

# Chapter 10

## Video Game Consoles: Evolution of Leader and Followers' Positions

### ABSTRACT

*This chapter introduces the main market trends of the video game sector and analyzes the mutations of this industry. Video game sector is characterized by very high network externalities, a lock-in phenomenon, and the increasing technological complexity of consoles, which are also subject to cycles, a structural increase in game development costs, and the predominance of strategic marketing. Since the beginning of the century, this industry has witnessed major developments: the arrival of Microsoft in 2001 onto the game console segment, a growing interest of game publishers in other platforms, the dramatic growth of new platforms (mobile terminals), and the rapid development of online and downloadable games. In addition, this chapter addresses some of the most important issues in the field of strategic management: value chains and business models. These concepts are applied to the video game industry in the context of competitive intensity and modification of market structures.*

### INTRODUCTION

Since the end of the 1990s, the video game sector (games and consoles) has become a full-fledged component of the entertainment industry, in the same way as film and music. The home console market is today a mass market and video games are today considered a pillar of the entertainment industry, along with films and music. Since 2002, states IDATE, the turnover of the video game market has surpassed that of film ticket sales, which confirms its progressive and effective industry into the entertainment market.

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This sector is characterized by very high network externalities, a lock-in phenomenon, and the increasing technological complexity of consoles which are also subject to cycles, a structural increase in game development costs and the predominance of strategic marketing.

Since the beginning of the century, this industry has witnessed major developments: the arrival of Microsoft in 2001 onto the game console segment, which was already occupied by the two Japanese firms that are Sony and Nintendo, a growing interest of game publishers in other platforms, the dramatic growth of new platforms (mobile

terminals) and the rapid development of online and downloadable games. All of these elements have a fundamental impact on the value chain and on the strategies of both the established players and the newcomers in the context of competitive intensity and modification of market structures.

This chapter introduces the main market trends of the video game sector (section 1). Section 2 analyzes the mutations of the video game sector. Section 3 addresses some of the most important issues in the field of strategic management: value chains and business models. These concepts are applied to the video games industry.

## **THE VIDEO GAME SECTOR: MARKET TRENDS**

The home console market is today a mass market and video games are today considered a pillar of the entertainment industry, along with films and music. The video game market is globalized and is extremely competitive.

### **A Growing Share of the Entertainment Industry**

#### **Market Segmentation**

The global market can be divided into several different segments based on the fundamental split between hardware and software.

#### *Hardware*

Video games use several platforms: Home consoles appeared during the late 1970s in the United States. They are subject to regular technical overhauls at each new cycle and new consoles (which now integrate hard disks, DVD players, high-speed Internet connections etc.) are technologically comparable to personal computers. Handheld consoles, created by Nintendo during the late 1980s, address a

rather younger age group. Personal computers are versatile machines which are not just dedicated to gaming. They are nonetheless a serious competitor for consoles on account of their performance and their level of integration in households. Arcade machines, present in video arcades (and in bars) have existed since the 1970s. This list is regularly updated, notably with the appearance of games on mobile platforms (Smartphones/tablets).

#### *Software*

Until Sony's PlayStation in 1995, console games were physically different from personal computer games in that they were physically cartridges, whereas PC games came on floppy disks, then on CD-Roms (and later DVDs). Some games are only available on cartridges (Pokemon for GameBoy or for Nintendo 64). Also, one of the characteristics of recent games is that they are more and more often released on several platforms, which greatly increase player interest.

Numerous game classifications (game types) exist. The diversity of games available has grown considerably (Box 1). A number of players have appeared on the market and have made important efforts in creativity. The video game industry has entered a great number of sectors, ranging from comic-book heroes to film classics to the most complex flight simulations. Games themselves have evolved much, demanding ever more realism, audacity and thus driving changes in platforms.

#### **A Fast Expanding Market**

The international market for video games is large and growing. The market includes several segments as shown in the following box (Box 2). Video game market statistics are not as precise as those of other sectors. Its relative "youth" and its complexity (numerous players from different backgrounds) partly explain this lack. Definitions vary with geographical positioning, sources and

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