Electronic Arts in Online Gaming (HBS 9-804-140)

1) Why do video game platform providers choose to sell their consoles at breakeven or loss-making prices, profiting instead from royalties charged to game publishers? For example, should a console maker put a $5 tax on each video game and subsidize the console by $50?

2) Currently most games are sold at $60 with online play bundled for free. Would it be a good idea to unbundle these goods? For example, with a first-person shooter like Modern Warfare, the publisher could sell the single-player campaign for $30 and the online multiplayer game for $30.

3) Microsoft's Xbox unit accrued a cumulative operating loss of $3.5bn through mid 2004 (see Exhibit 12). Is this investment justified? Please use the data in the case to make your answer as concrete as possible.

4) Analyze the economics of exclusivity, i.e. an agreement that limits a game's availability to a single console. For the purposes of analysis, assume

(a) A game costs $6m to produce and $1m to port to each additional platform.

(b) A publisher sells a game for $40, the console royalty is $5, the manufacturing cost is $2, the IP licensing is $4 (e.g. EA pays FIFA for the brand name), the studio royalty is $5 and marketing is $4.

(c) If the game is not exclusive they sell 500,000 units with 75% share to PS2 and 12.5% share each to Xbox and Gamecube.

(d) If offered exclusively, a console maker's extra marketing push would result in 400,000 sales for PS2, or 100,000 for either Xbox or GameCube.

How much would a publisher demand from each platform provider to be exclusive? Why would Xbox ever purchase an exclusive title? Why doesn't Sony make all titles exclusive?

5) How do Sony and Microsoft differ in their approaches for managing relationships with third-party providers of online-enabled games? Why are their strategies so different? Is one strategy better?

6) In the dispute between EA and Microsoft, what were the main points of contention? What were the parties concerns? How important was EA to Microsoft (and vice versa)?