.

5.1.4 Competitive Rivalry- High

Software development is driven by the creation of quality games and the adoption of new technologies. Competitors in this industry vary significantly in size and resources where all players sell to the same user base compete for the same consumer dollars. Creating a hit game can often secure a reputation for a publisher and create strong opportunities for sequels. Often they will sign exclusivity deals (see Table 12) with a console maker, thereby limiting sales of their games in return for increased royalties and marketing. Most often publishers sell their games to all platforms, or at least the market leader. Given Sony's market reputation most every publisher releases titles for the PS2 or risk reaching only a fraction of the console market.

	PS2	GameCube	Xbox
Namco	3	0	0
Sony	5	0	0
Capcom	1	0	0
Square EA	1	0	0
Take-Two	3	0	0
Konami	1	0	0
THQ	1	0	0
Sega	1	2	0
Nintendo	0	4	0
Microsoft	0	0	5
Total	16	6	5

Table 12: Number of Key Platform Exclusive Titles by Publisher and Console[63]

Given the resource intensive process involving great amounts of time and money, creating hit titles seem to often be the exclusive domain of the big players. However, given the creative freedom of privately held publishers, an innovative product can find a substantial market and propel its publisher into the limelight. This occurred with Rockstar Games release of *Grand Theft Auto* which introduced gamers to a fully interactive environment and adult content rarely seen in the gaming industry. Other competitive forces include "product quality and features, timing of releases, brand-name recognition, access to distribution channels, effectiveness of marketing and price".[64] The console manufacturers who also publish games, have a significant advantage in that they know the capabilities of the hardware intimately, have a great deal of resources for development and marketing and know what the corporate strategies are for their own products.

5.1.5 Threat of New Entrants- Moderate

The threat of new entrants serves to describe how attractive, unattractive or prohibitive the industry is to potential entrants. Several industries have little to

[63] Created by author, based on the work of Gary L. Cooper, Bank of America, 2003

[64] EA Annual Report, Fiscal 2003: 24

no barrier to entry. For example, the restaurant industry has low capital requirements, little skill or economies of scale and low exit costs making it an attractive venture for many. The video game publishing industry is quite different as significant resources are required to compete effectively, not the least of which is access to quality licenses. Nonetheless there is an over abundance of strong players in the market and it has become somewhat crowded. In addition, due to the synergy between film and video game releases, many film distributors such as Universal/Vivendi have begun entering the console gaming market. Their competencies in marketing, production, merchandising and access to licenses give them a strong foothold upon entering the industry. As publishing becomes a risky venture with the capital required to finance a top game, reservoirs of cash are also a prerequisite to enter the industry.

5.1.6 Regulatory Influence- Low

For the most part, the console video game industry is self-governed by the independent body dubbed the Interactive Digital Software Association (IDSA). The intent of this association is "dedicated to serving the business and public affairs needs of companies that publish video and computer games for video game consoles, personal computers, and the Internet."[65] At this time the IDSA provides four major governing thrusts which vary in their positive and negative effects on the attractiveness of the industry.

Worldwide Anti-Piracy act- positive effect. The IDSA is involved directly with several governing bodies; such as the United States Trade Representative, the United States Customs Service, the Federal Bureau of Investigation (FBI), and foreign government officials with the goal of protecting its members from copyright and piracy infringements. Its focus is on piracy training, policy development, enforcement programs and Internet piracy. With the combination of the Internet and the ability for users to copy CDs and DVDs relatively easily, piracy is definitely a concern as technologies move forward.

[65] The ESA, About the Entertainment Software Association [online], 2003.

ESRB Ratings- undetermined effect. The Entertainment Software Entertainment Board has created a self-imposed rating system that applies to video games and Internet content. The intent is to rate the content of the various video games based on language, violence and sexuality. Ratings range from EC (Early Childhood) to A (Adults Only). The "Violent Video Game Protection Act seeking to protect the consumer enforces this rating guide. The ratings ultimately limit the target audience. Seventy percent of all games are rated E for everyone. In any case, there is no entity in place to prevent someone underage from purchasing any game they desire.

Advertising Review Council of the ESRB ("ARC")- undetermined effect. Arc is another self regulated system in which it seeks to ensure the fair advertising of products to the consumer. The goal is to ensure that information presented to the end users is accurate, informative, truthful and appropriate. It also governs the placement of ads where inappropriate for the audience.

Government Policy- positive effect. The ISDA works with the government at several levels to help form legislation around issues such as copyright, free speech, protection of data and Internet privacy. It actively protects its member's rights as well as the consumer.

Overall, there is not a great deal of governance in the video game industry that would deter anyone from entering the market. For the most part, it is self-regulated and works to protect the rights of the industry rather than inhibit it. It should be noted however that recently in Thailand, where PC rooms have created video game junkies out of many youths, government regulation now calls for mandatory breaks from gaming, limits of consecutive gaming hours and curfews in attempts to swell the fatigue and addiction that many are falling prey to.[66]

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[66] Rob Fahey, gameindustry.biz, *Letter on Thailand Gaming [Online]*, 2003

As a side note, there is also an association that seeks to protect the retailer, namely the Interactive Entertainment Merchants Association (IEMA) that is designed to protect the rights of those retailers that sell electronic software. This body represents 19 of the top 20 leading retailers in the industry.

5.1.7 Overall Assessment of the Console Video Game Industry

Although the Porter's Five Forces analysis would rate the attractiveness of the console video game industry as only moderately high, continued growth makes it an extremely attractive one for players currently in the market. Sales continue to increase, installed base of the next generation of consoles is forecasted to double its current size, the target market continues to grow as gamers age, and an entire gender has not even been tapped into yet (females). In addition, video game characters find success in toys, films, TV series and comic books making the ownership of a specific title or character a potential gold mine. Although players continue to enter the market, those who succeed are often entertainment companies with access to IP, competencies in film or software production and existing relationships with influential parties such as Sony or Microsoft. The $9 billion dollars consumers spend on video gaming per year offers such great rewards for publishers that they can afford to produce an occasional flop.

5.2 Macro Environmental Analysis

A macro environmental analysis provides insight into various external factors that affect the industry. These are the social, economic, demographic and technological factors that come into play and shape the industry. It is not necessary to discuss every possible external factor that could come into play, but it is important to view those that have a higher probability of influencing the market.

5.2.1 Economic Influences

Although it was once the darling of the technology boom, little attention has been paid to e-commerce in recent years. Many who were "burned" by the technology crash have lost all hope in e-commerce. Regardless, the fact remains that the practice of purchasing goods online has actually increase by 70% annually since 2000. Forecasts estimate that by 2004, global e-commerce will reach $6.8 trillion, with the figure in North America alone projected at $3.5 trillion, or 12.8% of all commerce.[67] See figure 11 below.

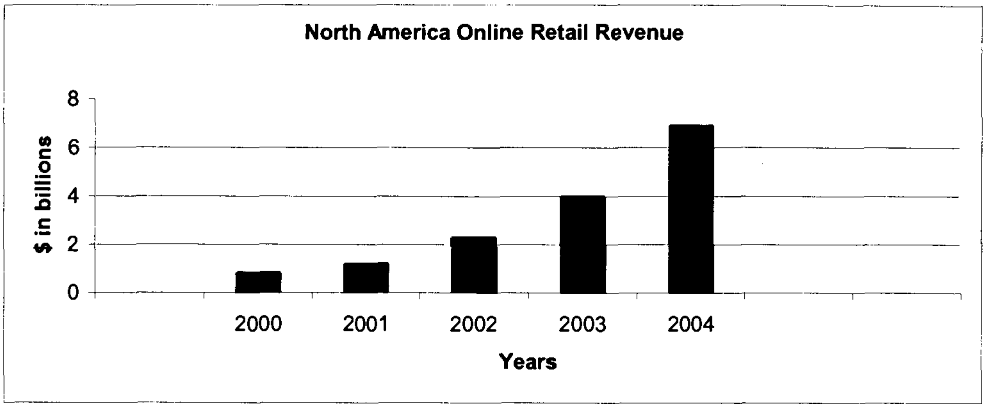

Figure 11: Online Retail Revenue[68]

Because of the low interest by most companies in delving into the e-commerce forum, websites have become a necessary evil rather than an instrument to reach new markets and streamline the value chain. With the video gaming market labelled as nearly mature, online video gaming presents new opportunities and new challenges. One of the main challenges is to tap into the emerging technical global markets. For example, the widespread installed base of broadband in South Korea has opened this market up to online gaming in a way unseen elsewhere. With Korean based *Lineage* attracting over 4 million paying customers, it is interesting to note that the North American release of that same simple isometric MMP found few customers. North American MMPs, often maxing out at 500,000 subscribers, have never found the right formula for launching and promoting offerings to this massive but distinctly different market. Lineage did, but the trick is to figure out why. If done successfully, global transitioning of North American online games can potentially offer expansion of

[67] Global Reach, *Forrester Projects $6.8 Trillion for 2004 ($B)* [Online], 2001.

[68] Created by Author based on the work of Global Reach, *Forrester Projects $6.8 Trillion for 2004 ($B)* [Online], 2001.

the online market and successful companies will reap the resulting profits that ensue.

5.2.2 *Social Influences*

The emergence of the Internet has shown early signs of creating social change heretofore unseen. Peer to peer networks, community pages and internet orchestrated demonstrations have shifted many forms of power firmly into the hands of the consumer. With the rapid sharing of information, many see this change as a great socialization force. New lingo has risen, basement geeks turn into online celebrity webmasters with thousands of devoted followers and varied topics of interest find new audiences in otherwise geographically unreachable areas. Through voice over IP, web cameras, chat and of course online gaming, individuals can communicate richly on a regular basis with old and new friends around the globe without ever leaving their living rooms. Because of these great advantages, more people have become technologically inclined, with seniors surfing and emailing, and children learning to use computers from as early as kindergarten.

5.2.3 *Technological Influences*

The wide and rapidly growing use of broadband has provided unlimited and extremely fast Internet and gaming capabilities. Other than communication and information seeking, many utilize their new found connectivity for downloading content (legal or otherwise). As legislation has been unable to prevent the illegal sharing of content to date, it is likely that the practice will continue to grow- particularly as broadband penetration increases.

Game developers often state that Moore's law of micro processing power doubling every 18 months is far too slow to enable them to create the games they think they are capable of. New interest by NASA developed distributed computing provides unique potentials for speed, graphics and, of course, future games. With the division between film and video games becoming blurred, many otherwise non-gamers may finally switch over to what they view as "interactive" films or television. This new found power, and the potential for media convergence, could bring video game capability into everyone's living rooms whether they seek it or not. Although portable gaming offers little expansion to the experience of PC or console gaming, it will allow existing users the opportunity to spend more time gaming, as well as the ability to play online from wherever they are- in transit, on vacation or other places.

5.2.4 Political Changes

Recently, the US economy has taken a downward turn as many have lost confidence in the economy following the war on Iraq. The US dollar has fallen significantly and exports have been reduced. It is difficult to predict what effect this will have on the North American economy and its global position but it seems likely that a lower US dollar will make American products more attractive to global markets, thereby encouraging them to spend more. It must be noted, however that growing anti American sentiment may severely inhibit these purchases and US exports in general.

5.3 Analogous Industries

To avoid repeating mistakes of the past, lessons from analogous industries can be used as a learning tool or measuring stick. Each comparison gives an overall description of the industry, key lessons and a Porter's Five Forces Analysis. The music and the independent film industry have been used as analogies to be assessed, as both have had to adapt to disruptive technologies and changes to their value chains and distribution channels.

5.3.1 The Film Industry

Although the increase in quality and decrease in cost of video production led to some speculation in the film industry that there would be a power shift towards independents, two main developments altered this potential future.

Hollywood budgets of major motion picture releases have risen dramatically in the past 5 years, creating a division between the major and independent film market. Whereas ticket prices remain the same no matter the budget of feature releases, Hollywood bargained that by distancing themselves from the lower budget movies, substantial returns could be earning by offering bigger and splashier motion pictures, appealing to a mass generation of big budget movie goers.

In turn, many of the major studios became distributors for independent films, such as Fox Searchlight Pictures, Sony Pictures Classics, Paramount Classics and Alliance Filmworks- thereby allowing independents their market share, but participating significantly in their returns. It was far more profitable to retain a portion of the box office grosses than to fight or ignore the presence of independent films in movie houses that would otherwise be showing the larger budget Hollywood offerings.

Distribution remains the significant difference between the film and video game industry. Feature films will always require release through movie theatres, and thereby will always require funding for multiple prints, marketing, and high quality transfers. The potential disruptive distribution threat seen by the online gaming industry is that of various forms of middleware. Online enabler XBConnect brought Halo into the online forum and the successful online game CounterStrike was developed through SDKs altering the original game Half Life. The cost of such projects is low, and can be performed without significant financial backing. Successes of fansites, user created games and middleware pages are not widespread, so to a degree these products could benefit from the built in audience enjoyed by brand name publishers, while in turn providing the publishers unique benefits they did not always have access to- user feedback from fansites, creative games from "renegade" developers and online enablement from previously unauthorized sites. The parallel to the film industry shows how participation with these independent disruptors could be a relationship that would benefit both parties.

Historically, the major motion picture film industry has been threatened by the advent of television, cable TV, videotapes, DVDs, peer-to-peer services and, to a lesser degree, laserdiscs. Although TV, DVDs, cable and videotapes have all found their markets (with peer to peer still struggling for a mature and monetized form), none of them has significantly affected the feature film industry. In fact, most of these distribution channels have significantly added to the revenues of the industry as a whole. The reason for this seems to be the significant infrastructure or installed base of movie theatres. The film industry recognized that although increasingly sophisticated home theatre systems are to a degree an acceptable substitute for some, that the theatre "experience" is impossible to replicate.

A brief Porters 5 forces analysis of the film industry expands upon this and shows the film industry to be of moderate attractiveness. This analysis is done from the point of view of the content provider.

5.3.1.1 Threat of New Entrants – High

In the past, new entrants have emerged, grown and fallen with little abandon. Recently, small players such as Miramax have grown to become a great force- with small budget movies garnering large box office and Oscar nods, the company grew leaps and bounds. The result of this was that the company was purchased by Disney, and "lost" their small company status. In the film industry, as in the game industry, license based titles and sequels enjoy a built in market and hold little risk, but with moviegoers apparently more fickle than videogame purchasers, successful franchises often die out. In the sports video game industry in particular, users familiar with a specific game generally enjoy the quick learn of a game's new version, and gravitate towards those sequels. In the film industry, the switching costs of watching Vin Diesel instead of Sylvester Stallone are low.

5.3.1.2 Bargaining Power of Suppliers - Moderate

Suppliers in the film production arena are generally the stars, licensees, equipment suppliers and crews. As film costs grow and star power demands salaries of over $25 million per film, the bargaining power of suppliers is high, but with a caveat- without the film makers the stars, crews, equipment and licensees would have no market for their wears. Therefore, the bargaining power of suppliers is deemed moderate.

5.3.1.3 Bargaining Power of Buyers - Low

The buyers in the industry, the movie going public, have little or no power. Although film tickets have risen in cost over the years, film attendance remains high, as the only direct substitutes available are home viewing and to a lesser degree, Imax films. Even during times of economic stress, viewers still flock to the movies, if for no other reason than to escape for a brief period. Unless the public as a whole boycotts movie houses, the industry will flourish.

The availability of videos and DVDs for home use has to a degree increased the movie going audience's options for film viewing, and indeed these substitutes do allow them a certain degree of bargaining power. However, these alternatives have emerged as a secondary market for the film industry, and have not resulted in a reduction of box office receipts. Viewers still desire and purchase the complete movie going experience.

5.3.1.4 Substitutable Products – Moderate

Many leisure activities can be seen as substitutes for movies- music, sports, TV, books and even videogames. For leisure activities, context and circumstance often lead their desire to attend the movies. If the weather is sunny, sports or lying on the beach may become more appealing. If the World Series is on TV, then male attendance at the movies may suffer. Any product that appeals to its market on such a "whim" is easily substitutable. Indeed, if there truly is nothing appealing at the movies, the television may look that much better. However, there is no true substitute for the movie going experience, one which year after year draws increasing numbers.

The availability of illegal video and DVD versions of recently released movies to date have not significantly affected box office receipts, but have prompted powers in the industry to look to government intervention to halt the sale of these substitutes.

5.3.1.5 Competitive Rivalry - High

As the many independent film production companies find occasional success, they often migrate into the mainstream. As such, competitive rivalry in the film industry is high. A successful lower or moderately budgeted film can enjoy great returns as well as success in merchandising, sequels and even TV shows. Clever grassroots marketing, and the fact that ticket prices remain the same regardless of a film's budget, allowed the $35,000 budget of The Blair Witch Project to gross more than $140 million in North America alone.[69] In other cases, the size of the marketing budget can almost guarantee the success or failure of a film.

5.3.1.6 Overall Assessment

Content providers in the film industry will enjoy a relatively stable existence as the installed infrastructure of movie theatres will likely continue to offer an experience not easy to duplicate. The film industry has gone through many threats and has always emerged on top, often sharing significantly in their profits. Higher budgets and "guaranteed" hits have been the way of the major players in the industry to ensure their own survival.

5.3.2 The Music Industry

In the first six months of 2002, CD sales fell 11% compared to a 3% decline the year before. Blank CD sales were up 40%, and membership to the peer to peer downloading network Kazaa tripled in number.[70] The music industry declared war on the peer-to-peer networks, instigating lawsuits, public service announcements and strict fines for downloading or sharing content illegally. In order to survive, the music industry must find a way to make money selling downloads, allow in store CD burning, slash recording costs and change artist's contracts- all daunting tasks.

The parallels to the videogame industry are significant. Middleware suppliers such as XBConnect are enabling games to go online, in many cases totally bypassing the original developer and publisher (such as Halo). The main reason for their ability to do this is the lack of a permanent infrastructure required to play video games. XBConnect allows the user to play against up to 12 online opponents at a time through the use of the manufacturer's console, a simple internet connection, a webpage and a server. In addition, the open source code

[69] *Business Data for the Blair Witch Project.* imdb [Online], 2003
[70] Charles C. Mann, Wired Magazine, "The Year the Music Died", *2003:* 92

for such games as *HalfLife* (which provides software developer kits to the public, where any product produced for sale must pay the original developer) has emerged into completely new games such as *Counterstrike*. This puts power into the hands of the masses.

The music industry has little infrastructure in place to stop users from replicating music for themselves. Although users have been able to create cassette tapes from songs for personal use for years, the addition of peer-to-peer networks is an immense resource for "free" content. Additionally, CD burning can replicate the purchased product identically and has the ability to customize CDs, making them even more desirable and functional than the originals. This lack of infrastructure puts the power firmly in the hands of the user, with little enforceable repercussions to date.

Once again, we perform a Porter's Five Forces analysis of the music industry from the content provider's point of view and find the industry to be of low to moderate attractiveness under the continued threat of piracy. It should be noted that it is really the distribution methods that are witnessing the disruptive illegal forces, but it is the content providers who are suffering the monetary loss.

5.3.2.1 Threat of New Entrants – Moderate

Given the state of the music industry, it holds little attractiveness for new entrants. However, with computer software and inexpensive recording and mixing equipment, virtually anyone can record a CD. What monetary returns can be gained from this practice is often minimal. Currently, with no real revenue model for the peer-to-peer networks, the industry is in flux as never seen before.

5.3.2.2 Bargaining Power of Suppliers - Moderate

One asset the music industry has is that as sales decline, recording contracts will be renegotiated downwards. Artists will rely more on concert receipts, soundtrack recording and endorsements- with actual recording possibly existing only to support these functions.

As the music industry moves hesitantly towards digital distribution, alliances with ISPs and cable companies seem inevitable, giving them much power. AOL/Time Warner, for example, act as two separate entities. AOL pushes its services through the benefits of downloading music while concurrently Time Warner fights the illegal download process. Similarly, Sony has resisted developing MP3 players for fear of cannibalizing its music publishing business, and has recently launched a lawsuit against a player in the peer to peer music industry, Launch Media- a company it is actually an investor in.

5.3.2.3 Bargaining Power of Buyers – Very High

Although most commonly seen as an illegal substitute, self burned CDs have increased buyer power dramatically. Even legally downloaded songs through such label directed companies as Musicnet, Pressplay and Rhapsody offer great benefits for users and should be seen as shifting the power into the buyer's hands even further. As marginal cost for providing downloads is virtually zero, price wars for legal downloads should continually lower costs. With the ability to create a virtually "better" and customizable product by downloading and burning CDs themselves, the power of buyers is extremely high. This is the reason for the trouble the industry is in.

Other buyers are the radio stations and other media outlets that expose and promote individual artists. At present, many radio stations download from Kazaa or other sources illegally and often "encourage" listeners to do the same.

5.3.2.4 Substitutable Products – Very High

Although most of what has been discussed boils down to illegal downloading, peer to peer networks must be seen as substitutes. Current label products such as CDs, cassettes, minidisks and legal digital download all fall under the umbrella of legitimate products. Just as marijuana can be seen as a substitute for alcohol, illegal downloading can be seen as a substitute for licensed music- one that millions are currently embracing. Kazaa currently has over 60 million users for its services, which is a direct substitute to the "legal" downloads the music industry hopes to make the norm.

Interestingly, when CDs were first introduced over 20 years ago, industry executives proclaimed that digital recordings would eventually encourage piracy.

A tripling in the sales volume of CDs over cassettes and LPs soon quieted these objections. With some foresight and planning, digital distribution could have been legally developed years before Napster existed, thereby providing benefits to the consumer, locking them in and preventing or limiting the shift of power into the hands of the public. Greed and lack of forethought seems to be the cause of the current situation. As such, public sympathy is a difficult, if not impossible, thing to generate.

5.3.2.5 Competitive Rivalry - Low

The top five record labels hold 75% of the market.[71] With all record companies trembling at the same threat, the competitive rivalry can be seen as low. The companies are in a way banding together to ensure their own survival. The continued growth of peer-to-peer networks and home recordings, as well as the oft-maligned selections of songs promoted by the music industry, allows the possibility of unknown artists emerging as stars without the requirement of the record labels. If recording contracts were ever to be renegotiated as low as expected, the majority of artist revenues would be from endorsements and concerts, thereby further encouraging them to self "publish" their songs for free in order to make money through these other methods. Historically artists have often hated the record executives and labels they are forced to deal with, and publicly criticize them on a regular basis. They may in turn be more than happy to self publish.

5.3.2.6 Regulatory Governance- Moderate

In order to disable peer-to-peer music swapping, the music industry is relying on governance to save them. Stiff fines, lawsuits and high taxes on blank CDs are methods the music industry has used to block the peer-to-peer networks. However, for every Napster or Morpheus that is shut down a Kazaa emerges, duplicating and often improving on the previous service and quite often headquartering off shore in an attempt to escape prohibitive legislation. Politicians are slow to take up the industry's cause as historically they have been

[71] Charles C. Mann, Wired Magazine, "The Year the Music Died", *2003:* 92

at odds with the labels for "corrupting" youth with their lack of warning labels. Hillary Rosen, spokesperson for the record labels, states that the RIAA (representing the major labels) "isn't so concerned about people who download files. We have really tried to distinguish the downloader from the uploader- the uploader is the distributor".[72]

Legal ramifications are difficult to enforce in court. Kazaa is currently located in (among other locations) Estonia and Vanuatu, both oft-used havens for intellectual property pirates. In addition, Kazaa employs Altnet technology, a legal product that claims its main purpose is to provide legal digital distribution networks with pay or time limited downloads. This convolution makes it difficult to identify which parties to sue.

5.3.2.7 Overall Assessment

As can be seen, the lack of a required infrastructure is the difference between the film and music industries. Film goers will never be able to replicate the experience of a grand movie theatre, but music listeners can quite easily replicate the sound of their favourite CD on their own stereo. It appears imperative that in order for content providers in the entertainment industry to protect themselves, they must create an infrastructure that allows the users benefits that they cannot duplicate themselves. The online videogame industry must ensure the emergence of an infrastructure to increase switching costs and reduce their own (or other's) ability to replicate the services themselves. Just as CD players are the only hardware component required (and with computer hard drives even less so) to enjoy music, consoles or PCs are the only real hardware required to play games.

In this light, the sports videogame industry enjoys a significant advantage over other game genres. It contains within it the resonance and prestige of mass competition and therefore employs a network effect. Create a large and competitive user base at a reasonable fee and it will be difficult for any party to replicate the experience. The league itself will act as an infrastructure that would

[72] Jeff Howe, Wired Magazine, "Hating Hillary", *2003:* 97

be difficult to replace. It appears imperative to emerge quickly as the leader of an online sports gaming network, as an "also ran" league would have little appeal.

With the lack of required infrastructure (other than the consoles), digital distribution of online console games in general, and online PC games in particular, offers a unique opportunity in that virtually all of the attributes of packaged games can be replicated through digital distribution. Although positioning for this should be strategic, the console manufacturers have likely recognized this opportunity and will be attempting to retain as much of the value chain as possible. In addition, much forethought should be taken in piracy protecting these products, with unique registration keys mandatory for use.

Wrath of public backlash is a difficult thing to control and many tactics employed by record companies to discourage peer to peer trading has resulted in an even angrier mob mentality. Spoofing, the distribution of bogus, low quality or watermarked digital files is one tactic that has gained little public support. In the video game industry, "foxing" is the term used to define the termination of software development due to copyright infringement. "Foxing" is a term that came about because 20th Century Fox was the first to do so. Although Fox has not suffered greatly from this label, many still hold them in high disregard because of this.

Fox *- v. [derived from 20th Century Fox Corporation, the first recorded company to cause a game's cancellation] 1. To cancel, recall, remove, or cease development of a video game project (particularly amateur video game "modifications") due to illegal and extensive (if not critical) use of well-known copyrights and trademarks. 2. to cause the cancellation, recall, or removal of a video game due to copyright infringement. -- foxed (adj.).*[73]

Some feel the fall of the record labels is inevitable, with the end result being fewer global stars and more local stars. The will of the communities would eventually win, thereby shifting the entire industry into a community format-whether it is peer-to-peer networks, the artists or other web pages, or local concerts by local bands. The power and effect of communities cannot be understated.

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[73] Gamespy Industries. Planetquake.com [Online], 2003.

5.4 Global Online Lessons

Although culturally different, the extremely high installed base of broadband in South Korea dictates some lessons for the North American market. Whereas broadband currently is enjoyed by about 24% of households in North America, the penetration is over 50% in South Korea. This phenomenon has occurred due to the following reasons inherent on South Korea.

- Government subsidies for PC manufacturing
- Government encouragement for broadband availability
- PC rooms prevalent for testing broadband
- Broadband applications (software) highly developed

The result of this is a broadband cost of less than $30 per month in South Korea as opposed to $50 per month in North America.[74] Many broadband providers find themselves struggling against the high competition, and will likely suffer in the short and long term. The benefit appears to be firmly in the hands of the public and the content providers. Korea's NCSoft produced Lineage boasted over 4 million paying customers for its services in 2002.[75] Although the numbers are difficult to translate to US usage, since many users play in the popular PC rooms of South Korea, the point is still well taken. Given a high installed base of broadband, content providers enjoy much larger target audiences and the current penetration of North American MMPs may indeed be far from what is considered saturated. The rapid sales mentioned earlier of the recently released MMP *Star Wars Galaxies* supports this notion. It will be interesting to see if this release will result in cannibalization of other MMP titles by stealing subscribers rather than creating new ones.

Even with the less aggressive penetration of broadband in the US, the power lies with the content providers. Marginal costs for each additional subscriber are virtually zero, and with every new broadband installation a new online consumer is born. In South Korea, much success has been realized in various methods of monetizing broadband users. SBS (The Seoul Broadcasting

[74] Harry Kwon, Henry Elkington and BobVictor,BCG Publications, *Lessons from South Korea: When Broadband Meets the Mass Market* [Online], 2002.

[75] IGDA Online Games Committee, *IGDA Online Games Whitepaper*, 2003. 12

Service) enjoys revenues of over $5 million per year by rerunning its popular soap operas on PCs.[76] Revenue models for services such as these were non-existent when narrowband was prevalent. The result is Korea having actually created an entirely new market through broadband customers.

5.5 Summary of Industry Analysis

The crucial difference between the attractiveness of the film and music industries is the lack of a required infrastructure needed to enjoy the end product on the part of the music listener. The console video game industry does indeed have in place a requirement for consoles to be used which lock the user into a required infrastructure, but the threat of piracy is still rampant. Online console gaming provides an opportunity to stem this threat by necessitating the registration of each game with a unique key for online play. In addition, the sports gaming industry itself must establish an infrastructure of league play and competitiveness that the users cannot easily replicate themselves.

[76] GIGnews.com, *Korean Online Gaming* [Online], 2002

6 Consumers

As important as an industry analysis is, the consumers are the ones purchasing the games. Adoption of new technologies and behaviours does not always come easily for the consumer- the transition to the new service must be seamless and smooth. There are various issues related to a purchase decision to be assessed in order to understand what their purchase criteria are and how to win them over.

6.1 Users/Customer Analysis

The videogame industry is now considered relatively mature. With little opportunity left for penetration, the emerging online gaming market seems ideal for realizing new ways of monetizing users.

6.1.1 Mass Market and Hard-core Gamers

Although video gaming is generally thought of as a primarily male activity, The Pew Internet & American Life project found females tend to play more online games than males.[77] Similarly, Yoon Lee and Doyle found that out of 1110 online gamers surveyed, 54% were women.[78] Conversely, even though they aggressively targeted women for their survey, Game Research.com surveyed 680 online gamers, and found 95% were men and only 5% were women.[79] Why the difference? It seems the methodology has much to do with it. The first two surveys, which found women the majority of the online market, were part of more general consumer research studies. These surveys reached many housewives, professional women and others who play mass-market online games (puzzle and card) and thus listed themselves as online gamers. The Game Research study, on the other hand, was conducted online and utilized game sites, message boards and community rooms which, more than likely, reached hardcore gamers. In any case, this example highlights the large discrepancies that are experienced when the definition of "online gaming" is broad. The difference between mass-

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[77] Pew Internet.org, *Let the Games Begin* [Online}, 2003.

[78] Pew Internet.org, *Let the Games Begin* [Online}, 2003

[79] Jeppe Bo Pedersen, Game Research, *Article: Are Professional Gamers Different? –Survey on Online Gaming* [Online], 2002.

market gamers and the more hard-core gamers who would actually pay for a monthly subscription is a very important distinction.

Game Research.com found the average online gamer age to be 23 with 95% of online gamers falling between 15-31 years.[80] Yoon, Lee and Doyle found that only 61% were between 18 and 44 years of age. This discrepancy tends to point to a greater concentration of younger, and predominantly male users, as the definition of "online gamer" is more closely associated with hard-core players than all online gamers.

It seems that the simplicity of mass-market puzzle/card online games have removed all barriers traditionally experienced with online gaming (no or little technological knowledge required, learnable in 2 minutes or less, free), thereby making this form of online gaming accessible to the masses. This is fantastic news for advertising based gaming sites, but a nightmare for those targeting hard core gamers, as virtually any study performed to date has done little to differentiate between these two polarized categories. In addition, the more consumers become accustomed to free online games, the more difficult it becomes to monetize them.

Highlighting this difference is the user testing for *The Sims Online*. The strongest user ratings for the game have come from the mass-market gamers, while the games beta testers (more hard core gamers) seem to have the most negative perception of the offering. Although the mass market finds the simplicity and friendly concept of The Sims Online to be appealing, they simply will not pay for games. *The Sims Online* has plateaued at 85,000 subscribers, which is far below expectations.

6.1.2 Lifestyles of Online Gamers

The studies also found that online gamers are more educated and affluent than the average Internet and non-Internet user. In addition, they are impulsive, fun, variety seeking and more spontaneous. The impulsive attribute suggests a propensity to respond to promotions promising instant gratification.

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80 Game Research, *Online Gaming Habits* [Online], 2002.

Online gamers are also more engaged in word-of-mouth communication; both electronic and non-electronic forms. They are more likely to aid in viral advertising than non-gamers, which is the passing of messages and promotions to others. This finding emphasizes the potential that online gamers have in generating the popularity and acceptance of games through word-of-mouth or email within their social network.

Online gamers' liberal attitudes suggest that advertisers, using online games as promotional tools, need to be less concerned about the possibility of backlash reactions to games that contain controversial contents such as sex or violence. Greater acceptance of the Internet among gamers indicates the likelihood to participate in other interactive online activities delivered through game sites.

6.1.3 Profile of the Hardcore Gamer

The Gameresearch.com survey found that 75% of online gamers have already been playing online games for 1-5 years. Ninety six percent have been on the Internet for more than a year, and 95% have a computer less than 3 years old. The survey also found that action games are by far the most popular, with Counter-strike and Quake being the top games played. Most users still resisted paying for online gaming and preferred pre-purchased online enabled games featuring free online services.

Ninety one percent of these online gamers played the game from their homes, with only 41% of them playing physically alone. Fifty percent of the total sample group have met real life friends online, with the female demographic at approximately 80%. This correlates well to the hypotheses that women feel safer meeting people on the Internet. This social aspect to gaming is a characteristic that can be used when attempting to appeal to the elusive female hard core gaming market.

90% of online gamers felt they partook in too much online gaming, with 60% of them playing 10 or more hours per week and 11% playing over 30 hrs per week. It should be noted that new broadband users are likely to be anxious to make use of the fast speed and unlimited connection time and will initially use online services more frequently, but this usage will tend to decrease over time as the novelty wears off.

Some of the major attractions for the online gamers were community, competition, escapism and immersion. For their hard earned subscription dollars, however, approximately 65% of the sample felt that there were too many cheaters and game play was unstable while 33% found that team play was not developed fully enough. About 23% found either that the play was unbalanced or that the competition was not strong enough.

Summarizing the full results, we can assume that the overall generic profile of the hardcore gamer is:

- 23 year old male in their home
- experienced in both computers and online play
- liberal attitude open to questionable advertising and content,
- educated and somewhat affluent with a newer computer and likely a console
- still resisting paying for online play, but less so than the mass market
- willing to meet friends online
- willing and able to pass along messages and to potentially relay advertising messages
- able and willing to deal with complex technology and game play
- interested in action and RPG games
- likely to participate in community and other online activities
- impulsive and variety seeking
- feels he may play online more than he should
- somewhat unhappy with some of the control aspects of the online environment at present

Overall this is a very attractive demographic and profile. The longer these gamers can be retained as customers as they age, the more likely the market will grow and the greater their ability to spend. It seems that improvement in site organization is a main concern, which should be addressed when attempting to win over subscriber dollars.

6.1.4 *Barbarians, Tribesmen and Citizens*

Once a game is launched with any aspect of community, participants tend to fall into one of three categories.[81]

Barbarians: The "problem children" of online gaming, barbarians are those who in essence do not care what anyone thinks. A persistent state world is a wonderful and anonymous place for those who aim to wreak havoc on society with no repercussions. Cheating, hacking, harassment and the like are great fun to some, but extremely disruptive to the enjoyment of others. As these individuals will drive away the desirable customers, great care must be taken in eliminating them from EA Sports Nation.

Tribesmen: These users are the ones who make up the large majority of the online fold. Generally tribesmen inhabit the world in an effort to ensure the existence, success and enjoyment of their own micro-community. These individuals can still be dangerous to a game if they feel they have been wronged or that the parties in power are acting unfairly and it becomes imperative to provide these individuals a forum for communicating not only with each other, but with the support staff as well. These individuals must be granted group management and communication tools in order to allow them to foster the growth of their community. As they are the political lifeblood of an MMP, great care must be taken to avoid a rebellion.

Citizens: Although small in number, these users are the ones who are most willing to promote and enhance the experience for others. Often citizens are wrongly viewed as "squeaky wheels" by support staff and efforts are made to ignore or silence them. The danger of this is not only that these individuals tend to evolve into influential members of the community, but that their views and opinions are generally shared with support staff not to disrupt, but rather to enhance the online community experience for everyone.

[81] Jessica Mulligan and Bridgette Patrovsky, *Developing Online Games: An Insider's Guide,* (Indiana: New Riders Publishing, 2003), 217-218.

6.1.5 College Students- an Ideal Bowling Pin

A recent study by Pew Internet surveyed 1162 students in 27 different colleges in the US.[82] The respondents were representative of the "average" college student in North America. The racial characteristics of the study group are outlined as follows.

Racial Characteristics				
	Overall	Video gamer	Computer gamer	Online gamer
White	72%	63%	63%	61%
African-American	11%	9%	11%	12%
Asian	6%	14%	14%	13%
Hispanic	9%	9%	8%	10%

Table 13: Racial Characteristics of Video Game Study Group[83]

The study found that computers, video and online gaming are woven into the fabric of everyday life for most college students. Moreover, the computer has a high tendency towards acting as a socializing agent for them. 65% of the college students reported being either regular or occasional game players. 20% felt that gaming helped them make new friends and improved their existing relationships. 60% of the students felt that gaming helped them spend time when friends were not available and 65% felt that gaming did not take away from other time they would ordinarily spend with friends and family. On the other hand, 48% of college gamers felt that gaming prevented them from studying "some" or "a lot" of the time. 32% percent admitted playing games while in class.

35% of US respondents in an earlier survey (referred to by Pew Internet) felt that video games were the most entertaining form of media they experienced, with television a distant second at 18%.[84] The Pew Internet Study found that 66% of US teenagers play or download games online. Of the 27% of students who said they never play video, computer or internet games, lack of interest (20%)

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[82] Steve Jones, Pew Internet & American Life Project, Let the Games Begin: Gaming Technology and Entertainment Among College Students [online], July 6, 2003

[83] Created by author based on work of Steve Jones, Pew Internet & American Life Project, *Let the Games Begin: Gaming Technology and Entertainment Among College Students* [online], July 6, 2003

[84] Steve Jones, Pew Internet & American Life Project, *Let the Games Begin: Gaming Technology and Entertainment Among College Students* [online], July 6, 2003

and waste of time (13%) were the primary reasons; lack of resources (2%) and unfamiliarity (.5%) were rated much lower. It was also found that 57% of the females and 75% of the males played online videogames. 71% percent of the survey group reported playing computer games, 59% played console games and 56% played online games.

Games they played the most			
	Video games	Computer games	Online games
Male	53%	19%	12%
Female	17%	32%	15%

Table 14: Games Played by Video Game Study Group[85]

Other than indicating that 26% of gamers played racing games, the Pew Internet study falls into the trap of not differentiating between mass market (puzzle/card) online gamers and hard-core online gamers. Few studies to date have distinguished between these groups in their findings, making it difficult to apply the findings in any meaningful way. In any case, the study did manage to show how important the college student could be as initial market for online gaming launches. In order to better define and differentiate the hardcore gamer from the casual gamer, we designed and administered our own survey. Through this primary research, the intention was to ask the questions that were of the greatest interest to EA Sports and to fill the holes left in other surveys that fail to distinguish between hard core and mass market gamers.

6.2 Online Gaming Survey

This survey was designed to best assess gamers propensity to use the proposed EA Sports Nation gaming site and to evaluate the most appealing features of a site of that nature. The survey consisted of a group of conditional response questions as well as bundles of attributes that the users were asked to rate. The intent was to qualify users through their responses to a series of questions concerning their video gaming and surfing habits, preferences for online gaming, sports interest and various demographic data. The "bundle" ratings enable us to place the user responses into sub categories and then

[85] Created by author based on work of Steve Jones, Pew Internet & American Life Project, *Let the Games Begin: Gaming Technology and Entertainment Among College Students* [online], July 6, 2003

assess their price sensitivity for various features. Further, the survey was designed to differentiate between casual online gamers and hardcore gamers.

6.2.1 *Methodology*

A convenience sample of video gamers was recruited to fill out a survey listed on www.surveymonkey.com. A convenience sample was used rather than random in order to gather the responses of those who specifically play videogames. Respondents were recruited form various technical sources such as academic Technology programs, video gaming and technology based clubs, gaming communities and websites, and a local radio station (CFOX). As a note, the majority of responses came via the local radio station and therefore our sample is highly represented by their demographic. This radio station was chosen due to the congruence between our desired demographic and their listener base. In addition, the survey requested that respondents only fill out the survey if they play video games.

6.2.2 *General Results*

504 complete surveys were filled out by 363 males, 37 females, and 104 individuals who did not specify a gender. For ethical reasons, responses were limited to individuals over 18 years of age. The largest category was males aged 18–25. Overall, respondents were approximately 89% male and 93% were Canadian with the remaining respondents residing in the USA, Europe and Asia. We took care to avoid employees in the video game industry to reduce respondent bias. See Table 15 for a gender and region breakdown.

	DNR	Canada	USA	Europe	Asia		Gender
DNR	101	3	0	0	0	104	104 DNR
Male 18-25	18	199	7	3	1	228	
Male 25-35	2	97	6	3	0	108	
Male over 35	2	22	2	0	1	27	363 Male
Female 18-25	1	19	0	0	0	20	
Female 26-35	2	7	1	0	0	10	
Female over 35	2	4	1	0	0	7	37 Female
	128	351	17	6	2	504	504

Table 15: Gender, Age vs. Country of Residence[86]

[86] Created by author.

Respondents were asked whether they had broadband or when they planned to obtain it. As shown in Table 16, 84.6% already had broadband, 7.7% planned to get it in the next year, 3.2% within 2 yrs, and 4.5% beyond that. 78.4% of females and 85.4% of males already had broadband. By age, 83.9% of those 18-25 have broadband, 85.7% of those 26-35 have it and 90.6% of those over 35 have it.

	DNR	Have it	1 yr	2 yrs	2 yrs +		Gender	
DNR	101	1	0	0	2	104	104	DNR
Male 18-25	0	194	17	9	9	229		
Male 25-35	0	94	9	2	4	109		
Male over 35	0	23	1	0	1	25	363	Male
Female 18-25	0	15	2	2	1	20		
Female 26-35	0	8	1	0	1	10		
Female over 35	0	6	1	0	0	7	37	Female
	101	341	31	13	18	504	504	

Table 16: Gender and Age vs. Broadband Penetration[87]

Gamers were asked about their likelihood of purchasing games through digital distribution (download) rather than from a retail store. The download method was described to individuals as "assuming a very fast download time", and various price points were given. Results indicate that gamers may be frustrated with purchasing from retail outlets. Over 70% of the sample group were somewhat likely (or above) to purchase downloadable games at the same price as the packaged version. Nearly 72% replied "likely" (or above) at $10 less than the packaged version and nearly 68% replied "very likely" (or above) at $20 less than the packaged version. Surprisingly, 22% were somewhat willing to pay $10 more for a downloaded version. It should be noted that respondents were not specified a currency in this question, however, a previous question asked US$ to be used. In any case, the desire for respondents to purchase downloadable games at a reduced rate seems to be very high. Table 17 details these findings.

[87] Created by Author.

	Never	Somewhat likely	Likely	Very Likely	Definitely
$10 more than the packaged price	78.43%	15.74%	4.31%	1.02%	0.51%
Same as packaged price	29.29%	37.12%	22.98%	5.30%	5.30%
$10 less than packaged price	15.21%	16.96%	28.43%	26.43%	12.97%
$20 less than packaged price	8.44%	8.93%	15.14%	25.81%	41.69%

Table 17: Likelihood of Purchasing Digitally Distributed Goods[88]

6.2.3 Segmented Results

The respondents were segmented into 3 distinct divisions; "casual" vs. "hardcore" gamers (where hardcore was defined as anyone playing 20 or more hours of non puzzle/card videogames per week), "non subscriptions" vs. "subscription" gamers (where subscription gamers were classified as any gamers who held subscriptions to any online game- most often MMP and First Person Shooter games) and "sports" vs. "non-sports" (where high sports was classified as anyone who played 4 hours or more of sports video games per week). Each division encompasses the responses of all 504 individuals by dividing them as outlined. By grouping the respondents this way, we are able to look at the similarities and differences in their habits and preferences. Due to the large representative sample of males of typical video gaming age recruited for this survey, the overall results do not suffer significantly in attracting largely mass market puzzle gamers as most previously performed surveys do. As such, the differentiation in the habits of hardcore gamers vs. casual gamers is not as extreme as if we had attracted large numbers of puzzle/card gamers.

Table 18 shows the mean response of how many hours each group of respondents played various genres of video games per week. The sports category is broken down in more detail, but please note that respondent's total sports hours rarely matched up to the total hours they listed for each individual sports game. They nearly always estimated total sports hours as lower than what their individual answers to the sports types added up to.

Not surprisingly, hardcore gamers played nearly 4 times the amount that casual gamers played in all categories except card/puzzle and sports. Those with subscriptions played only marginally more than non-subscribers in every category except MMPs and to a lesser degree FPS games, and in the case of

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puzzle/card games almost the same. The patterns of the "high sports" and "no subscriptions" categories were similar, indicating that most subscribers are into MMPs, and few sports gamers are subscribers, and are not often interested in MMPs. It seems that these groups stay within their genre and rarely cross over. In particular, sports gamers seem to crave some form of physical action in their games, rating higher than subscription gamers in racing and fighting games.

Weekly Gaming Hours	Casual 290	Hardcore 214	No Subscriptions 393	Subscriptions 111	Low Sports 356	High Sports 148
Racing	0.93	3.74	2.10	2.20	1.51	3.59
Fighting	1.06	4.85	2.61	2.86	2.33	3.50
MMP	2.36	12.63	5.09	12.50	6.86	6.39
FPS	3.32	13.94	7.26	9.85	7.60	8.39
Puzzle/Card	2.06	3.13	2.51	2.52	2.23	3.19
Sports	2.03	5.04	3.17	3.80	0.59	9.85
Golf	0.46	1.61	1.01	0.73	0.40	2.27
Hockey	1.46	4.68	2.34	4.56	0.86	7.56
Football	0.47	2.01	0.89	1.95	0.38	2.91
Basketball	0.29	0.79	0.47	0.62	0.12	1.42
Soccer	0.41	1.13	0.66	0.92	0.25	1.85
Baseball	0.28	0.91	0.49	0.74	0.25	1.26
Tennis	0.18	0.41	0.22	0.48	0.08	0.74

Table 18: Total Gaming Hours of Categorized Respondents[89]

Respondents were asked how many hours per week they played games on the various platforms both online and offline. Not surprisingly, due to the infancy of online sports, the sports gamers had lower hours logged in all online gaming categories when compared to hardcore or subscription gamers. Similarly, their PC usage was lower but their offline console usage was higher than that of subscription gamers. This supports the notion of consoles being the platform of choice for most sports gamers. Interestingly, sports gamers played cell phone games more than subscription gamers did.

Oddly enough, CD online computer games usage was higher for hardcore gamers than subscription gamers, meaning that possibly the term "CD online computer games" was not easily understandable to the respondents, or that many were playing CD online computer games that required no subscription. Table 19 outlines these results.

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Weekly Hours by Platform	Casual	Hardcore	No Subscriptions	Subscriptions	Low Sports	High Sports
	290	214	393	111	356	148
CD Online computer	2.53	16.11	7.11	12.51	8.44	7.96
Browser based online computer	1.58	7.05	3.73	4.52	3.71	4.36
Online PS2	0.11	0.44	0.16	0.57	0.18	0.42
Online Xbox	0.19	1.27	0.47	1.29	0.55	0.89
Computer (Offline)	2.73	12.57	6.20	9.41	6.64	7.55
PS2 (Offline)	1.32	7.15	3.80	3.75	2.64	6.57
Xbox (Offline)	0.70	4.39	1.98	3.30	1.82	3.33
Gamecube	0.34	2.53	1.05	2.02	1.00	1.90
Cell Phone	0.22	1.59	0.76	0.91	0.54	1.41

Table 19: Segmentation of Respondent into Behavioral Categories[90]

Respondents were asked how many hours per week they planned to play online games in the next year. Hardcore gamers planned to play less computer games online and more online console games. Subscription gamers planned to increase their online console usage as well, and sports users desired more online gaming on all platforms. Not surprisingly, sports gamers also planned to play far more online sports than other groups, as well as online cell phone games. See Table 20 for results.

Weekly Hrs Online Next Year	Casual	Hardcore	No Subscriptions	Subscriptions	Low Sports	High Sports
	290	214	393	111	356	148
CD online computer	2.96	14.47	7.07	10.60	7.71	8.18
Browser based online computer	1.99	6.93	3.80	5.09	3.72	4.97
Online PS2	0.31	1.87	0.93	1.13	0.60	1.89
Online Xbox	0.36	2.54	1.10	1.95	0.92	2.17
Online cell phone	0.14	1.09	0.44	0.89	0.27	1.18
Any online sports	0.52	1.96	0.94	1.81	0.34	3.04

Table 20: Total Hours Online of Categorized Respondents[91]

When asked about their hours of computer usage and viewing habits, it was found that sports gamers emailed less than every group except casual gamers, yet they Internet messaged more than all groups except hardcore gamers. Not surprisingly, they watched far more sports on TV than any other group. In addition, they were marginally involved more with e-commerce than any other group. Sports gamers seem to use the television a great deal; for watching sports, channel surfing and console gaming. See Table 21 for details.

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Weekly hrs by Activity	Casual	Hardcore	No Subscriptions	Subscriptions	Low Sports	High Sports
	290	214	393	111	356	148
Email	5.24	8.95	6.65	7.41	8.45	6.14
Surfing	7.84	14.78	10.45	12.00	9.96	12.78
Messaging	4.78	12.01	8.06	7.13	7.08	9.71
Downloading	4.59	13.34	8.13	8.94	7.76	9.63
E Commerce	1.11	1.49	1.14	1.73	1.08	1.72
Watching Sports	4.94	8.23	6.09	7.22	3.95	12.08
Surfing with TV on	3.01	9.85	5.51	7.34	5.15	7.75

Table 21: Time Spent on Internet Activities of Categorized Respondents[92]

When asked about expenditures on all gaming related items in the past year and any planned online subscription spending for the next year, it was found that sports gamers spent less on hardware than hardcore and subscription gamers. This finding is congruent with previous knowledge of gaming habits, as sports gamers rely more on consoles which are less expensive than computer hardware. As shown in Table 22, their expenditures on console software and online console subscriptions were higher and computer online gaming subscriptions were lower than all groups except casual gamers and the non-subscription group. This demonstrates that there is a distinct division between sports gamers and subscription gamers with little commonality between them. Specifically, sports gamers primarily enjoy consoles while subscribers are used to PC play. As mentioned early, with console online gaming in its infancy, most gaming subscriptions relate to PC based MMP Fantasy games.

Subscription gamers planned to increase online computer game subscriptions in the next year by approximately 21% and increase console online subscriptions by approximately 111%. Sports users planned a 66% rise in online PC gaming and a 244% increase in console online subscription spending. Past console subscriptions were higher for sports gamers than any other group with Xbox subscriptions predicted to be nearly twice that of PS2 subscriptions. This is likely due to the high profile of Xbox Live at the present time. Sports users spent 40% less on PC online subscriptions than non-sports users and planned on spending less than half as much as them in the next year.

[92] Created by Author.

Last years Expenditures	Casual	Hardcore	No Subscriptions	Subscriptions	Low Sports	High Sports
	290	214	393	111	356	148
Gaming hardware in past year	$198.74	$481.54	$269.45	$496.05	$291.15	$330.67
Computer gaming software in past year	$102.23	$198.64	$133.77	$178.25	$144.09	$141.96
Console gaming software in past year	$71.84	$177.68	$119.24	$111.29	$93.19	$174.21
Computer OL gaming subscr in past year	$11.40	$44.84	$10.43	$80.74	$31.88	$11.59
Console OL gaming subscr in past year	$1.32	$2.86	$1.55	$3.55	$1.20	$3.92
Computer OL gaming subscr in the next y	$13.46	$60.90	$15.88	$97.75	$40.43	$19.19
PS2 OL gaming subscr in the next year	$1.34	$4.26	$2.80	$1.97	$1.76	$4.69
Xbox OL gaming subscr in the next year	$3.86	$7.35	$5.34	$5.55	$3.95	$8.81

Table 22: Amount of Expenditures of Categorized Respondents[93]

When asked what prevents them from playing online games, cost was the major factor among all groups and a lack of quality games followed. As shown in Table 23, quality of games was less of a concern with sports gamers than subscription and hardcore gamers with bandwidth/speed more of a concern to them. As sports users are more used to console gaming, it appears they are more sceptical of online game performance than those with existing subscriptions. Complexity was rated relatively low for all groups. Most surprising was that the subscribers showed more concern in all categories than non-subscription gamers. It should be noted that "lack of time" was commonly listed by many respondents in the open ended "other" category.

Barriers to Online Gaming	Casual	Hardcore	No Subscriptions	Subscriptions	Low Sports	High Sports
	290	214	393	111	356	148
Cost	41.72%	48.13%	43.26%	48.65%	41.85%	50.68%
Low bandwidth or speed	10.00%	11.21%	10.18%	11.71%	8.99%	14.19%
Complexity	4.14%	4.21%	3.31%	7.21%	3.37%	6.08%
Lack of quality games	20.34%	28.97%	21.37%	33.33%	23.60%	25.00%

Table 23: Barriers to Online Gaming for Categorized Respondents[94]

When asked about what makes online game play appealing, subscription gamers rated all categories higher than any other group did. This implies that they had actually experienced and enjoyed these aspects of online gaming, while others had to speculate, demonstrating a high level of satisfaction with the online experience by the subscriber group. Sports gamers responded with a low desire to meet new people or for persistent state worlds, fantasy/escape and technological aspect. With low penetration for online game play, these findings

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[94] Created by Author.

are not terribly surprising but do indicate an unfamiliarity of sports gamers with the online experience. See Table 24 for details.

Again many of the higher ratings by non-sports gamers vs. sports gamers correlate highly with preferences of the MMP playing subscriber group. Multiplayer competition, organized play and high competition were more important to sports gamers than to non-sports gamers. Playing with friends not geographically close was quite high in all categories; particularly subscription gamers.

Desirable Aspects of Online	Casual	Hardcore	No Subscriptions	Subscriptions	Low Sports	High Sports
	290	214	393	111	356	148
Meeting new people	17.93%	28.04%	16.28%	43.24%	24.44%	16.89%
Multiplayer competition	44.83%	62.15%	45.80%	74.77%	48.60%	60.81%
High competition	22.07%	34.11%	23.66%	39.64%	23.88%	35.14%
Organized play	25.17%	39.25%	25.70%	50.45%	29.78%	34.46%
Persistent state worlds	9.31%	20.09%	9.92%	27.93%	15.45%	10.14%
Fantasy/escape	22.76%	39.25%	23.92%	50.45%	32.58%	22.97%
Technology aspect	9.66%	18.22%	11.20%	20.72%	14.89%	9.46%
Playing with friends not geographically close	34.83%	52.80%	36.39%	63.96%	41.85%	43.92%

Table 24: Desirable Aspects of Online Gaming for Categorized Respondents[95]

Gamers were asked about various areas of dissatisfaction with online game play. Cheaters/deadbeats rated the highest among all groups with unstable service, opponents dropping out mid-game and limited features/services also ranking highly. As Table 25 indicates, subscription gamers were most dissatisfied with a lack of competition. Sports gamers were more concerned with opponents dropping out mid-game than any other group. It is interesting to find that subscription and sports gamers were more concerned with every aspect of dissatisfaction than non-subscription and non-sports gamers except for the category of high competition (subscription gamers only).

Undesirable Aspects of Online	Casual	Hardcore	No Subscriptions	Subscriptions	Low Sports	High Sports
	290	214	393	111	356	148
Limited features/services	25.86%	35.98%	26.21%	44.14%	29.21%	32.43%
Unstable service	45.17%	59.81%	46.56%	68.47%	48.03%	59.46%
Cheaters/deadbeats	53.45%	67.76%	54.96%	75.68%	57.02%	65.54%
Opponents dropping out mid game	34.83%	33.64%	32.82%	39.64%	30.06%	44.59%
Low competition	12.07%	21.96%	14.76%	21.62%	16.01%	16.89%
High competition	8.28%	6.07%	8.14%	4.50%	7.02%	8.11%

Table 25: Undesired Aspects of Online Gaming for Categorized Respondents[96]

[95] Created by Author.

When asked about what statistical features of an online sports gaming network users found most important, sports users rated all categories higher than any other group except viewing stats on web, which was rated higher by subscription gamers. This is not surprising as those interested in sports and sports gaming are often stats "junkies". Viewing stats on the web was the highest rated by all groups with a detailed leader board not far behind. Downloadable rosters and detailed year-by-year user stats followed. Viewing stats via the cell phone was rated low in all categories but highest by sports gamers. See Table 26 for details.

Importance of Stats Feature	Casual	Hardcore	No Subscriptions	Subscriptions	Low Sports	High Sports
	290	214	393	111	356	148
Viewing stats on the web	48.28%	53.74%	45.80%	67.57%	46.07%	61.49%
Viewing stats on cell phone	2.76%	5.14%	4.07%	2.70%	2.81%	6.08%
Detailed year by year user stats	20.00%	18.69%	16.79%	28.83%	14.61%	31.08%
Detailed leaderboard	38.97%	42.06%	35.62%	56.76%	33.15%	57.43%
Downloadable rosters	30.69%	37.38%	31.81%	39.64%	25.56%	52.70%

Table 26: Desired Statistical Features of Categorized Respondents[97]

Gamers were asked about their participation in video game leagues; both organized and somewhat organized. Respondents were able to choose from multiple categories as shown in Table 27 below. All gamers indicated a higher participation in "somewhat organized" than "organized" suggesting that they often take it upon themselves to organize leagues. Over 1 in 7 sports gamers participated in some sort of league last year, with over 1 in 5 subscription gamers doing the same.

League Particpation Last Year	Casual	Hardcore	No Subscriptions	Subscriptions	Low Sports	High Sports
	290	214	393	111	356	148
Somewhat organized video game l	6.55%	12.15%	5.85%	19.82%	9.55%	7.43%
Organized video game leagues	3.45%	12.15%	4.58%	16.22%	7.87%	5.41%
Somewhat organized sports video	1.72%	2.34%	0.76%	6.31%	1.12%	4.05%
Organized sports video game leag	1.38%	0.93%	0.51%	3.60%	0.28%	3.38%
Total League	12.07%	14.02%	10.00%	22.00%	12.08%	14.86%

Table 27: League Participation of Categorized Respondents[98]

[96] Created by Author.
[97] Created by Author.
[98] Created by Author.

When asked about their desired league organization (specific to sports) all of the groups responded most favourably to the choice of casual or league play. Global/national league play also ranked high with separate amateur and professional leagues ranking significantly higher in sports gamer's responses. This indicates a strong desire by sports gamers to have different tiers of league play allowing them to participate at whatever level they choose. As shown in Table 28 below, community play and the blending of league play rated very low.

Preferred League Structure	Casual 290	Hardcore 214	No Subscriptions 393	Subscriptions 111	Low Sports 356	High Sports 148
Choice of casual or league play	33.45%	36.45%	30.53%	49.55%	29.78%	46.62%
League play by community	6.21%	3.74%	4.33%	8.11%	4.78%	6.08%
Global (or National) league play	13.10%	15.89%	11.20%	25.23%	10.96%	22.30%
Blending amateur and professional league play	3.79%	5.61%	3.56%	8.11%	4.78%	4.05%
Two separate leagues- amateur and professional	16.90%	18.22%	15.52%	24.32%	12.92%	28.38%

Table 28: Preferred League Structure for Categorized Respondents[99]

Forming a team with local friends was the most desirable way for all the groups to participate. Playing as a free agent and joining and changing teams over time ranked higher in the sports gamer group than any other (much higher than hardcore gamers) possibly suggesting some desire to "mimic" the free agent practice of actual sports organizations. Forming a team with out of town friends ranked lowest in the sports gamers group. See Table 29 for details.

Desired Form of Participation	Casual 290	Hardcore 214	No Subscriptions 393	Subscriptions 111	Low Sports 356	High Sports 148
Play mostly as a free agent	22.07%	17.76%	18.58%	26.13%	16.57%	29.05%
Form a team with local friends	18.62%	28.04%	19.59%	33.33%	19.66%	29.73%
Form a team with out of town friends	8.62%	9.81%	7.63%	14.41%	7.58%	12.84%
Join a team of people you don't know	10.69%	11.68%	9.92%	15.32%	9.27%	15.54%
Join and change teams over time	12.76%	13.08%	11.96%	16.22%	11.24%	16.89%

Table 29: Desired Type of Participation of Categorized Respondents[100]

6.2.4 Summary of the Sports Gamer

Based on the findings in this survey, here is a brief summary of what we have categorized as the "sports" gamer.

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General Habits

- 1 in 7 sports gamer participated in some sort of gaming league last year
- Appear to be in front of the TV more (sports, console play, surfing with TV on)
- Sports gamers are very different from MMP players. Non-sports gamers had much in common with MMP players
- Less email usage than non-sports gamers, more instant messaging

Console Habits

- Use PS2 more than Xbox and plan their online console usage to increase next year on PS2 by a larger margin than non-sports gamers
- Less computer gaming than non-sports gamers
- Far less computer online gaming subscriptions this year and next than non-sports gamers
- Plan to spend about 240% more on online console gaming next year than non-sports gamers ($13.50 per year)

Online play

- Planned to play over three hrs per week of online sports next year on average. As this relates to nearly 160 hours of online sports gaming in the next year, this is a very favorable statistic for EA Sports Nation
- Most would want to form a team with local friends and eventually switch teams over time
- Prefer separate leagues or divisions for different levels of competition

Likes

- Far more statistically focused than the other groups. They mostly desire leader boards, the ability to viewing stats on the web and downloadable rosters
- Less concerned with social aspect and persistent state fantasy worlds than subscription gamers, but still find it appealing
- Mostly liked competition, organized play and playing with friends not geographically close

Dislikes

- Somewhat more concerned about cost
- Attributes of online play they dislike the most are unstable service, opponents dropping out mid game and deadbeats
- Sports gamers and subscription gamers have more concerns in general with online play than other groups

6.2.5 Differences Between Sports Gamers and Hard Core Gamers

Table 30 shows the percentage differences in responses between hard-core gamers and sports gamers to the various questions asked. Highlights of these differences are:

- Higher expenditures for sports gamers on online console subscriptions last year and anticipated for next year as well. Lower expenditures in all other categories
- Sports gamers spend more time on e-commerce and watching sports. Less time spent in all other categories
- More concerned with cost, speed and complexity of online gaming and less concerned with lack of quality games.
- Less receptive to nearly all desirable aspects of online gaming
- Less concerned with all negative aspects of online gaming except players dropping out mid-game and higher competition levels
- More concerned with all forms of statistics
- Much more attracted to some form of divisional play and less receptive to blending of these divisions
- More receptive to all forms of participation in online sports league, particularly free agent status

	Hardcore	High Sports	% difference
Weekly Hrs Online Next Year	**214**	**148**	
CD online computer	14.47	8.18	-43.49%
Browser based online computer	6.93	4.97	-28.26%
Online PS2	1.87	1.89	0.78%
Online Xbox	2.54	2.17	-14.76%
Online cell phone	1.09	1.18	8.52%
Any online sports	1.96	3.04	55.11%
Weekly hrs by Activity			
Email	8.95	6.14	-31.46%
Surfing	14.78	12.78	-13.49%
Messaging	12.01	9.71	-19.21%
Downloading	13.34	9.63	-27.85%
E Commerce	1.49	1.72	15.54%
Watching Sports	8.23	12.08	46.85%
Surfing with TV on	9.85	7.75	-21.38%
Expenditures			
Gaming hardware in past year	$481.54	$330.67	-31.33%
Computer gaming software in past year	$198.64	$141.96	-28.53%
Console gaming software in past year	$177.68	$174.21	-1.96%
Computer OL gaming subscr in past year	$44.84	$11.59	-74.16%
Console OL gaming subscr in past year	$2.86	$3.92	37.07%
Computer OL gaming subscr in the next year	$60.90	$19.19	-68.48%
PS2 OL gaming subscr in the next year	$4.26	$4.69	10.21%
Xbox OL gaming subscr in the next year	$7.35	$8.81	19.83%
Barriers to Online Gaming			
Cost	48.13%	50.68%	5.29%
Low bandwidth or speed	11.21%	14.19%	26.52%
Complexity	4.21%	6.08%	44.59%
Lack of quality games	28.97%	25.00%	-13.71%
Desirable Aspects of Online			
Meeting new people	28.04%	16.89%	-39.75%
Multiplayer competition	62.15%	60.81%	-2.15%
High competition	34.11%	35.14%	3.00%
Organized play	39.25%	34.46%	-12.21%
Persistent state worlds	20.09%	10.14%	-49.56%
Fantasy/escape	39.25%	22.97%	-41.47%
Technology aspect	18.22%	9.46%	-48.09%
Playing with friends not geographically close	52.80%	43.92%	-16.83%
Undesirable Aspects of Online			
Limited features/services	35.98%	32.43%	-9.86%
Unstable service	59.81%	59.46%	-0.59%
Cheaters/deadbeats	67.76%	65.54%	-3.27%
Opponents dropping out mid game	33.64%	44.59%	32.55%
Low competition	21.96%	16.89%	-23.09%
High competition	6.07%	8.11%	33.47%

Table 30: Summary of Results for Hardcore Gamers vs. Sports Gamers[101]

[101] Created by Author.

	Hardcore	High Sports	% difference
Importance of Stats Feature	**214**	**148**	
Viewing stats on the web	53.74%	61.49%	14.42%
Viewing stats on cell phone	5.14%	6.08%	18.30%
Detailed year by year user stats	18.69%	31.08%	66.28%
Detailed leaderboard	42.06%	57.43%	36.56%
Downloadable rosters	37.38%	52.70%	40.98%
League Particpation Last Year			
Somewhat organized video game leagues	12.15%	7.43%	-38.83%
Organized video game leagues	12.15%	5.41%	-55.51%
Somewhat organized sports video game leagues	2.34%	4.05%	73.51%
Organized sports video game leagues	0.93%	3.38%	261.49%
Total League	14.02%	14.86%	6.04%
Preferred League Structure			
Choice of casual or league play	36.45%	46.62%	27.91%
League play by community	3.74%	6.08%	62.67%
Global (or National) league play	15.89%	22.30%	40.34%
Blending amateur and professional league play	5.61%	4.05%	-27.70%
Two separate leagues- amateur and professional	18.22%	28.38%	55.72%
Desired Form of Participation			
Play mostly as a free agent	17.76%	29.05%	63.62%
Form a team with local friends	28.04%	29.73%	6.04%
Form a team with out of town friends	9.81%	12.84%	30.82%
Join a team of people you don't know	11.68%	15.54%	33.03%
Join and change teams over time	13.08%	16.89%	29.10%

Table 30: Summary of Results for Hardcore Gamers vs. Sports Gamers (continued) [102]

6.2.6 Conjoint Methodology

Conjoint analysis has been used to determine the respondents sensitivity to various attributes and organizational characteristics proposed for EA Sports Nation. Conjoint analysis involves the compiling of a series of product bundles that serve to represent and measure the desirability of potential feature bundles. This conjoint refers to 8 different subscription options, four user setup options, four site features, four monetary usage rewards and four character enhancement rewards. The 32 sample bundles were obtained using Consurv Software and is a fractional factorial of 8 x 4 x 4 x 4 x 4 (2048) possible bundles.[103] Users were asked to rate each bundle from 1 (least desirable) to 10 (most desirable). The analysis was performed using dummy regression and selected segments were based on value intervals at a specific cut-off point.

[102] Created by Author.
[103] Intelligent Marketing Systems Inc, Edmonton Alberta, 1991

The categories were chosen based on their ability to assess trade-offs in order to most accurately measure the respondent's part worth's. The attributes were chosen initially by the project team and then approved by a representative from EA Sports Nation. The following is a list of the categories:

1. **Price Structure** -Assesses the user's price sensitivity

- Free
- 1 yr Purchased extra with game for $10
- 1 yr Purchased extra with game for $20
- Credits- 10 hrs for $2
- Credits- 10 hrs for $3
- Monthly $5
- Monthly $10
- Monthly $15

2. **User setup-** Assesses basic playability attributes, such as ease of setup and ability to customize settings and roles.

- User defined settings
- Variety of roles (refs, coaches etc)
- Head to head/practice modes
- Quick play

3. **Site feature-** Assesses the attractiveness of various site features.

- Skill matchmaking
- Web cast and highlight reels
- Chat capabilities
- Digital asset trading

4. **Monetary Performance/Usage reward-** Assesses the attractiveness of various rewards for performance and usage that equate loosely to monetary gain.

- Cash
- Site credits/access
- Free subscriptions to other games
- Sports tickets

5. **Character performance reward-** Assesses the intangible rewards for high performance such as character attributes, prestige of sponsorship and digital rewards.

- Team sponsorship
- Enhanced character appearance
- Enhanced character attributes
- Digital Assets

Any incomplete or non-discriminated ratings were defined as non-usable responses and were not used in the final analysis. A regression was performed on the 32 bundle options of the 392 usable and completed surveys using SPSS.[104] The purpose of the regression was to generate individual part worth values as well as a matrix of results that could provide insights into the attributes and options that have the greatest influence on consumer preference.

6.2.7 Conjoint Results

While reading and interpreting the following data, please keep in mind the following:

- The constant at the top of the chart reflects the group's rating (from one to ten) of a bundle made up of all the base attributes in each category.
- Each category has a base attribute, which is the first one listed. As the beta value indicates the distance from each attribute from the base attribute in that category, the base attribute has a coefficient rating (beta value) of zero.
- The beta value reflects how much higher or lower the constant would be (the rating of the bundle) if it were to replace the base value in that category.
- The higher the beta value, the greater the attribute is valued. Any positive values reflect a more positive valuation of that attribute over the base attribute. Negative values will reflect a more negative valuation of that attribute over the base attribute.

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[104] Windows 11.5.0 version. SPSS Inc 1989-2002

- The lower the p value, the more relevant the result is. A p value of less than .05 is thought to be statistically significant. The lower the value, the more statistically significant the rating.

Eight regressions were performed. The first chart (figure 31) presents the part worths for all respondents, hardcore gamers, subscribers and league participants. The second chart (figure 32) presents the data for some more sports oriented segments.

- Hard core gamers are those who play 20 or more hours per week of non puzzle/card games
- Subscribers are those who subscribe to one or more online game.
- League participants are those who have participated on some form of gaming league in the last year.
- Sports gamers are those who play 4 hours or more of sports video games per week.
- Those categorized as "will play sports online" are respondents those who planned on playing 1 hour or more of online sports per week in the next year
- TV sports viewers are those who watched at least 8 hours of sports on TV per week
- Sports league participants are those who played in some form of sport gaming league last year. The sample size for these participants is only 15 people, but their correlation to the target demographic of EA Sports Nation is very high and specific.

6.2.7.1 Price

As expected, "free" is by far the favoured price level by the majority of respondents. The consistently lower ratings for the higher priced subscription rates as well as the consistency of data over all groups indicate that users did fill out the conjoint portion of the survey diligently.

The rating by "All" respondents was severely price conscious as expected since it included casual gamers. Consistently, "1 yr subscription extra $10" was the second favourite choice after the free option, with price of $5 next and then "1 yr subscription extra $20". All groups disliked the credit system, and "10 hrs for $3" often rated worse than $15 per month. As shown earlier, all of the sports groups are price sensitive, showing much the same preferences as other groups.

The least sensitive price group by far was that of subscribers. This group rated "1 yr extra $10" as a -1.13, compared with those who would play online sports (the most price sensitive group) who rated it at -2.02. Subscribers, and to a lesser degree league players, have a higher value placed on online play and therefore seem to be somewhat less price sensitive. Interestingly the non sporting groups seem more adept at recognizing value- as they all rated "1 yr extra $20" as more favourable than $5 per month.

The lowest constant (value of a bundle made up of all base values) was that of subscribers at 6.81, confirming that they do indeed have very different genre choices than sports gamers. All sports groups had relatively high intercepts, with those who plan to play sports online next year at a constant of 8.20.

6.2.7.2 Setup Options

Although nothing appears statistically significant (high p values) under the user setup category, it should be noted that "head to head" was consistently positive among all groups, with "quick play" appealing to subscribers, hardcore gamers and league players but not the sports groups. The exception was that of sports league players- the group with the smallest sample size of only 15 respondents. This group rated "variety of roles" the highest, which was actually the most positive of all ratings by all groups in this category. Responses were so consistent that it is also the most significant of all responses in this category by any group.

6.2.7.3 Site Attribute

Similar to the Set-Up category, responses in the Site Attribute category were not statistically significant, but the trend across groups was more favourable in responses to skill matchmaking and chat and less favourable to web cast and asset trading. Just as with user settings, the variance among responses to the four choices in the category was quite low.

6.2.7.4 Monetary Reward

All of those in the non-sports groups rated cash by far the favourite type of reward with sports tickets placing a distant second. Site credits and subscriptions to other games rated consistently low across all groups. This indicates that since "free" is the desired price point, respondents saw little use for credits towards things they would prefer not to pay for anyway. The low responses to these two options were statistically significant across nearly all groups. Although not statistically significant, sports tickets showed favourably in the sport groups, often yielding higher ratings than cash.

6.2.7.5 Character Rewards

Enhanced character attributes and digital assets ranked the highest, with sponsorship and character appearance ranking somewhat lower. These responses are statistically significant amongst the "All" and hard core gamer groups, and quite consistent across all groups. Not surprisingly, team sponsorship showed higher in the sports groups. Digital assets seem to be the most preferred by the sports groups, with enhanced character appearance rating rather low.

6.2.7.6 Overall highlights of the Conjoint Analysis

Statistically significant findings:

- Sports groups have higher average ratings of the bundles than the others
- Sports groups are very price sensitive, much more than subscribers
- Credit system is the least favorite form of payment
- Purchased extra with game for $10, and $5 price point most favorable after free. $5 price point more acceptable by sports groups than $20 extra with game.
- All groups disliked site credits and subscriptions as rewards

- Enhanced character attributes and digital assets rated favorably among All, Hard Core Gamers and Subscribers.

Non statistically significant findings:

- Head to head received high ratings for setup options across all groups
- Digital assets rated highest as a character reward for the sports groups. Enhanced character appearance rated low
- Sports gamers are more responsive to team sponsorship as a character reward than non-sports gamers
- All groups find skill matchmaking and chat appealing
- Sports groups not very interested in web casting
- Sports groups often liked sports tickets more than cash

Segment Respondents	**All 392**		**Hardcore gamers 164**		**Subscribers 97**		**League participants 81**	
	Beta	p value	Beta	p value	Beta	p value	Beta	p value
(Constant)	7.34	0.00	7.27	0.00	6.81	0.00	7.39	0.00
Subscription Fee								
Free	***0.00***	0.00	**0.00**	0.00	**0.00**	0.00	**0.00**	0.00
1 yr Subscr w game-$10 extra	***-1.91***	0.00	**-1.74**	0.00	**-1.13**	0.00	**-1.54**	0.00
1 yr Subscr w game $20 extra	***-2.30***	0.00	**-2.16**	0.00	**-1.53**	0.00	**-2.00**	0.00
Credits- 10 hours for $2	***-2.90***	0.00	**-2.87**	0.00	**-2.70**	0.00	**-2.90**	0.00
Credits- 10 hours for $3	***-3.08***	0.00	**-3.03**	0.00	**-2.78**	0.00	**-3.12**	0.00
$5 US per month	***-2.30***	0.00	**-2.21**	0.00	**-1.70**	0.00	**-2.03**	0.00
$10 US per month	***-2.88***	0.00	**-2.87**	0.00	**-2.27**	0.00	**-2.79**	0.00
$15 US per month	***-3.21***	0.00	**-3.05**	0.00	**-2.45**	0.00	**-2.89**	0.00
Setup Options								
User defined settings	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00
Variety of roles	0.00	0.99	0.01	0.89	0.01	0.96	-0.12	0.37
Head to head	0.07	0.27	0.10	0.30	0.12	0.32	0.14	0.31
Quickplay	0.01	0.91	0.04	0.72	0.10	0.41	0.10	0.43
Site Feature								
Skill matchmaking	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00
Webcast	-0.04	0.49	0.00	0.98	0.03	0.84	0.03	0.81
Chat	0.10	0.11	0.15	0.14	0.21	0.09	0.12	0.37
Asset trading	-0.02	0.72	-0.03	0.77	0.03	0.82	-0.02	0.89
Monetary Reward								
Cash	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00
Site credits	***-0.42***	0.00	***-0.45***	0.00	***-0.36***	0.00	***-0.28***	0.04
Free subscr to other games	***-0.39***	0.00	***-0.44***	0.00	***-0.31***	0.01	***-0.37***	0.01
Sports tickets	***-0.24***	0.00	***-0.34***	0.00	-0.11	0.37	-0.10	0.45
Character Reward								
Sponsorship	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00
Enhanced char appearance	0.00	0.99	0.04	0.71	-0.03	0.83	-0.04	0.76
Enhanced character attributes	***0.13***	0.04	***0.21***	0.04	0.17	0.17	0.07	0.58
Digital assets	***0.14***	0.03	***0.21***	0.03	***0.25***	0.04	0.14	0.29

Table 31: Statistical Significance of Categorized Respondents[105]

[105] Created by Author.

Segment Respondents	Sports gamers 165		Will Play Sports OL 111		TV sports viewers 132		Sports league participants 15	
	Beta	p value	Beta	p value	Beta	p value	Beta	p value
(Constant)	7.76	0.00	8.20	0.00	7.71	0.00	7.29	0.00
Subscription Fee								
Free	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00
1 yr Subscr w game-$10 extra	***-1.94***	0.00	***-2.02***	0.00	***-1.92***	0.00	***-1.80***	0.00
1 yr Subscr w game $20 extra	***-2.37***	0.00	***-2.42***	0.00	***-2.40***	0.00	***-2.02***	0.00
Credits- 10 hours for $2	***-3.05***	0.00	***-3.22***	0.00	***-3.16***	0.00	***-3.07***	0.00
Credits- 10 hours for $3	***-3.19***	0.00	***-3.39***	0.00	***-3.23***	0.00	***-2.98***	0.00
$5 US per month	***-2.27***	0.00	***-2.37***	0.00	***-2.33***	0.00	***-1.88***	0.00
$10 US per month	***-3.01***	0.00	***-3.20***	0.00	***-3.11***	0.00	***-2.60***	0.00
$15 US per month	***-3.48***	0.00	***-3.81***	0.00	***-3.58***	0.00	***-3.14***	0.00
Setup Options								
User defined settings	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00
Variety of roles	0.06	0.51	0.03	0.82	0.05	0.63	0.42	0.12
Head to head	0.11	0.25	0.14	0.22	0.08	0.43	0.28	0.31
Quickplay	-0.11	0.25	-0.07	0.51	-0.14	0.20	0.22	0.43
Site Feature								
Skill matchmaking	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00
Webcast	-0.05	0.63	-0.01	0.94	0.10	0.35	-0.10	0.71
Chat	0.05	0.57	0.04	0.70	0.13	0.23	0.04	0.89
Asset trading	-0.11	0.24	-0.03	0.79	0.04	0.67	-0.19	0.48
Monetary Reward								
Cash	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00
Site credits	***-0.42***	0.00	***-0.43***	0.00	***-0.47***	0.00	-0.26	0.35
Free subscr to other games	***-0.37***	0.00	***-0.40***	0.00	***-0.34***	0.00	***-0.54***	0.05
Sports tickets	0.00	0.97	-0.08	0.50	0.06	0.55	0.25	0.36
Character Reward								
Sponsorship	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00	***0.00***	0.00
Enhanced char appearance	-0.01	0.94	0.02	0.85	-0.06	0.59	-0.05	0.87
Enhanced character attributes	0.07	0.48	-0.02	0.89	-0.01	0.89	0.10	0.73
Digital assets	0.10	0.29	0.06	0.59	0.13	0.24	0.08	0.76

Table 32: Statistical Significance of Categorized Respondents[106]

6.2.8 Limitations

Although carefully designed, the survey had some inherent limitations. These were:

- In the instance of expenditures on gaming products and ratings for digital distribution, no currency type was mentioned. As expenditures was listed as an open-ended question (users could enter any dollar amount they wanted), this question was open to some exaggerated responses.
- Role-playing games were not listed as an option in game usage but rather was encompassed in the MMP category.

[106] Created by Author.

- Responses for specific sports games rarely added up to the total sports games played, meaning the estimates of respondents were somewhat off.
- The distinction between CD based online computer games and browser based online computer games may not have been clear to individuals.
- The question concerning digital distribution simply listed "assuming a very fast download time" which was up to much interpretation by the respondent.
- Most respondents were from Vancouver and surrounding areas.

6.2.9 Areas for Further Study

With price point acting as such a high decision factor in the bundle ratings, and since respondent preferences have been clearly established here, it would be helpful to repeat the conjoint bundles without price point in order to more effectively measure the other attributes. This could result in a more clear perception in the respondent's mind of their valuation of each bundle without concentrating on price. It could also have increased the significance ratings of the non-price categories.

7 Growing the Online Presence

Building an online community is a sensitive process that must treat the community not simply as a product, but as a home for the individuals who patronize it. This section will discuss ways to nurture and cultivate the community of EA Sports Nation.

7.1 Building the Community

EA feels strongly that their future in the online forum is linked in many ways to building a community or series of communities. The intent is to build relationships and a sense of belonging and to create a network effect on the user base. The more people that participate in the community, the more attractive the community gets. The typical features that draw people to communities are:

- ***Bulletin/Discussion Boards:*** The ability to post online messages and/or files for readers to view and/or reply to.
- ***Chat/Instant Messaging:*** Instant back and forth communication between two users on the computer at the same time.
- ***News and Updates:*** Information on the topic that is of interest to the community.
- ***Reviews:*** Commentary and critique on something relevant to the community.
- ***Feedback loop:*** An opportunity for users to provide suggestions and recommendations to the hosts and users of the web sites.

The larger the community, the greater the value that users can derive from it. There would be a greater number of people to chat with, more information posted, a greater amount of discussion and of course, in the case of EA Sports Nation, more people to play against. The better this can be done, the better the gaming experience will be for its consumers.

Over and above the physical features, there are several other things to keep in mind when building a community. Matt Haughey, principal owner of the online community site, MetaFilter, proposes several building blocks required to create a successful community. These are posed as questions to be addressed by EA when evaluating their role in community development.[107]

Make sure you really want to do this: Is the corporation ready and willing to commit to the resources required to maintain the site on an ongoing basis for as long as it takes? Building an online community requires constant monitoring, upkeep and development. Can and will EA continue to support the site? Will they be able to find others who are willing to develop and support the site? If so, how will they manage external sites?

Have both a compelling idea and compelling content: EA needs to make the site valuable to the consumers. This means both written and visual content of a high quality. Users must be compelled to visit the site and must have a reason to return to the site. What is the differentiator? What is the value proposition to the user? How will it add to EA's ability to sell online games and increase subscriptions?

Seed content sets the stage: In the early stages of the site, it is important to set the tone and the content. The community ultimately drives the site later, but new users must get a sense from the site as to how to use it and how they are expected to act. By setting the initial tone and essentially giving the flavour of how EA would like the site to evolve, it will give new users direction and an appropriate code of conduct. By way of inviting or starting out the site with the right audience, EA will draw and solicit a similar audience in the future.

Create some basic guidelines and be as fair as possible: The community must have rules of conduct. These are the basic guidelines for behaviour that require constant monitoring. Again, remembering that this is a community site, there must be lenience, diplomacy and consistency in the rules and the way that they are applied. The intention is not to rule the site with an iron fist issuing warnings and punishments but rather to create an environment with standards that should be adhered to.

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[107] Matt Haughty, Digital Web Magazine, *Building an Online Community: Just Add Water* [Online], 2003.

Have a place to talk about the site, somewhere on the site: Feedback and suggestion are a great way to improve the site and to continue to develop a meaningful community site. This means having the appropriate methods for the consumers to be able to provide input into the site. This way, EA will be able to uncover the features that consumers are looking for, find bugs in the programs and to get a general sense of the community's satisfaction with the site.

Highlight the good, recognize the work of others: EA needs to recognize those individuals and those behaviours that make the community stronger. Building a community is not something that can be forced and it may be prudent to seek out those who already have the ability to manage a fan site to take on this role. Ultimately, as with middleware, EA has two options that they can follow for building the communities. The first option is to host and develop the communities themselves and the second is to hand over the communities to strategic partners or other external entities. Currently, EA is thinking about the second option by providing SDKs to individuals looking to expand EA Sports Nation into their own customized rooms.

There are still several business issues that EA must consider when collaborating. They need to consider who has the creative freedom over the websites, to determine whether they want a large number of different communities or one main community, to ascertain how revenues will be generated from this and they need to establish what the features the community will have.

Another issue that EA may face is how to make use of the community natural for the end user or even how to wrap the community experience in with the actual game play. In essence, how can EA make playing the game and being part of the community a seamless activity? This is easier done with PC games, in that it is natural for someone who is already on a computer to log into the Internet to communicate with the community, but it is not as easy for someone who is playing on the console version.

It is not enough to just build the community or communities- they need to grow. The larger a community is, the greater the network effect and potentially system lock in. The community is intended to create a sense of belongingness for the user, resulting in a feeling that they are part of something valuable. EA needs to foster this feeling and grow the community while at the same time keep it manageable so that the feel of the community does not disintegrate. Of course, growth also has an effect on available resources and the need for additional hardware and bandwidth.

7.2 Lessons from the Tipping Point

Malcolm Gladwell's *The Tipping Point,* deals with a sort of chaos theory of society where ideas, products, messages and behaviours spread like viruses.[108] Although an ideal application of chaos theory would encompass an infinite number of effects, Gladwell identifies three forces which bring about that one dramatic moment in an epidemic when everything can change at once from the path to obscurity to that of phenomenon. These roles are the Maven, the Connector and the Salesman.

7.2.1 Connector

"And they'll tell two friends, and they'll tell two friends... and so on, and so on" hypothesized a hair product commercial in the late 1970's. Although the concept was tidy and easy to understand, and may even have worked to tip that particular product, in fact the math is far different. Occasionally an individual will come along who, in essence, collects people and therefore their message spreading abilities are far more effective than that of the average Joe. Whereas any potential epidemic limited to "non connectors" would eventually succumb to indifference, laziness or lack of contacts in the process and die out or wallow in mediocrity, those that involve a connector will stand a much greater chance at spreading the message effectively. The book states how the concept of the Six Degrees of Separation, which manages to link every individual to any other individual through a maximum of six relational steps, discovered that most of these six steps involve at least one Connector- a person that several people

[108] Malcolm Gladwell, *The Tipping Point,* (New York: Little Brown and Company, 2002).

know in common, and that have an ability to bring together people relevant to each other.

As mentioned early, citizens are those who often emerge into leader roles in online communities. By expanding leadership roles (GMs, coaches, Commissioners) a short period after launch, EA can harness the input and "connector" qualities of these individuals by allowing those who have gained influence to transition into these new positions of influence. Consultation through chat, email or other means with this group will provide them the information and input they require to pass positive messages on to others.

7.2.2 Maven

The effectiveness of having a large network of contacts would not be as great without someone who uncovers and relays a particular message directly or indirectly to the connector. Mavens are often consumer advocates and are interested in not only seeking out specific information on topics at hand, but are also truly desirous of relaying these messages to others for no personal benefit. This person will remember hearing you show interest in purchasing a particular product, and email you details and pricing information in order to aid your search. In essence, a Maven will communicate any message that interests them, and that they feel would interest others. Because of the *altruistic* motives of the maven, the receivers of the message often give it much more credence than if it was relayed by a party with a vested interest. The greater effectiveness of word of mouth over advertising resides in its unbiased source.

7.2.3 Salesmen

Although Mavens and Connectors are invaluable, the role of salesman can be equally effective when the individual employs positive verbal and physical cues, subtle persuasiveness and an ability to match the recipient of the message in tempo and pace. Although salespeople are not unbiased, their skills lie purely in putting an individual at ease to the extent that they are much more willing and able to receive the message.

7.2.4 *Stickiness*

The secret of stickiness more than often lies in the small details. A perfect example of this was the gold box in the Columbia Records and Tapes record club ads in the 1970s and 80s. The promotion struggled to gain attention before the addition of the gold box, but tipped almost immediately after its addition. The visual and recognizable symbol allowed viewers to easily put themselves in the context of the required action, and rewarded them for being privy to this secret information (an additional free record). The success of the campaign was stellar. Some of the elements of stickiness are;

- Messages will have different effects depending on the context in which it is received
- Show how the message fits or can fit into the life or routine of the message recipient
- Most often minor changes are the most effective
- Clutter inhibits stickiness significantly

So as not to underestimate the importance of context, the "broken window theory" is used. It was found in a study (related in the Tipping Point) that once residents in a neighbourhood see the presence of graffiti, vandalism and vagrancy, the context of the neighbourhood is altered as these acts become an invitation for more of the same, signalling them as almost "acceptable". As this context changes, so does the context of the individual who must decide whether or not to participate in the behaviour. Although most people would not break a window in their neighbourhood, there are those that would, and more importantly, those who could go either way. These fence sitters are the ones who become window breakers when enough vandalism changes the context enough to validate or "accept" the action. This progression beyond the tipping point can often be geometrical, thereby truly becoming an epidemic. This outlines the importance of the context in which the message is received, and the importance of one detail, such as a single broken window.

7.2.5 *Tipping EA Sports Nation*

EA often employs members of street sports teams and influential members of its target audience. This is in essence the use of connectors and mavens to spread the message. The problem is that it is difficult to quickly assess these qualities in individuals. EA Sports Nation will bypass this problem effectively by leveraging the influence of fansites dedicated to certain sports, games and products. Those individuals who dedicate significant time and energy to fansites will likely possess maven qualities, connector qualities or quite possibly both.

Salespeople to promote EA Sports Nation will likely be trained in house, and as such, their role should be focused as it currently is- to bring the message to those that can relay it best. Fansites however enjoy the attributes of mass media combined with a network of people who welcome communication on the topic at hand, and enjoy the benefit of seeming altruistic, just as the efforts of the maven.

The importance therefore lies in the ability to leverage the reach, audience and integrity of fansites to promote EA Sports Nation. The importance of the message is not as great as the way it is delivered, to allow it to fit the context of the recipient as well as possible. It is imperative that EA relay the message of EA Sports Nation through fansites in as positive a way possible and without negatively affecting the context. Many fansite members may have anti corporate tendencies, and EA must make sure not to provide these individuals negative ammunition- after all, one of them may be a maven or a connector. Very simply, the less EA comes across as corporate, the less likely they will be to upset potentially disruptive and powerful forces. The more accepting the message context becomes, the more likely they are to tip others towards being more receptive to these messages.

Free initial membership in EA Sports Nation for a predetermined period may make the difference in appealing to the right people in the right way. EA will enjoy a positive context and influence many who are open to accepting their message and service, as well as encouraging the masses to put themselves in the game.

8 Assessment of the Current Situation

Assessing the current situation serves to summarize the various sections above and then assess EA's market situation relative to those findings. It is essentially a performance indicator and seeks to determine if EA is in a strong, neutral or poor situation at the moment. Measuring current success will only give EA a temporary measure of its success and does not speak to the potential for future success should they maintain the status quo. Therefore, EA's future performance must also be predicted through their existing strategy.

8.1 Expected Macro Scenario

The authors have used the information from this report and have outlined what they feel to be the most likely scenario by the year 2007, when the next generation of consoles have firmly taken root:

Industry growth continues at the current rate with a lower than predicted drop off before the next console release, due to the growing success of online components. By early 2006, the next generation of consoles will have been rolled out completely, and by 2007 the installed base of the Xenon and PS3 are neck and neck in North America and the PS3 leading by a 2-1 ratio overseas. Software sales are rapid as most new releases feature sophisticated online components, and broadband is widespread, especially among the owners of the new generation of consoles.

EA will expand operations and releases for overseas markets and find significant increase in revenues from these sources. The console manufacturers have begun strictly regulating their online content and have established alliances with specific publishers. The console manufacturers will retain online revenues for the most part, and publishers will rely mainly on increased SKU sales.

Due to the backlash of grassroots communities with the uncreative online offerings of the console makers, some form of independent online entity will emerge that finds a way to bypass gatekeeper requirements and grows to significant power and success. In addition, more opportunities will arise for independents as larger publishers such as EA concentrate more on license based products and sequels. Large publishers, in turn, will continue to purchase and brand offshoot development companies to deal in more speculative and edgy ventures.

Figure 12 outlines the overall assessment of the video game publishing industry, and EA's competitiveness within this realm. The label 2003 indicates EA's relative position at this time under current market conditions, and the label 2007 indicates their predicted position in that year under projected market conditions. These positions are shown as assessed by the authors based on the research performed. Although EA's present position is very positive, the following reasons outline why the industry will be moderately less desirable at this time:

- Many large entities such as film distributors enter the video game publishing market.
- A large number of players in the market will result in much content available for console providers to choose from, creating downward pressure on publishing contracts and revenue.
- The emerging value chain of online may cause those without significant online competencies to be at a competitive disadvantage as console makers take greater control.
- An online component will become mandatory and will increase overall costs.
- Market growth is assessed to slow somewhat.
- Development expenses for the next generation of consoles are expected to increase.

The following reasons outline why EA's competitive position is expected to decrease somewhat:

- EA's current online R & D does not guarantee market leadership in the future.
- Sony and Microsoft are expected to push their self published products significantly, creating a competitive disadvantage for current market leaders such as EA.
- EA appears to be hesitant about pursuing online opportunities.

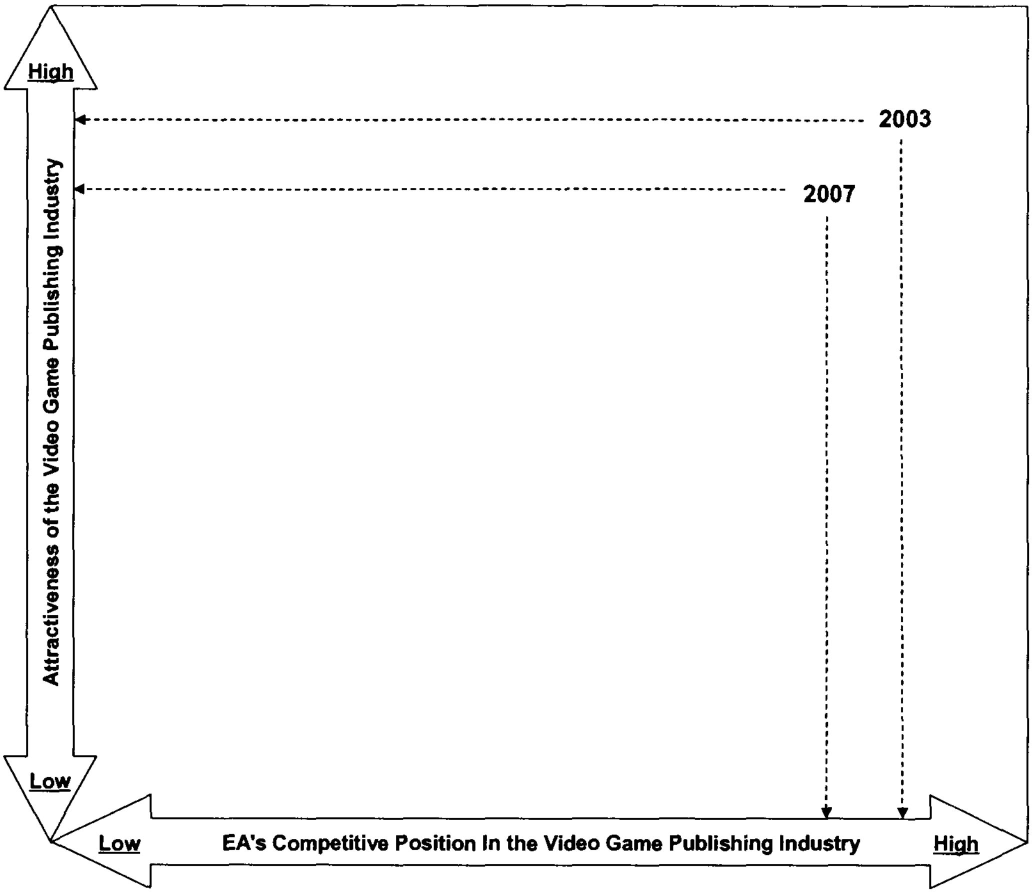

Figure 12: EA's Current and Projected Competitive Position[109]

Figure 13 outlines the *online* video game publishing industry and EA's position within it. EA is currently shown as moderately competitive in a relatively undesirable industry. Although the online gaming market will increase in desirability by 2007, the industry is shown as being only moderately more desirable. The following factors outline why.

- Gatekeepers will likely control most of the revenues as their consoles are mandatory for online console play, thus allowing no one to bypass them.
- Due to precedents set with free online play, customers will be difficult to monetize.
- High online competitiveness will result in the need for constant investment in online development.

[109] Created by Author

The following outlines the reasons why EA's competitiveness in the online gaming market will decrease somewhat.

- EA is highly dependant on sports revenues, and both console manufacturers will be pushing their own online sports networks.
- Many smaller players will have built games online from the ground up, giving them a competitive advantage.
- Online will act as a socializer of sorts, as some smaller developers will find market niches through self publishing.

Our goal is to direct EA towards the upper right hand corner of both of these graphs.

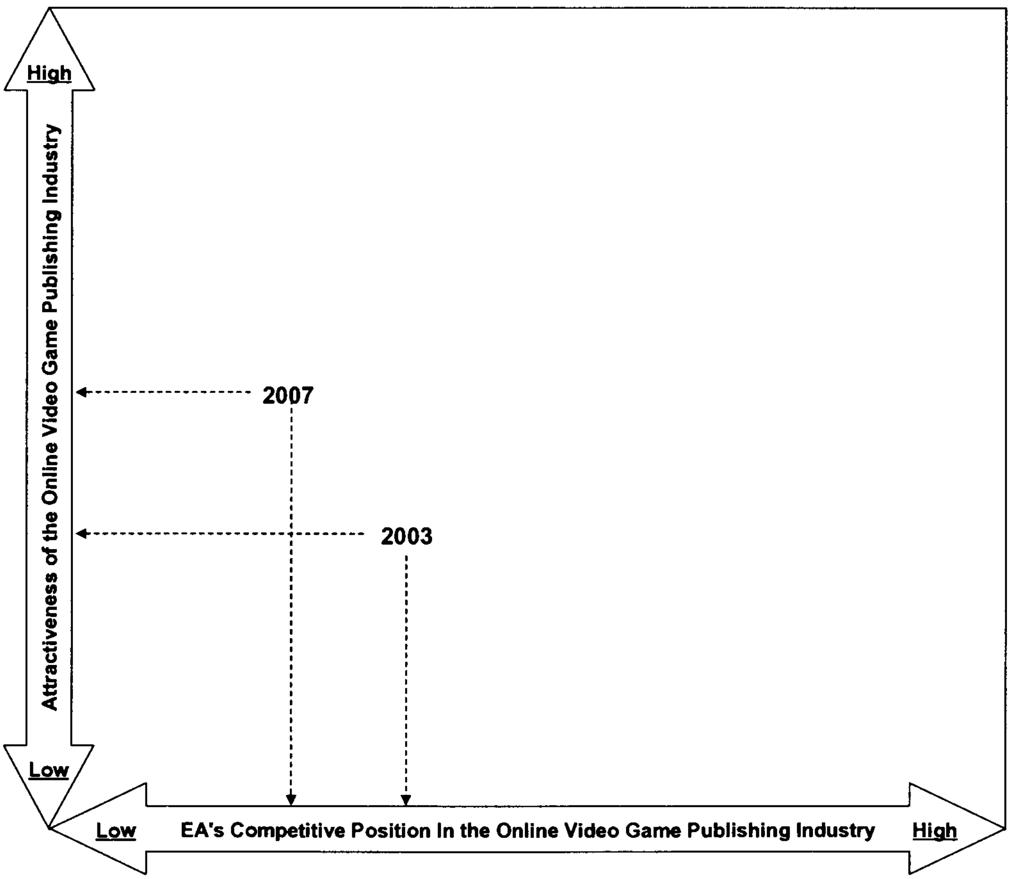

Figure 13: EA's Current and Projected Competitive Position Online[110]

[110] Created by Author

SECTION 3: SOLUTION ANALYSIS AND RECOMMENDATIONS

The results and observations from the administered survey have been combined with a Multi Goal Analysis Matrix to aid in our analysis and to guide our recommendations. By assigning weights to the factors that are integral to EA's overall strategy, we determine which revenue model and strategy in the industry we feel will be most congruent with their overall strategy, and result in the best competitive position for EA.

9 Solution Analysis

The solution analysis section is designed to propose solutions and options for EA Sports Nation. It makes predictive estimates as to the impact that these solutions may have and outlines what is involved for each solution in terms of revenue models and strategic alliances.

9.1 Evaluation Criteria

Through access to internal documents, interviews with key personnel, and an assessment of the stated future goals from the current year's financial statement, the following goals have been assessed as important to EA and EA Sports Nation.

- Increase revenues, profits and share price
- Keep online expenditures low
- Strengthen EA brand(s)
- Establish positive position in online value chain
- Maintain and strengthen existing and new relationships
- Increase sports worldwide market leadership
- Build on IP
- Leverage advantage of online structure and experience
- Attack new opportunities
- Re-establish FIFA as worldwide leader
- Prove online subscription business
- Build on leadership of EA Sports
- Increase EA Sports Nation subscriptions to 5 million by 2007

Due to the highly speculative future of the online gaming industry and the uncertainty of the roles, power and wrath of the resultant gatekeepers in the industry, an additional criterion of "insulating itself from unnecessary risk" has been added and weighted heavily. All of these goals and mandates have been simplified into the following 10 criteria that we use to assess the options of EA. Input was provided on these weightings by key personnel at EA.

Insulation from Unnecessary Risk (15%)

Although seeking out and developing new opportunities is the method of approach for many small independent and flexible companies, a large corporation such as EA must hold in mind the best interests of its shareholders and employees. For this reason the insulation from the uncertainty of swimming far into these treacherous waters of heavy handed gatekeepers and unproven business models has been weighted heavily at 15%. As some risk is also inherent in the score of most of the other goals, this weighting is considered conservative and fair.

Increase Profits (14%)

As a publicly traded company, EA has a heavy reliance on increasing market share, exploiting opportunities and the resulting increase in profits. Profit is the main reason for the existence of any corporation. For this reason, increasing profits has been weighted relatively heavily at 14%.

Sports Leadership (12%)

The sports genre has long been the largest revenue generator in EA's line-up. For this reason the importance of continuing to dominate in sports cannot be understated, and maintaining sports leadership has been weighted at 12%.

Strengthening the Brand(s) (11%)

Any strategy must maintain focus on what will work to strengthen the brand and avoid anything that would weaken it. This goal has been weighted as 11%.

Registered Subscribers of 3 million by 2007 (9%)

EASO has been given a mandate of reaching 3 million subscribers by the year 2007. Although this goal is specifically important to EASO, it is weighted as 9% in its importance to EA.

Low Expenditures (8%)

With the dismal performance of past online sports offerings, EA harbors a need for maintaining low costs in online development. This aspect warrants a weight of 8%.

Maintain and Strengthen Relationships (8%)

As mentioned earlier, the videogame industry is one that is regulated heavily by the console manufacturers. Due to the importance of these and other relationships, combined with the tenuous nature of revenue control, relationship maintenance is given a weighting of 8%.

Position in the Emerging Value Chain (8%)

Significant risk exists if EA does not maneuver its way into an advantageous position in the emerging value chain of online gaming. Online gaming has the potential to allow new or minor players to emerge in major roles in the upcoming business structure and EA should form a strategy for creating as advantageous a niche as possible. This goal is given a weighting of 8%.

Prove Subscription Business (8%)

EA has stated in its recent financial report that one of its short to mid term goals is to prove the subscription business in online gaming. Due to its indefinite present mandate of providing the subscriptions free, the potential for increased box sales and the likelihood of the gatekeepers not allowing revenue sharing on the part of the publishers, this goal has been weighted at 8%.

Attacking New Opportunities (7%)

EA has emerged as the leader in the software gaming industries due to its creativity and ability to grow new areas and genres of business. As the video gaming industry reaches maturity, new markets, business models and opportunities are crucial. This goal is weighted as 7%.

9.2 Strategic Alternatives

From the analysis in this study, the following strategic alternatives have been proposed as potential ways in which to best deal with the developing online sports gaming industry. Each alternative will be briefly discussed before its scores on the multi goal matrix will be assessed.

A prudent overall strategy would undoubtedly be to wait and assess the powers which emerge and their profit sharing proposals and negotiate the best contract(s) possible at that time. Our proposed strategies will however be stated as explicit at this time in reference to specific goals of the future. Although these alternatives are proposed as absolute in terms of their underlying goals for the long term, strategies will undoubtedly change as new developments occur and presence in the value chain evolves. In addition, we encourage a detailed analysis of the potential benefits and detriments of each recommendation, financial or otherwise.

9.2.1 Alternative #1: Continue with Current Strategy

The current strategy involves conservative development of online console sports features at no charge to consumers with the potential for charging for services in the mid to long term future. Due to its current exclusivity with Sony combined with the goal of renegotiating with Microsoft in the future, the current strategy is not absolute in nature, and inherently will involve some overlap into other proposed strategies.

At present, Sports Nation would be exclusive to Sony consoles and would likely be required to adapt to a Sony Central Station infrastructure of the future. With each successive release of EA Online Sports products, the success and failure of certain features would be assessed and fine tuned to what the user values most. The success of these online offerings will be assessed by subscriber base and packaged software sales.

This strategy involves a modest investment in online capabilities and little apparent risk. EA currently holds a leadership role in the sports gaming genre and is likely to maintain this position in the near term. The uncertainty lies in what competitors will release and how much research and development they are currently putting into these products. XSN, 989 online, Sega and sports offerings built as online from the ground up are all question marks in this area. If one of these were to enjoy momentum and success in attracting competitive sports gamers to their sites, a second place finish by EA may be detrimental. It is assumed that with the short term Sony exclusive agreement in place that EA is still leaving its long term options open under this strategy.

9.2.2 Alternative #2: Long Term Exclusive with Sony

A long-term agreement with Sony would move EA one step closer to alienating themselves from Microsoft. This tactic is in essence betting on the winner of the next console wars which is something EA has done remarkably well in past years. If indeed the PS3 were to emerge the dominant platform and "crush" the Xenon, EA would likely be at the mercy of Sony's wishes from that point on, as this would in essence result in a monopoly. At that stage it would be difficult for EA to create an online infrastructure to rival that of Sony Central Station's 989 line-up, and EA may lose access to its EA Sports Nation user base should Sony be in a position to declare ownership of the subscriber list.

Costs would be low under this scenario, as gradual development of the online component would be prudent while the infrastructure of Central Station takes shape. The revenue potential however would likely be low as well. The major risk with this strategy is that the XSN network may develop much more aggressively and deeply for online game play than EA Sports Nation. An online sports network would be a feature in itself more significant than any introduced in the sports video gaming genre to date and if EA were to be viewed by the public as falling far short of a competitor's offering, the damage to the reputation of the company could be severe. Indeed a sophisticated online component may be the factor that "tips" Microsoft into winning the next console war.

9.2.3 Alternative #3: Long Term Exclusive with Microsoft

Although it seems unlikely at this stage, with Sony having announced their own 989 sports network the difference between exclusives with either company has been minimized. Therefore it would be nearly as feasible for EA to renegotiate with Xbox Live in the near future as it would be to stay with Sony and compete with their 989 online sports product. The situation becomes a precarious one in which EA must establish a large enough subscriber base to be pursued by both companies and therefore establish some leverage in the negotiations. This leads us into alternative #4.

9.2.4 Alternative #4: Accelerate Online Investment

Alternative 4 is to accelerate online investment in order to leverage agreements with both Microsoft and Sony. Again, pursuing agreements with both companies is in essence what EA is currently targeting, but this alternative involves establishing an infrastructure strong enough to leverage not only agreements with both companies, but the right to link EA Sports Nation as a separate (but linked) entity from either online network. By ensuring itself autonomy, EA can leverage its own R & D, marketing research, user feedback, alliances and development competencies to separate themselves from all other entities on both Xbox Live and Central Station. In addition they would be able to establish subscription rates which they themselves would retain.

In order to do this, EA would need to increase investment in an overall infrastructure, front end and environment for all proceeding EA Sports releases to adapt to, as opposed to the current system of online enabling each individual game as it is released. This scenario involves considerable risk, and costs would increase initially, but would reduce costs in the long term. If such autonomy was attained, EA would be in a position to offer a more advanced product than either XSN or 989, and thereby provide itself an opportunity to far surpass all other offerings in both packaged sales and memberships. EA would be able to publicly declare that their goal was to unite play across both platforms in order to establish a true global sporting network, thereby affirming their commitment to the gaming community.

Under this strategy EA would demand not only the autonomy desired, but also that no other sports offering (other than XSN or 989) would be allowed the same freedom on either platform. If either Sony or Microsoft were to retaliate and eliminate EA from their game line-ups, they would undoubtedly lose not only large amounts of revenue, but also provide the other with a powerful advantage which they could use to cripple the other.

It should be noted that with a potential closed fisted approach by Microsoft and Sony, the possibility for Nintendo or some other console manufacturer to emerge as a forceful competitor becomes a distinct possibility. By allowing more freedom for content providers to offer creative online game play, a competitor may attract top quality developers. Although it seems unlikely that any other entity could strong arm Sony or Microsoft at this point, it must be kept in mind that the consoles only succeed because of their game lineup. If any of the larger players were threatened via a boycott by the top content providers (a risky situation for all parties indeed), they would likely come to a quick compromise or go out of production.

9.2.5 *Other Alternatives*

Reduce Online Investment

As can be seen in recent sales, some versions of Sega sports games actually outsold that of EA's. In most of these instances, the Sega product offered an online component, while the EA product did not. For this reason and because EA has already announced the launch of EA Sports Nation, this scenario seems unlikely, and as such will not be assessed.

Begin Charging Immediately for Online Gaming on Central Station

If EA feels the features of their upcoming online releases warrant a subscription fee, they may look to initiate this immediately. With the low subscriber rates of the last online sports offering by EA, this alternative seems premature at the present time. Barebones feature sets and an early attempt at monetizing the market may result in consumer backlash, and/or a tarnishing of the EA brand name. For these reasons, this alternative will not be assessed.

9.3 Evaluation of Alternatives

The following matrix outlines the goals of EA weighted with a percentage assessed with the participation of EA online executives. All of the percentages totaled add up to 100%. The scores in each category have been attained by an application of the material in this report- in particular the value chain, Five Forces Analyses and survey findings. The effect of each strategy on each of the goals in the matrix has been rated between 1 and 10, with 10 being the most favorable. The total weight adjusted scores are shown in the last column.

Multi Goal Matrix	Insulation from Risk	Increase Profits	Sports Leadership	Strengthen brand(s)	Subscriptions of 3 mm	Low Cost	Relationships	Value chain	Prove Subscription Business	New Opportunities	Weighted Score
Weight	15%	14%	12%	11%	9%	8%	8%	8%	8%	7%	100%
Current Strategy	8	5	6	6	5	7	8	6	7	8	6.53
Partner Exclusively with Sony	6	4	5	5	4	8	6	4	6	6	5.31
Partner Exclusively with Microsoft	4	3	4	5	3	8	6	4	6	6	4.66
Increase Online Investment and Pursue Agreements with Both	2	8	10	10	10	2	4	9	9	10	7.24

Table 33: Multi-Goal Matrix Values[111]

Although the scores and weights are subjective, the matrix outlines how each strategy fulfills each specific need of EA. As can be seen from Table 33, targeting exclusives with either Microsoft or Sony ranks lower than the other strategies. The current strategy ranks quite high, but alternative #4 nets a higher score yet. This strategy fulfills the needs of sports leadership, strengthening the brand, high subscriptions, value chain status, proving subscription business and attacking new opportunities. It however will be more costly (in the short term), potentially strain relationships and expose EA to risk.

[111] Created by Author

10 Strategic Recommendation

Given the preceding analysis, we recommend the following overall business strategy as well as several tactical recommendations (see Chapter 11) for the development of EA Sports Nation.

Alternative #4: Accelerate Online Investment to Leverage Agreements with Both Microsoft and Sony

Referring to the result of our multi-goal matrix, we recommend accelerating online investment and creating a consistent online infrastructure for all proceeding games to adapt to. This strategy nets the highest score on the matrix, and the following reasons are given to support the importance of emerging definitively as the online sports leader.

- Unique hybrid of session based and MMPs as well as targeting a different market than MMPs suggests existing markets will not be severely cannibalized.
- Success in establishing the number one sports networks will have a geometric effect on boxed unit sales propelling EA Sports titles even higher in market dominance.
- By developing a superior infrastructure to that of Sony Central Station or Xbox Live, they would garner large profits from the boxed sales alone.
- Creating this online infrastructure would be EA's best chance of attaining a significant position in the emerging online value chain.
- As console usage is expected to grow more than PC gaming, the profit and potential for sports gaming increases dramatically.
- Since sports games are easily substitutable, consumers must not be given a reason to sample other company's wares.
- Broadband adoption is extremely high among console gamers and as such online gaming will become an important part of their game play.

Already a leader in the sports genre, EA needs to ensure that it transitions their winning formula to the online forum- otherwise; they will risk losing an opportunity to create and establish a premier sporting network of their own, and witness a decrease in packaged sales. EA's current conservative strategy is too focused on online enabling each individual game rather than creating a consistent infrastructure for each upcoming title to adapt to. A consistent front end for the user will not only help EA strengthen their online brand, but creates a smooth and easy transition for the users to sample the full spectrum of sports games available. Having an aggressive strategy in place can pre-empt anyone else from upsetting EA's sports stronghold.

Should EA continue its exclusive agreement with Sony, the likelihood of Sony emerging as an even more dominant platform increases. Should this be the case, and Microsoft eventually ceases production of the Xbox, Sony would enjoy a virtual monopoly and be in an immensely powerful position to force its demands on EA. It is imperative that a relatively strong force remain in the industry to ensure the fairness of contracts and online revenue distribution.

11 Tactical Recommendations and Implementation

11.1 Tactical Recommendations

The following recommendations are outlined to support the emergence of a sophisticated online sporting infrastructure that will fulfill user needs and warrant eventual monetization of the market.

11.1.1 Revenue Model

Charging fees for online sporting services will be met with resistance. Expectations have already been set for providing, at the very least, a free basic online component for a purchased game. This expectation does not necessarily hold true for genres such as MMPs since each title is unique in terms of environment and playability. Moreover, the MMP world continues to grow in the absence of the user, which in itself could be seen as justification for a fee being charged.

For sport games, each release is often both a cosmetic improvement over the previous year's game and an overall improvement in realism. It may be seen by many users that online gaming is a natural feature progression to increase the realism and competition desired in this genre of gaming. Since it is a natural progression, then it should be a free component included in the game. To counter this expectation, EA should consider a tiered pricing approach that could be implemented in one of two ways.

a) **Multiple subscription option**: When features and environment warrant a conversion to subscription rates, multi-tiered membership options would again allow free play, while monetizing those willing to pay for extended services. This will allow them to again force the consumer to evaluate for themselves the value of the different feature sets. In addition, EA would be insulated from scrutiny on fan and community sites since they would still be offering the ability to compete in the leagues at no charge.

The multiple subscription options could include a bundling of sports games. For example, $15 per month gets the user unlimited access to 5 games, whereas $20 per month allows access to 10 games. This is similar to cable bundling, and the risk is low for EA while the benefit is high for the user. Users would likely concentrate on only 1 or 2 specific games, but would be given the option of using the others- a clear value proposition which comes at no cost to EA. Memberships could be touted as high for all games while support costs would be low since usage would be spread out over many games, or concentrated on just a few games. This could in turn serve to lengthen out the consumer usage cycle before boredom sets in.

b) **Micropayments**: Since free game play would be offered, only those with a propensity to spend would be motivated to purchase digital assets and enhancements rather than earn them through performance or participation. The existence of a secondary cash market for digital assets on Ebay and other forums suggests that cash payment for these assets is indeed a viable option. This in turn would provide EA with a database of those likely to pay for services, allowing them feedback and multiple opportunities to monetize the users. At the same time there would be no consumer backlash as the basic service would be free.

11.1.2 Recruit Expert Gamers

With their past use of influential school kids and street athletes for promoting their product, EA is aware of how to best get their message conveyed by those with influence. In this vein, it is recommended that EA seek out the best sports gamers and entice them to play competitively in the league. For a sports league to succeed, winning and losing has to matter- for winning to matter, the competition has to be fierce. With a league structure, the goal of every serious player will be to advance to the top division and be able to play against the best. The league with the reputation for having the best players will be the league of choice for the majority of sports gamers.

11.1.3 Create Celebrities

Lessons from The Tipping Point show us that small details can make the difference in transitioning an entity from obscurity to mass popularity. By taking a PR role in tournaments and online participation, EA can aid in associating personalities and "buzz" with its online offering. Sponsorship from such companies as Nike would be in essence free rewards provided to top participants, and the celebrity that goes with it could draw millions looking to participate in the journey to the top of the ladder. Although professional gamers do exist today, their status hardly replicates the mass celebrity of national and global sports stars. We believe this untapped potential is something that EA Sports Nation could exploit- status that many would vie for. After all, the objective is to simulate the real sports world as closely as possible.

11.1.4 Ensure Integrity of Game Sessions

The two major concerns of sports gamers to do with online competition are players dropping out mid game (and other forms of cheating) and unstable service. Both of these concerns relate to the importance of an uninterrupted match. As mentioned in a previous recommendation, an absolute winner and loser are integral for users to take the sports league seriously. It is recommended that EA concentrate on allaying these two concerns; stopping cheaters and stabilizing game play. Although there are other attributes of an online gaming site which are important, little is as important as maintaining the integrity of the purpose of the league. Success in sports gaming is based on skill, and if cheaters were to win then there is in essence no competition at all.

11.1.5 Emulate Real Life Competition

We recommend that extreme effort must be made to emulate the rewards, trials and tribulations of real life competition. Simple features of an online sports network can create a richer experience for the user; being traded, working through the minors until being called up to the major leagues, being awarded sponsorship and the fame and money that goes with it. If developed, these features and others would allow the user to compete in a true fantasy league where he or she was master of their own destiny and the rewards come at the cost of hard work and competition. In many ways, this is a competitive extension of the intrinsic rewards that keep MMP players "stuck" to a particular game.

Users would also not readily be willing to abandon their character, its assets or status and ranking in the league.

11.1.6 Extensive Statistics

As shown in the results of our gaming survey, sports enthusiasts in general and sports gamers in particular understand and enjoy the relevance of statistics. We recommend that users be provided access to many forms of statistics, standings and rosters, with a sophisticated database allowing the ability to access and sort many forms of statistics of not only the sports network, but those automatically downloaded and updated from the real sports world. This may prompt the user to tune into the EA Sports Nation for reasons other than simply gaming, and in essence propel it one step further towards becoming a one stop sporting network. EA's notion of sharing their API (and providing an SDK) to grassroots communities and other interested parties is a step in the right direction for the sharing of data and statistics.

11.1.7 Persistent World Expertise

In order to fully understand what is required to provide a product eventually worth $10 per month to millions of customers, an expert in persistent state world design should be enlisted. It is a mistake to think that what is being created is an extension of sports offerings; rather it is the creation of a persistent sports world. EA has had great experimentation in the MMP arena- including the groundbreaking Ultima Online- and must not make the mistake of leaving out the key elements that keep those dedicated users returning for more.

11.1.8 Localize Wherever Possible

Although all sports games will not translate equally well in global appeal, sports such as hockey and soccer will find eager participants from many countries. As witnessed in EA's increased global revenues last year, simple localization of text, arenas and teams could lead to significant returns on investment dollars.

11.1.9 PC vs. Console Development

As a softer recommendation, EA should keep in mind when developing sports games for the console or the PC that they are very distinctly different audiences with unique characteristics. The console typically caters to the sporting audience with a much larger percentage of users on consoles than PCs. Both our primary and secondary research support this result and clearly point towards the need to differentiate between the audiences. PC gamers prefer the social aspect of computer gaming whereas the console is more action oriented. Overall, when developing a sports game, EA needs to focus heavily on the console.

11.2 Secondary Recommendations

The following are less sports specific, but rather recommendations for EA as a whole.

11.2.1 Digital Distribution

Although the advent of digital distribution is thought to be far in the future with regards to the maximum speed currently available for internet connections, we recommend that EA investigate Valve's new Steam distribution system for an upcoming PC release as a low risk test for the viability of this model. As mentioned earlier, Steam boasts that it can get most gamers up and running within a 5 minute download, with additional material being downloaded during game play. The results of our survey showed users would be very willing to purchase digitally distributed games for a modest reduction in price (suggested $10 US). With its online presence and e-commerce website, EA is in a perfect position to investigate the feasibility of this venture, and the possibility of retaining a greater portion of the profits through the elimination of the manufacturing and retail portions of the value chain.

11.2.2 Stronger Internal Communication

EA Sports Online may need to communicate more effectively with marketing and other departments to ensure that all parties are working towards the same goal. The current promotion online of EA Sports Nation is subtle at best. In addition, the EA Sports website attracts its core target audience and in essence pre qualifies its visitors. With such access to their target market, more effort should be made to promote the online component to these potential consumers.

11.3 Risks

Even though they are currently in a strong market position, EA, like any other corporation, is subject to several market risks. Whereas not every risk can be mitigated ahead of time, being aware of potential negative scenarios can allow EA to prepare as best they can and maintain their ranking as industry leader. External and internal factors can lead to revenue loss, loss in market power or, in the worst case, extinction. The key to success is to be flexible in their strategy, to have the ability to adapt to new challenges and to experiment with options to see what works best.

11.3.1 High Expenditures

In reference to our strategic recommendation, EA may believe it is at risk of over investment. The online world is relatively new and the ultimate direction that the market will take is still unknown. Our recommendation to move forward and develop an integrated online presence for their Online Sports games requires a significant amount of monetary and human resources. Should EA accelerate the development of their online sports presence, they are moving forward with a yet unproven strategy. This may work in their favour but at the same time they may not necessarily be delving into a market that will provide sufficient returns, particularly in the short term. EA is faced with the internal challenge of having to show almost immediate returns for their campaign. Given this internal pressure, they may not be given the necessary time that it takes to build their online presence. As discussed earlier, the majority of the budget and marketing goes to proven entities.

A venture such as this will be an investment for future security and will likely not have strong initial returns. Careful budgeting of costs for individually online enabling each game vs. the development of a standard online infrastructure should be performed to assess the variance in projected expenditures. It is the prediction of the authors that in the long term costs would be lower with a greater initial investment.

11.3.2 Exponential Curve of Death

In *Developing Online Games: An Insider's Guide, Mulligan and Patrovsky* outline the difficulties presented when player's path to progression becomes increasingly time consuming.[112] We list these issues along with a brief mitigation factor.

- **Players come to resent the game and staff.** Familiarity breeds contempt. Mitigated by access to several sports types.
- **Hard- core gamers devour faster and demand more.** They will always devote extreme efforts to master a game, and may burn themselves out in the process if it is too difficult. Mitigated by league play.
- **Casual gamers feel they cannot compete.** If it seems too difficult to ever compete effectively, some players may just exit. Mitigated by divisional league play.
- **Your game narrows.** Goals narrow and rewards are far and few between. Mitigated by a variety of roles.
- **Bandwidth cost goes through the roof.** Although participation is encouraged, if the game demands extreme commitment, overhead costs may increase beyond what is tolerable. Mitigated by scheduled games and league play.

11.3.3 Distribution Disruption

As EA currently enjoys a competitive advantage through its distribution competencies, a disruption in this may eliminate one of its strengths in the publishing industry. As the onslaught of online gaming seems inevitable, EA must ascertain ways in which to parlay their current distribution strengths into the online market. As mentioned previously, establishing a strong position in the emerging online value chain is a necessity.

11.3.4 Gatekeeper Backlash

Should Sony take the same adamant position as Microsoft in retaining all or the majority of the online revenues of their respective networks, they may collude in order to strong arm EA into backing down from its mandate to establish

[112] Jessica Mulligan and Bridgette Patrovsky, *Developing Online Games: An Insider's Guide,* (Indiana: New Riders Publishing, 2003), 334-335.

an independent infrastructure and retain its own revenues. Although collusion is illegal, and would likely not benefit either party significantly, it still is a possibility that EA must prepare for. The options of EA under this scenario are limited and may result in giving in to the pressures of the gatekeepers.

12 Conclusion

EA is at a pivotal point in time. A new technological component has entered the gaming market which has forced many players to assess how it will fully evolve and shape the market. There have been many successful online games to date but what has made one more popular over another is unclear. We believe if done right, EA Sports Nation has the potential to propel EA Sports far ahead of its competition.

The current strategy at EA Sports is to individually online enable each EA Sports title. This is currently a very basic function but will hopefully change to that of the vision of EA Sports Nation. Players will interact in persistent state sports worlds where their roles and stature can grow as their experience grows.

EA's goals and visions are not met without resistance; gatekeepers such as Microsoft and Sony have their own view of the future of online gaming and it appears as if they may want to write the rules and keep the money. EA must create a situation that fulfills its own needs, as well as that of the console providers. With the new generation of consoles only a few years away, broadband on the increase, the availability of middleware providers and the promises of digital distribution, EA must join the foray in the soundest way possible. It is the recommendation of the author's that EA accelerate their current online investment with the goal of creating a standardized infrastructure in order to leverage agreements with both Microsoft and Sony.

This paper identified several aspects of the market that EA should be aware of as well as several potential areas for exploration and study. The conjoint study and survey performed are strong tools for EA to utilize in measuring consumer behaviour and user preferences and the findings should be relevant to EA for outlining future goals. The study of analogous industries has shown the importance of a stable infrastructure for secure the longevity of any industry.

As a whole, we hope that this paper will serve as a template for future direction and growth and provides value to EA Sports.

APPENDIX A: GLOSSARY OF TERMS

Action Games: Games in which the character responds directly in response to a user action through the controller. Typical actions include, jump, kick, punch, movement, etc.

API: The Application Program Interface (API) is the series of routines and protocols made available for one application to interface with another application.

Character Appearance: The physical appearance of a playable character. Appearance features include; hair colour, weight, height, clothes, race, gender, etc.

Character Attributes: The skills and abilities which are used to compose a character. These include attributes such as speed, strength, endurance, wisdom, magical powers, etc.

Console: The hardware dedicated to playing video games and enables the software.

Digital Assets: "Virtual" secondary objects for use, play and ownership in a game. Examples include: swords, shoes, coins, clothes, etc.

Distributed Computing: The process of using idle computers linked together (usually through networking) to increase the CPU speed of a single processor.

Fansites: Web pages that have been created by users who have a certain dedication to a video game, console, sport or other interest.

First Person Shooter: Video game in which the viewing perspective if from that of the electronic main character. Typically the game focuses around shooting and solving the storyline.

Game Genre: The category or classification of a game. Categories can include, fighting, strategy, first person shooter, RPG, etc.

Gamer: Someone who plays video games.

Hardcore Gamer: A gamer who plays 20 or more hours of non puzzle/card videogames per week.

Massively Multi-Player (MMPs): are those games in which thousands of players can simultaneously inhabit a certain arena and interact and participate with others to almost any degree they desire. These worlds are persistent and it continues to exist even if a user does not inhabit it.

Middleware: The enabling technology between two applications allowing the electronic exchange of data between two objects

Multi-player: Ability to play a game with two or more players simultaneously.

Next Generation: The newest release of a console.

Persistence: The ability for a game environment to exist whether or not a player is engaged in it.

PS2: The PlayStation 2 game console

PSX: The PlayStation game console

Role Playing Game (RPG): Games in which a player assumes the role of a character that continues to change and grow over time. The character's statistics are both viewable and can be increased and improved through game play which is most often menu based. The typical example is Dungeons and Dragons

Software Developer Kit (SDK): A software package which allows users to create their own content within the overall gaming environment.

Strategy Game: A strategic game in which the user takes control of multiple characters/weapons/locations at the same time and plays/guides them through a grid turn based playing field.

APPENDIX B: SURVEY

The purpose of this survey is to determine the best environment for online video game play. If you play video games and are 18 or older, we would greatly appreciate you filling out this survey. Please fill out the entire survey- it should only take only about 10 - 15 minutes. If you know any gamers who could spare a few minutes, we'd love to hear what they have to say, so please pass this link on.
Although we know it will be hard to resist- please, only one survey per person.

1. How many average hours per week (over the last year) did you spend on the following types of videogames?

Sports
Racing
Fighting
Massively Multiplayer
First Person Shooter
Puzzle/Card

2. How many average hours per week (over the last year) did you spend playing each of these types of sports video games?

Golf
Hockey
Football
Basketball
Soccer
Baseball
Tennis

3. How many average hours per week (over the last year) did you spend playing video games in each category?

CD based online computer
Browser based online computer
Online PS2
Online Xbox
Computer (not online)
PS2 (not online)
Xbox (not online)
Gamecube
Cell Phone

4. How many average hours per week do you think you will spend playing games in each category in the next year?

CD based online computer
Web based online computer
Online PS2
Online Xbox
Online cell phone
Any online sports

5. How many average hours per week (over the last year) did you spend on each of these activities?

Email
Surfing
Instant Messaging
Downloading
E-commerce
Surfing with TV on
Watching sports on TV

6. How much would you say you spend on the following? No dollar signs or decimals please- just digits.

Gaming hardware in past year
Computer gaming software in past year
Console gaming software in past year
Computer online gaming subscriptions in past year
Console online gaming subscriptions in past year
All PC online gaming subscriptions in the next year
All PS2 online gaming subscriptions in the next year
All Xbox online gaming subscriptions in the next year

In this section we are going to give you some sample "bundles" of an online gaming network, using various attributes. This is a somewhat painful procedure where you give a rating from 1 -10 (10 being the highest) based on how you rate the appeal of the proposed online environment. They all start to look kind of similar but please just rate them on its immediate appeal to you- each decision should not take more than a few seconds.
Please assume that the type of league is based on your favorite video sports game.
Each bundle is described by:

a) subscription fee
b) setup options
c) game site feature
d) "monetary" reward for performance or usage
e) character enhancements or benefits based on performance or ranking

7.
$5 US per month
Head to head and practice modes
Skill matchmaking
Monetary reward- sports tickets
Status reward- enhanced character appearance

8.
One year subscription purchased extra with game for $10
Quick play
Chat capabilities
Monetary reward- site credits
Status reward- sponsorship by brand name company

9.
$10 US per month
User defined settings
Digital Asset trading
Monetary reward- sports tickets

Status reward- sponsorship by brand name company

10.
$15 US per month
User defined settings
Digital Asset trading
Monetary reward- subscriptions to other games
Status reward- enhanced character appearance

11.
Credits (10 hrs for $2)
Quick play
Digital Asset trading
Monetary reward- subscriptions to other games
Status reward- enhanced character skills

12.
Credits (10 hrs for $3)
Quick play
Chat capabilities
Monetary reward- cash
Status reward- enhanced character appearance

13.
$10 US per month
Variety of roles (refs, coaches etc)
Chat capabilities
Monetary reward- subscriptions to other games
Status reward- enhanced character appearance

14.
Credits (10 hrs for $3)
Variety of roles (refs, coaches etc)
Skill matchmaking
Monetary reward- subscriptions to other games
Status reward- digital assets

We told you they looked similar...

15.
Credits (10 hrs for $3)
User defined settings
Webcasting and highlight reels
Monetary reward- sports tickets
Status reward- enhanced character skills

16.
One year subscription purchased extra with game for $10
User defined settings
Webcasting and highlight reels
Monetary reward- subscriptions to other games
Status reward- digital assets

17.
Free
Quick play

Digital Asset trading
Monetary reward- sports tickets
Status reward- digital assets

18.
$5 US per month
User defined settings
Chat capabilities
Monetary reward- site credits
Status reward- digital assets

19.
$15 US per month
Variety of roles (refs, coaches etc)
Chat capabilities
Monetary reward- sports tickets
Status reward- sponsorship by brand name company

20.
$5 US per month
Variety of roles (refs, coaches etc)
Digital Asset trading
Monetary reward- cash
Status reward- enhanced character skills

21.
Credits (10 hrs for $2)
Variety of roles (refs, coaches etc)
Webcasting and highlight reels
Monetary reward- cash
Status reward- sponsorship by brand name company

22.
Credits (10 hrs for $2)
User defined settings
Skill matchmaking
Monetary reward- site credits
Status reward- enhanced character appearance

That's half of them! Did we mention we really appreciate this?

23.
$10 US per month
Quick play
Skill matchmaking
Monetary reward- cash
Status reward- digital assets

24.
Free
Variety of roles (refs, coaches etc)
Webcasting and highlight reels
Monetary reward- site credits
Status reward- enhanced character appearance

25.

Free
Head to head and practice modes
Chat capabilities
Monetary reward- subscriptions to other games
Status reward- enhanced character skills

26.
$5 US per month
Quick play
Webcasting and highlight reels
Monetary reward- subscriptions to other games
Status reward- sponsorship by brand name company

27.
One year subscription purchased extra with game for $20
Head to head and practice modes
Skill matchmaking
Monetary reward- subscriptions to other games
Status reward- sponsorship by brand name company

28.
Credits (10 hrs for $3)
Head to head and practice modes
Digital Asset trading
Monetary reward- site credits
Status reward- sponsorship by brand name company

29.
Free
User defined settings
Skill matchmaking
Monetary reward- cash
Status reward- sponsorship by brand name company

30.
One year subscription purchased extra with game for $20
User defined settings
Chat capabilities
Monetary reward- cash
Status reward- enhanced character skills

Just one more set...

31. $15 US per month
Quick play
Skill matchmaking
Monetary reward- site credits
Status reward- enhanced character skills

32.
One year subscription purchased extra with game for $10
Variety of roles (refs, coaches etc)
Skill matchmaking
Monetary reward- sports tickets
Status reward- enhanced character skills

33.
One year subscription purchased extra with game for $20
Variety of roles (refs, coaches etc)
Digital Asset trading
Monetary reward- site credits
Status reward- digital assets

34.
$15 US per month
Head to head and practice modes
Webcasting and highlight reels
Monetary reward- cash
Status reward- digital assets

35.
One year subscription purchased extra with game for $10
Head to head and practice modes
Digital Asset trading
Monetary reward- cash
Status reward- enhanced character appearance

36.
One year subscription purchased extra with game for $20
Quick play
Webcasting and highlight reels
Monetary reward- sports tickets
Status reward- enhanced character appearance

37.
$10 US per month
Head to head and practice modes
Webcasting and highlight reels
Monetary reward- site credits
Status reward- enhanced character skills

38.
Credits (10 hrs for $2)
Head to head and practice modes
Chat capabilities
Monetary reward- sports tickets
Status reward- digital assets

Bingo, you're a superstar- pat yourself on the back. For these questions please choose the answer that best applies to you. These are the last questions. We promise.

39. What currently prevents you from playing online games? Please check any relevant responses.

Cost
Low bandwidth or speed
Complexity
Lack of quality games
Does not appeal to me
Other (please specify)

40. If you play online games, what appeals to you about the experience? Please check any relevant responses.

Meeting new people
Multiplayer competition
High competition
Organized play
Persistant state worlds
Fantasy/escape
Technology aspect
Playing with friends not geographically close
Other (please specify)

41. If you have any online gaming subscriptions, which ones?

Tiger Woods
Sims Online Lineage
Star Wars Galaxies
NBA Live
Madden
Everquest
Dark Age of Camelot
NHL
Ultima
Other (please specify)

42. What factors do or would contribute to any dissatisfaction you may experience playing online? Please check any relevant responses.

Limited features/services
Unstable service
Cheaters/deadbeats
Opponents dropping out mid game
Low competition
High competition
Other (please specify)

43. What statistical feature of an online sports video gaming league would you find most important? Please check any relevant responses.

Viewing stats on the web
Viewing stats on your cell phone
Detailed year by year user stats
Detailed leader board
Downloadable rosters
Other (please specify)

44. If you participated in any type of organized video game league last year, which best describes your participation?

Somewhat organized video game leagues
Organized video game leagues
Somewhat organized sports video game leagues
Organized sports video game leagues
Did not participate

45. Which best describes the type of league play of an online sports video gaming league you would most want to participate in?

Choice of casual or league play
League play by community
Global (or National) league play
Blending amateur and professional league play
Two separate leagues- amateur and professional
Would not appeal to me

46. If you were to participate in an online sports league which would you most likely to do in the long run as part of this organization.

Play mostly as a free agent
Form a team with local friends
Form a team with out of town friends
Join a team of people you don't know
Join and change teams over time
Would not be interested

47. Assuming a very fast download time, would you be interested in purchasing downloadable games instead of packaged games?

For $10 more than the packaged version
At the same price
If the price was $10 less than the packaged version
If the price was $20 less than the packaged version

48. When do you think you will have broadband connection at home?

Already have it
Within 1 year
Within 2 years
Over 2 years

49. Please put yourself in one category.

18-25 Male
26-35 Male
Over 35 Male
18-25 Female
26-35 Female
Over 35 Female

These last ones aren't so much questions as opportunities for you to give us some feedback. Thanks again. Don't worry- neither your name nor email address will be shown, given, sold or rented to anyone. Thanks again! We will be drawing the winners on July 31st.

50. Name and Email address

51. How were you referred to this survey?

Friend
Goldeneye Forever website
SFU computing student
SFU engineering student

SFU MOT student
CFOX website
Other

52. Where are you? We have only listed some of the main online gaming areas, so don't be insulted if this list is pretty limited.

Canada
United States
Asia
Europe
Other (please specify)

53. Any additional comments or feedback?

APPENDIX C: ETHICS APPROVAL

FOR CONTACT IN REFERENCE TO THIS REVIEW

Page 1

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Reference Ethics Policy 20.02: http://www.sfu.ca/policies/research/r20-01revised.htm

Notification of Application Status

Code
35401

Investigator Name Last
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Investigator Department
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Investigator Name First
Waleed

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Experiment Title
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Medical Review
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Co-Investigator
Ken Nielsen

Grant Title for funding agency

Grant Funding Agency

Grant Start Date

Grant End Date

Risk	ORE Approval	Approval Date	Amendment	Date
Minimal	Approved	07/04/2003		

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Mr. El-Ramly,
Your application has been categorized as 'minimal risk" and approved by the Director, Office of Research Ethics, on behalf of the Research Ethics Board in accordance with University policy R20.0, www.sfu.ca/policies/research/r20-01.htm. The Board reviews and may amend decisions made independently by the Director, Chair or Deputy Chair, at their regular monthly meetings.

You should get a letter shortly

Good luck with the project
Hal Weinberg

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