

Home Video Game Update

From November 2005 till November 2008

Console	Wii	Xbox 360	PS3	PS2
Total	35,970,997	22,536,595	16,687,773	33,673,283
Share:	47.8%	30%	22.2%	

From January 2008 till November 2008

Console	Wii	Xbox 360	PS3	PS2
Total	16,775,198	6,714,302	7,828,547	5,934,136
Share:	53.6%	21.4%	25%	

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- Xbox 360 does better in US (10million consoles shipped as of May 2008)
- The ‘story behind the story’ for Microsoft:
 - Xbox 360 has 90+ titles with excellent review scores compared to Wii (20+) and PS3 (50+)
 - Xbox 360 attach rate: 8:1
 - Wii attach rate: 5.4:1
 - PS3 attach rate: 5.3:1
- Only one player cut prices... who do you think?
 - Not Sony: “Our console is a better value than rivals at double their price” (Hirai, CEO Sony Computer Entertainment)
 - Not Nintendo: “When the model’s price-tag drops over time, manufacturers are telling consumers it’s better to wait, and I’ve always thought that was a mistake...” (Iwata, President of Nintendo)
 - It’s Microsoft:
 - The 20GB model price dropped to \$299 from \$349...while supplies last
 - A new 60GB model introduced in August at \$349: give consumers better value for money...

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Other Developments:

- Netflix owners who belong to Xbox Live Gold (\$50 subscription) can stream movies and TV episodes from Netflix's site to the 360 console from a library of 10,000 pieces
- Microsoft reports profits for Xbox 360 in fiscal 2007 of \$426 million (first time ever since being in the video game industry)
- Sony still losing money on PS3 but the Playstation brand generated \$4 billion in revenue through September 2008 (first nine months)
 - "We believe we can restore our Games segment to profitability this year, which means JPY125b in profits"... "PS2 is still the true workhorse of the Playstation family"
 - Sir Howard; Sony's CEO: "The theme of my management speeches within Sony has been to tell my people to get mad- mad that people are beating us. I want them angry enough to take on our rivals"
- Wii is basically: "printing money" The operational profit (first six months 2008) JPY252.1b (or about \$2.6 billion)

The Home Video Game Industry

Industry analysts:

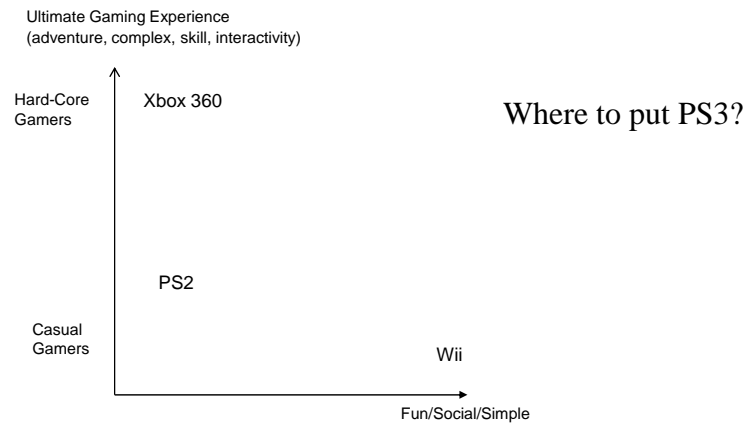
"How can it be that we are three years into this latest generation and no one is totally throwing in the towel"

"Conventional wisdom says that the industry cannot support three platforms"

"In all previous generations there was a clear winner and everyone else lost money"

What Effective Segmentation, Targeting, Positioning can do for you!

The Home Video Game Industry



“We are refocusing the positioning of PS3 first and foremost as a gaming platform” (Kazuo Hirai, President SCE, June 26th 2008)

Sony PlayStation 3 Key Takeaways

Consumer benefits and segment analysis

Dynamics of consumer preferences and competitor actions – competitor analysis, resources, strengths & weaknesses, industry analysis

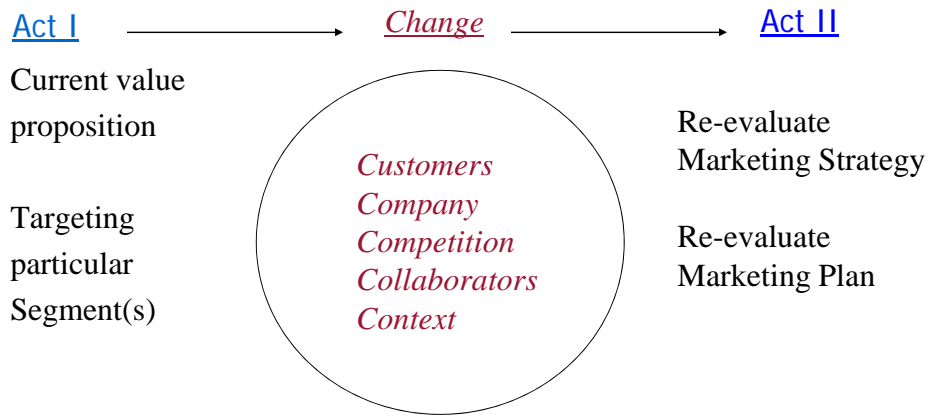
Network effects – environment – game developers’ incentives

Marketing adaptations post-launch

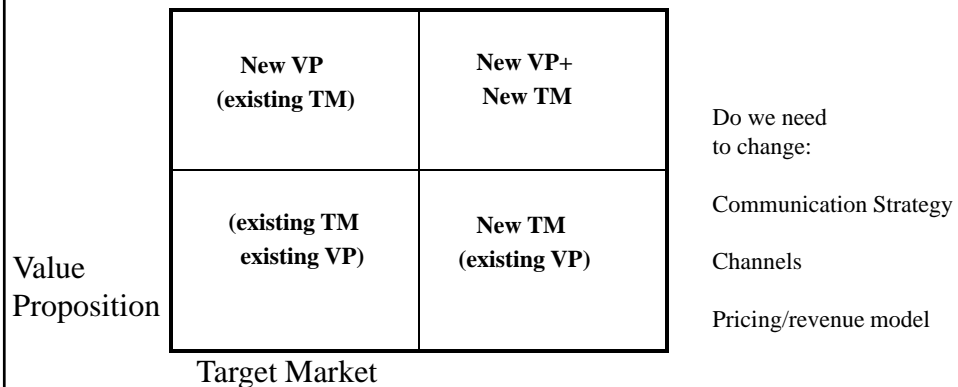
Opportunities & Threats

Product line management across generations

Sustaining Value in the Next Generation



Re-evaluating Strategy and Plan



Home Video Game Platforms: Transition between Gen 5 and 6

Late 1970s	Early 1980s	Mid-Late 1980s	Early 1990s	Mid-Late 1990s	1999-Early 2000s
Atari (2600)	Coleco (Colecovision) Atari (5200) Mattel (Intellivision)	Nintendo (NES) Atari (7800) Sega (Master)	Sega (Genesis) Nintendo (SNES) Philips (CDI)	Sony (Playstation) Atari (Jaguar) Nintendo (N64) Sega (Saturn)	Sony (Playstation2) Microsoft (Xbox) Nintendo (GameCube) Sega (Dreamcast)

How did Sony do so well across the past two generations?

Realized value proposition still about gaming experience and room to improve it!

-Consumers want similar value proposition

(very good machine, excellent games, and keep the playstation mania alive, though can do “everything” consumers not demanding convergence)

-Competition not threatening (Microsoft at least 18 months away, GameCube inferior)

-Only change is expansion of casual gamers (but still useful to create halo effect and fast adoption through hard core gamers; high performance machines valued; create games for them)

-Leverage past brand equity – called it PS2

-Made all previous generation games compatible with new console

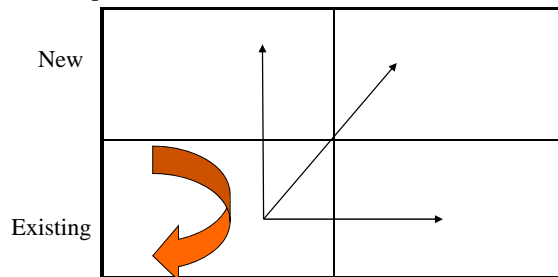
-Launched with same positioning to hard core gamers

-Have similar revenue model

Home Video Games:

Transition between Generations 6 and 7

Value Proposition



Do we need to change:

Communication Strategy

Channels

Pricing/revenue model

Is there a change we need to factor in?

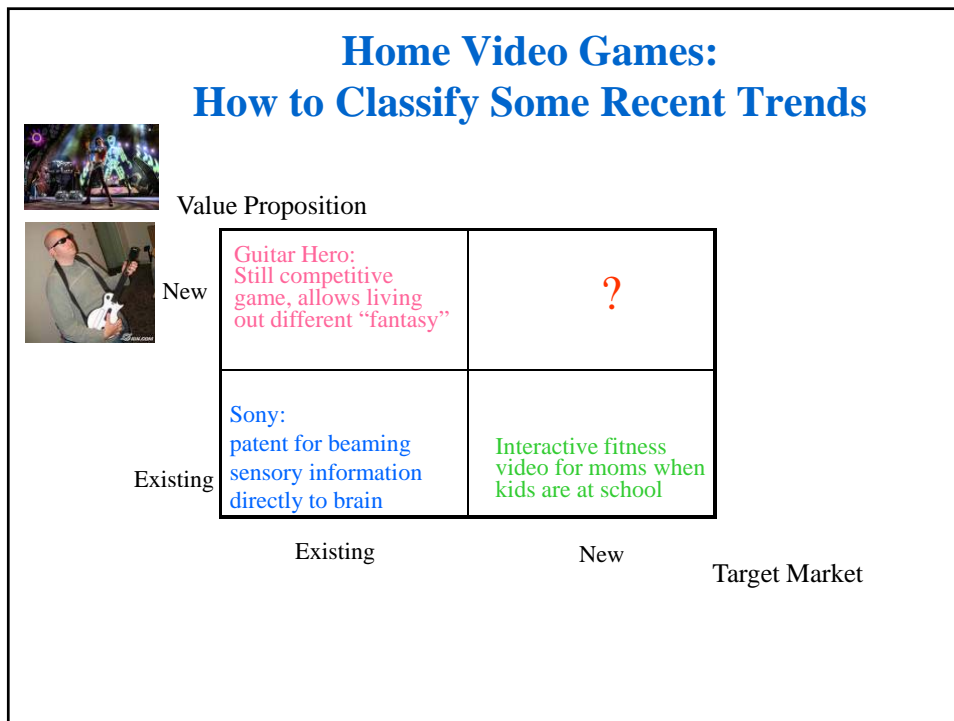
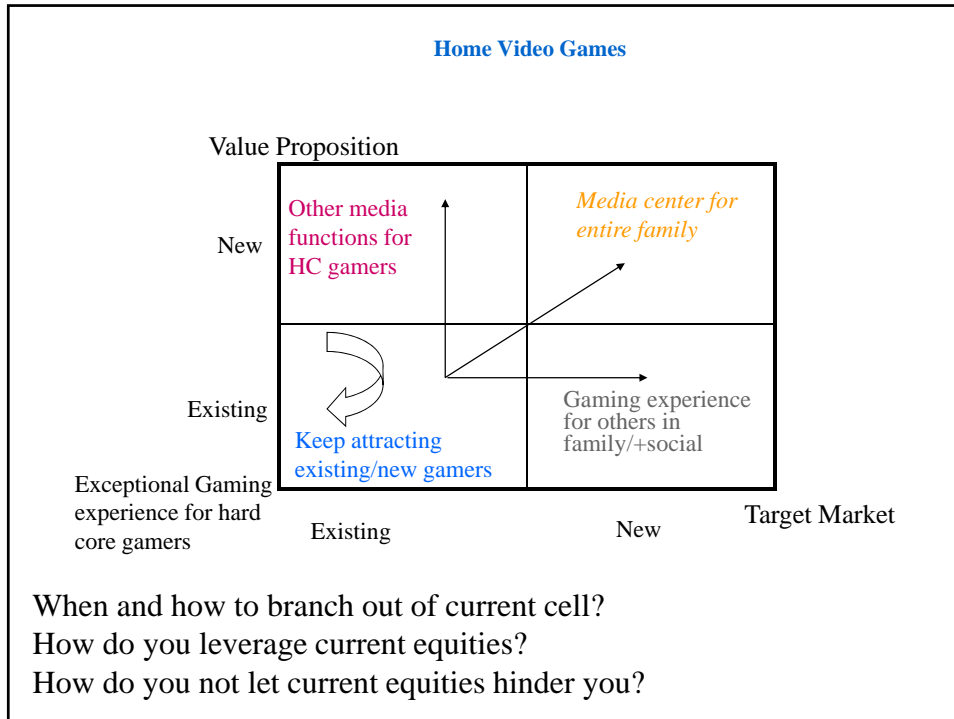
- **Customer** (are different segments looking for this form of media?)

Do people want convergence now? Do people need more powerful machines?)

- **Competition** (Microsoft much more of a rival than in previous; Wii factor)

- **Competition** (more players want to own the digital home)

- **Context** (opportunity to define the next DVD standard)



Sustaining Value in the Face of Change:

- 1) Make sure you understand the source of change!
- 2) Ask yourself whether the change requires targeting a different segment or offering a new value proposition
- 3) Do we need to innovate even just to serve existing target with similar but more robust value proposition?
- 4) Avoid destroying equities in the process
- 5) Make sure you consider change in only one dimension before jumping to change both
- 6) Don't make assumption that previous generation customers will follow blindly; desire to "use them" to attain other goals can backfire