

## Case Study: The Xbox, 2001-2007

### Xbox launch, 2001

Microsoft launched its Xbox video game console in 2001. It spent \$500 million on the launch of the new product, including spending on marketing, advertising and support to retailers and software makers.

Prior to the launch, the senior president of the company's games division said 'We have to build demand for this to be successful.'

The new product, which would include DVD drive and Internet access, was part of the plans of the business to move beyond the PC market. Microsoft also planned to tap into the market for devices that combine television and the Internet, and to offer online gaming. Microsoft was developing 30 video games inhouse and approving many games from other software developers. It was suggested that the Xbox would have three times the performance of Sony's PlayStation 2 (PS2). By the time the Xbox was released, Sony's PS2 and Sega's Dreamcast would already have been on the market for a year.

**2002-2004** One down, three to go. In February 2002 Sega announced that it would cease production of the Sega Dreamcast games console and quit the hardware business. Instead it decided to produce games for other games consoles. The three left remaining were Sony's PS2, Microsoft's Xbox and Nintendo's GameCube. In 2002 there were 30 million PS2 consoles worldwide (as well as 90 million old PS1 consoles). Contrast that to the 4 million Xboxes worldwide.

The Internet gaming market is growing. It was estimated at the time that it would be a \$20 billion industry by 2005. In 2002 Sony's PS2 and Microsoft's Xbox were planned to be linked to the Internet for interactive gaming. However, unlike the Xbox, the PS2 would require additional equipment to be bought. Previously people could play games through their PCs on the Internet. But now they could take advantage of the stunning graphics of games consoles.

**2002-2003** Between August 2002-03 Microsoft's Xbox was the only gaming console to show positive market share growth in the US. It was suggested that sales increased 6 per cent in the US, giving it a 27 per cent market share. In comparison sales of Sony's PS2 fell to 36 per cent and Nintendo's GameCube fell to 22 per cent. In May 2003 the price of the Xbox was cut in the US from \$199 to \$179 in response to a similar cut in the price of Sony's PS2. Xbox sales have been fuelled by the success of its almost 400 software games, including Star Wars games. Xbox Live, Microsoft's online gaming service, had over half a million subscribers.

In October 2003 Nintendo reduced the price of its GameCube to \$99 in the US. Within 35 days it was suggested that it had doubled its market share in the US from 19 to 37 per cent as a result, becoming a strong second in the market.

**2004** In 2004 Sony announced that it had shipped over 50 million consoles since the launch of PS2 in 2000. This compared to nine million sales worldwide of Microsoft's Xbox. This gave Xbox 15 per cent of the global market, a long way from Sony's estimated 70 per cent global market share. The majority of Xboxes are in the US (6 million), with 2.2 million in Europe. Microsoft admits it is weak in Asia, where it has struggled to make an impact in Japan in particular.

Analysts suggested that Microsoft loses \$100 on every Xbox it sells. Yet the company has strong relationships with retailers and is pinning many of its hopes on the broadband market. It is particularly concentrating its marketing on areas of the world where broadband penetration is high, such as South Korea. This gives great possibilities when Xbox Live is launched in these countries.

**2007** The balance of power in the games console market has tipped towards Nintendo and away from Microsoft and Sony after the phenomenal success of the Wii gaming console helped the Kyoto-based company almost triple its profits in the first half of the year.

The reversal of fortunes within the games console sector has been stunning and highly unexpected given Nintendo's Wii was tipped to struggle to compete with its competitors. Sony – which had achieved unparalleled success with the first two incarnations of its PlayStation machine – and Microsoft were widely expected to dominate the market for next-generation consoles with state-of-the-art machines.

Nintendo stuck to its guns and despite concerns that the Wii would be another also-ran compared with the top-end PlayStation 3 and Xbox 360, the console has sold like wildfire and proved the doubters wrong. It has outsold the PS3 three-to-one in the Japanese market and five-to-one in the US and has taken the PS2's mantle as the fastest selling console in history in the UK after shifting 1 million machines in just eight months. The Wii has reinvigorated the video games sector by appealing to consumers outside the 'hard-core' gaming market, particularly female gamers and families. While titles such as the ultra-violent Grand Theft Auto: San Andreas and Resident Evil sold well to traditional fans who lust after eye-boggling graphics and more complex adventures, Nintendo recognised that there was a vast untapped market of people who wanted more simple and fun games. The Wii's motion-sensor-based controllers revolutionised the market by allowing consumers to physically play simple games, such as tennis and ten-pin bowling, on the screen. The games are far more basic than the likes of Halo 3 that boast the best graphics, but that has not deterred consumers from outside the traditional video games audience.

David Yarnton, managing director of Nintendo UK, said the decision to target non-traditional gamers with the Wii has led to household penetration of consoles rising for the first time in 25 years.

Sources: adapted from [www.instat.com](http://www.instat.com), [news.com](http://news.com), [asia.cnet.com](http://asia.cnet.com), and [www.forbes.com](http://www.forbes.com), [xcox.the.maingroup.com](http://xcox.the.maingroup.com), [www.ciol.com](http://www.ciol.com), [abcnews.go.com](http://abcnews.go.com), *The Independent* 23.11.2007.

- Using examples from the information, outline the benefits of marketing planning for businesses in the game consoles market. (6 marks)
- Examine the external and internal factors affecting businesses in the game consoles market. (12 marks)
- Carry out a SWOT analysis of X-Box's position in the market. (12 marks)
- Evaluate the success of marketing planning by Microsoft for X-Box. (20 marks)