

# Price Protection

## The EEDAR Exposé for November, 2008

Electronic Entertainment Design and Research

5431 Avenida Encinas, Suite A

Carlsbad, CA, U.S.A. 92008

T: +1.877.883.3327

E: [sales@eedar.com](mailto:sales@eedar.com)

W: [www.eedar.com](http://www.eedar.com)

*Enabling informed decisions for the video game industry*

Analyst: Jesse Divnich

Contribution: Paul Matthys, Shane Hebard-Massey, and Geoffrey Zatkan



# EEDAR

## OVERVIEW

---

- Topic 1:** Introduction to price protections with a general overview of the next-generation consoles for third-party publishers.
- Topic 2:** An overview of which games by genre tend to enter into early price protection.
- Topic 3:** A correlation example of quality scores and early price protection.
- Media and Press Guidelines:** Guidelines for republishing EEDAR data.
- Research Methodology:** An overview of the process that Electronic Entertainment Design and Research uses to obtain its data.
- About EEDAR:** Background information about Electronic Entertainment Design and Research.

## DEFINITIONS YOU NEED TO KNOW

---

### Early Price Protection:

EEDAR defines early price protection as any video game title that receives a reduction in its initial average selling price by 20% or more within three months of release. A title that enters into early price protection is considered to have performed below retail and publisher expectations.

# Defining Price Protection and Early Price Protection

## Defining Price Protection and Early Price Protection

---

Price protection occurs when a publisher lowers the per unit cost to retailers on specific game title or SKU. Since retailers must purchase inventory up front, the difference in cost between the old and the new must be credited back to retailers for all remaining inventory on retail shelves and in retail warehouses.

### Example of Price Protection

**Publisher X** ships in 1 million units of **Game Y** to **Retailer Z** at a retailer cost of \$48 per unit (the standard cost for a game that retails at \$59.99).

**Retailer Z** sells 500,000, but wants to move more inventory and requests a decrease in the unit cost to be able to price **Game Y** at \$49.99 retail (\$40 cost)

**Publisher X** credits **Retailer Z** for the difference in cost of the remaining inventory, which is \$4 million (\$8 per unit cost x 500,000 units).

### Early Price Protection

EEDAR considers **early** price protection to have occurred when a title's third month average selling price has decreased by 20% or more from its original average selling price. Games enter early price protection because the retailer requests an early price drop; the game is performing below expectation and they want to clear out their inventory of the game.

### Does Price Protection Negatively Affect Publishers?

Yes, but all publishers consider price protection on every title shipped into the retail channel. Publishers often describe this as "retail reserves", which is a set amount of money they set aside to cover any decreases in the per unit cost they charge to retailers. In a perfect market, price protection would not exist, as retailers would buy the exact amount of units that their customers will purchase. Since demand for a title depends on thousands of different factors, retailers keep more inventory on-hand than they can sell to their customers; retailers are loath to send customers to another store because they have run out of a game title. Price protection minimizes the risk to retailers who take on this extra inventory and allows publishers to maximize sales in the retail channel.

There is only one example where price protection may be beneficial to publishers and that occurs when a game receives a "Greatest Hit" or "Platinum Hit" label by Sony or Microsoft, respectively. The costs associated with lowering the per unit cost is offset by the increase in sales the title receives.

# Defining Price Protection and Early Price Protection

## Defining Price Protection and Early Price Protection

### **How does Price Protection differ from Early Price Protection?**

The base assumption is that retailers do order more copies of a game title than they think they can sell. Based on EEDAR's research, publishers do not anticipate that a game title should ever enter into price protection within three months of a game's release. If a game enters into **early** price protection, it is an indication that the title performed below publisher or retailer expectations. An early price protected title is more detrimental to a publisher's financials as more retail reserves must be paid out than originally anticipated. EEDAR has yet to find a title that entered into early price protection to be considered as "performing to market expectations," even by the most relaxed subjective standards.

### **Are All Decreases in the Retail Price Considered Price Protection?**

No, in some cases publishers will set up a deal with a specific retailer to discount an item at a future date so that, for example, the retailer can display a sale in their retail circular to drive foot traffic. A publisher may also set up a similar agreement but instead purchase an endcap at the retailer to prominently display the title. While a publisher is still giving the retailer a credit on each unit sold during the promotion, this cost is charged as a form of marketing/advertising and not taken out of a publisher's "retail reserve" account. These agreements are also retail specific and since no retailer has a 100% market share, the average selling price for the entire month, across all retailers, should not produce a false-positive by EEDAR's standards of monitoring early price protection. There are also situations where the remaining inventory in the channel is so miniscule that retailers may choose to take on the costs to drop the shelf price to move inventory quickly.

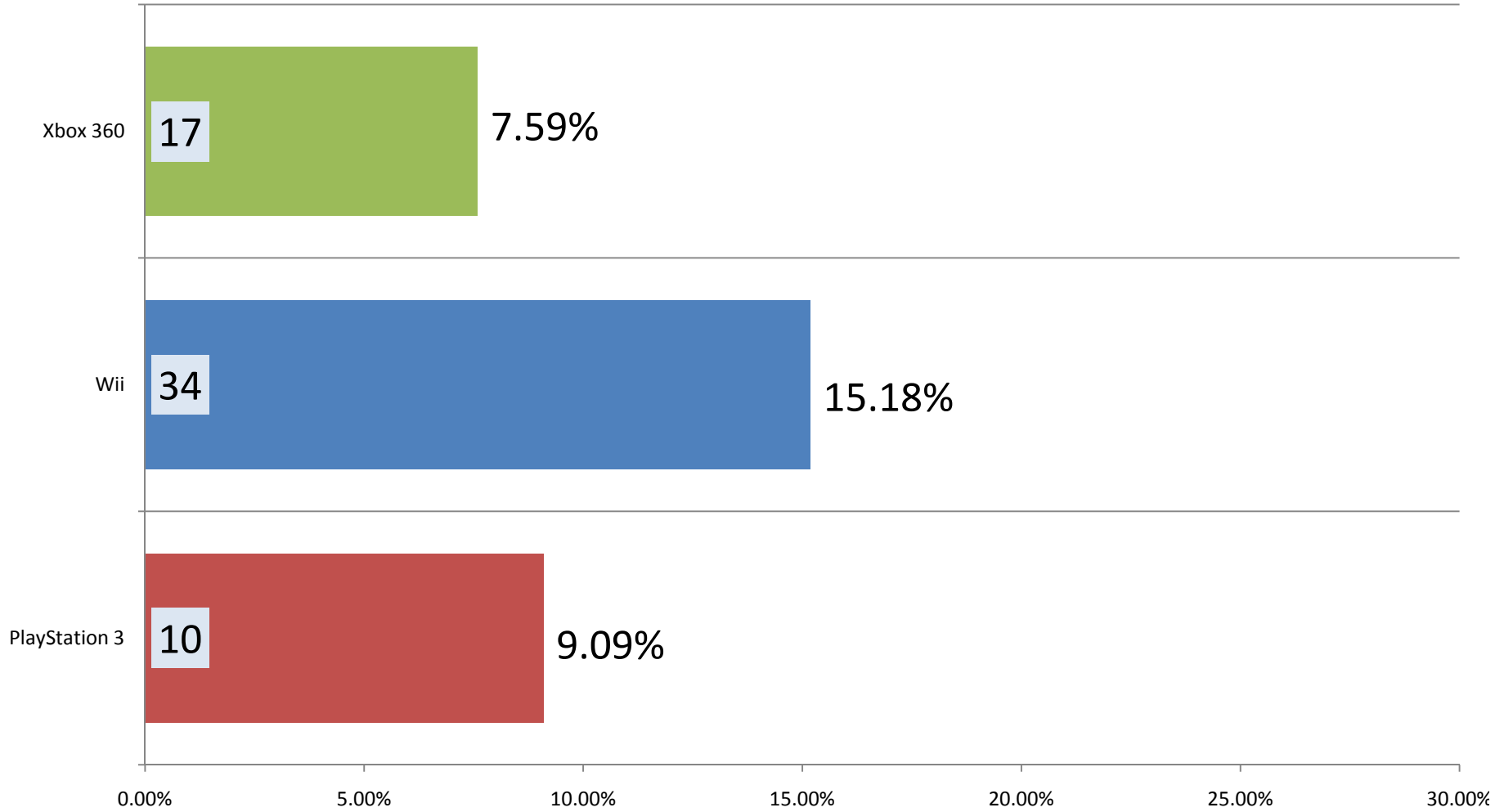
Other times, retailers may have a category sale on video games (I.E. "Buy 2 Get 1 Free"). The retailer always backs these types of sales, unless the sale is specific to one publisher (I.E. "Buy 2 EA Sports Games, Get 1 Free").

### **Can a Publisher Refuse to Offer Price Protection?**

Yes, but keep in mind that the publisher/retailer relationship is ongoing. If a retailer is having trouble moving inventory and a publisher does not allow price protection, that retailer may be more conservative with future purchases. Furthermore, a lot of retail vendor contracts specifically state that the retailer can physically ship back unsold titles for credit. Since the physical cost of the game is cheap (disc, instruction manual, box, and shipping) and serves no use to the publisher, they will try to work out arrangements with retailers before resorting to taking back inventory.

## Percentage of Titles - Early Price Protection - Third-Party Publishers

Next-Generation - With Quantities - Data as of 08/02/2008



Source: EEDAR & The NPD Group

# Topic 1 – EEDAR Exposé – November, 2008

---

## ANALYSIS

---

The data set in the graph above reflects games with three months or more of sales published by third party publishers on the PlayStation 3, Wii and Xbox 360 released in the U.S. market.

Over 7.5% of Xbox 360 and 9.09% PS3 third-party published titles go into price protection early. The Wii, however, nearly doubles the Xbox 360 and PS3's average at 15.1%. These results are significant, as one would expect that aggregating the percentage of titles entering into early price protection across these three systems would produce similar results. This disparity on the Wii reinforces concerns that the market has had with third-party publishers developing successful titles on the Wii.

Because of the highly competitive and unpredictable mainstream and casual markets, EEDAR believes retailers and publishers are overly aggressive on expectations for Wii games. This is directly leading to a higher percentage of third party Wii titles entering into early price protection. For reference, we consider games targeting the core market to have a less competitive landscape as core targeted titles are typically spread out through the year and receive less competition upon release. Aside from the often congested holiday release schedule, most publishers typically avoid releasing their big AAA core targeted titles against other AAA titles, whereas it is common to see many mainstream/casual titles, targeting similar markets, released in the same week.

None of the figures in the graph represents an "ideal" situation, and EEDAR believes that there exists an opportunity, across all platforms, for third-party publishers. In terms of understanding the competitive landscape of the mainstream and casual markets, EEDAR's GamePulse, a web-based research portal, can provide publishers and developers valuable data on the release landscape of any genre up to six months out, allowing our clients to make more informed decisions to ensure that their release schedule positively affects sales.

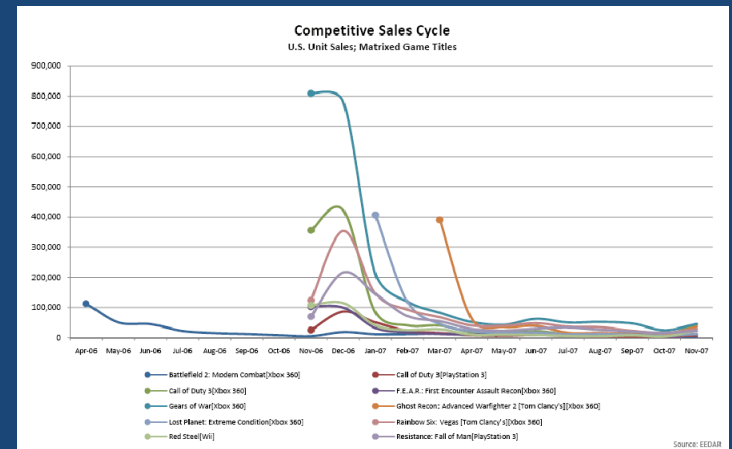
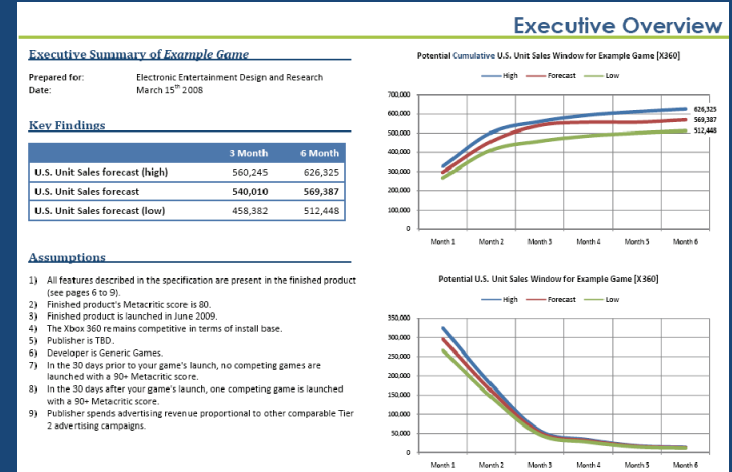
To date, no first-party published title has ever permanently entered into early price protection on the 7<sup>th</sup> generation consoles.

## Advanced Business Intelligence for Video Games

Leveraging the latest analytical technologies against a database of over one thousand game titles, a million game facts and a decade of sales and market data, **DesignMetrics®** by EEDAR is the video game industry's most advanced market sizing, competitive analysis and sales forecasting solution.

Each custom DesignMetrics report is approximately 80 pages and includes:

- An executive overview projecting the three and six month US unit sales of your game.
- A four page EEDAR standardized game overview (pitch document) of your game.
- Nine charts of your game title's competitive landscape and potential revenue windows.
- An eight page matrix of ten competitor game titles vs. your proposed game title.
- Images of Cover Art for ten competitor game titles.
- Standardized game overviews for ten competitor game titles.
- A lexicon of all EEDAR terminology used in the DesignMetrics report.
- Definitions of the EEDAR genre classification system.
- An overview of the EEDAR research methodology.
- An electronic PDF version of your custom DesignMetrics report.
- A professionally bound hard copy delivered via Priority Fedex.
- Alternate projections available as optional extra. (e.g. ESRB Teen vs. Mature, Multiple Platforms, Use of Branding, Multiplayer).

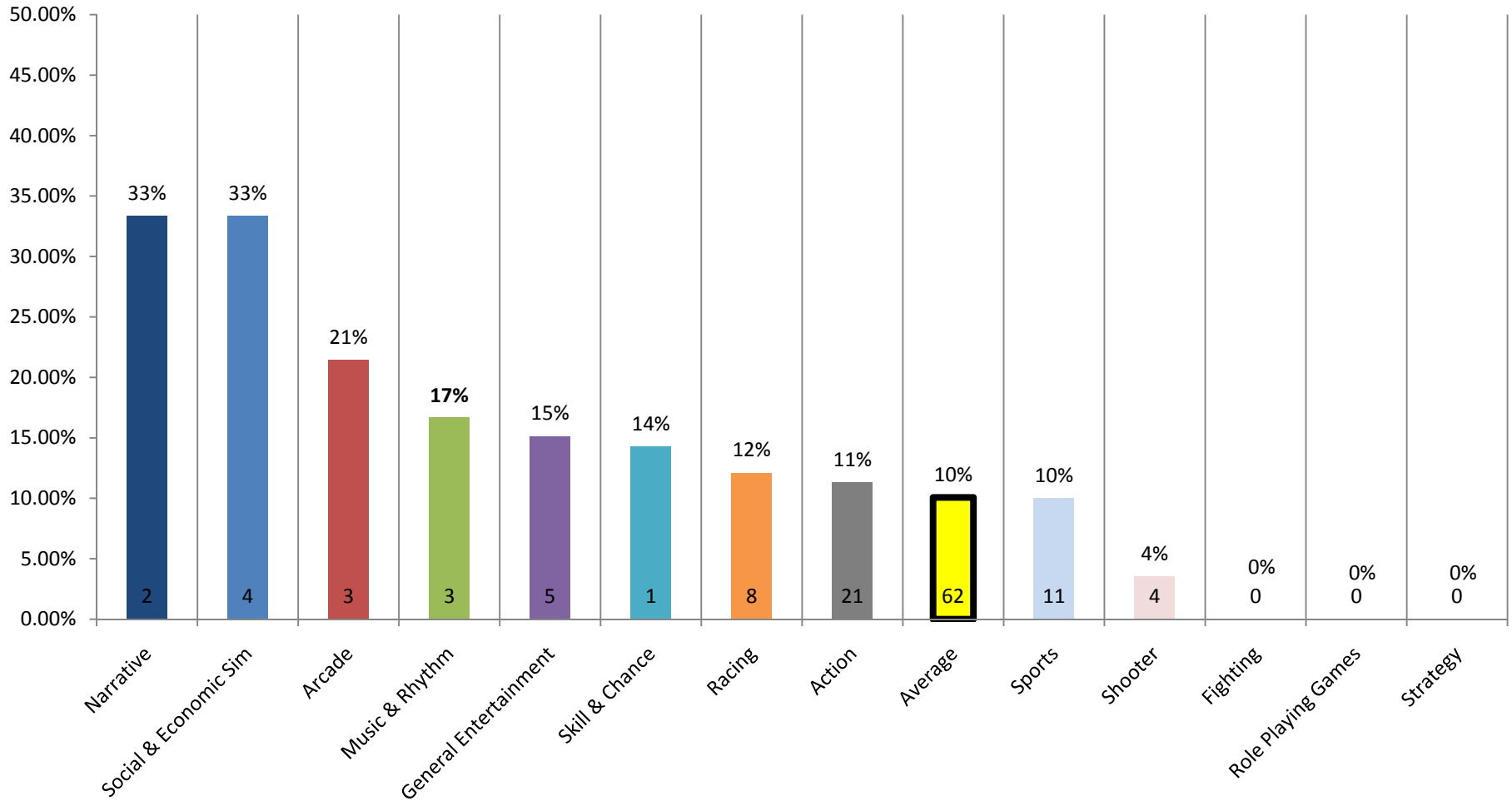


DesignMetrics requires only a pitch or concept document in order to deliver invaluable insight for your game title. Full game lifecycle and portfolio packages also available.

Contact EEDAR on **+1.877.88.EEDAR** or **sales@eedar.com** for a detailed demonstration and custom quote.

## Percentage of Titles by EEDAR Genre - Early Price Protection

Next-Generation Only - With Quantites - Data as of 08/02/2008



Source: EEDAR & The NPD Group

## ANALYSIS

---

The data set in the graph above reflects games with three months or more of sales on the PlayStation 3, Wii and Xbox 360 released in the U.S. market.

Examining price protection data across EEDAR genres produces some interesting results. Games in genres that typically target the mainstream or casual markets (*Arcade, Music and Rhythm, General Entertainment, Skill & Chance, etc.*) have a larger probability of entering into early price protection than games in genres that target the core audience (*Shooter, Fighting, Role Playing Games, etc.*).

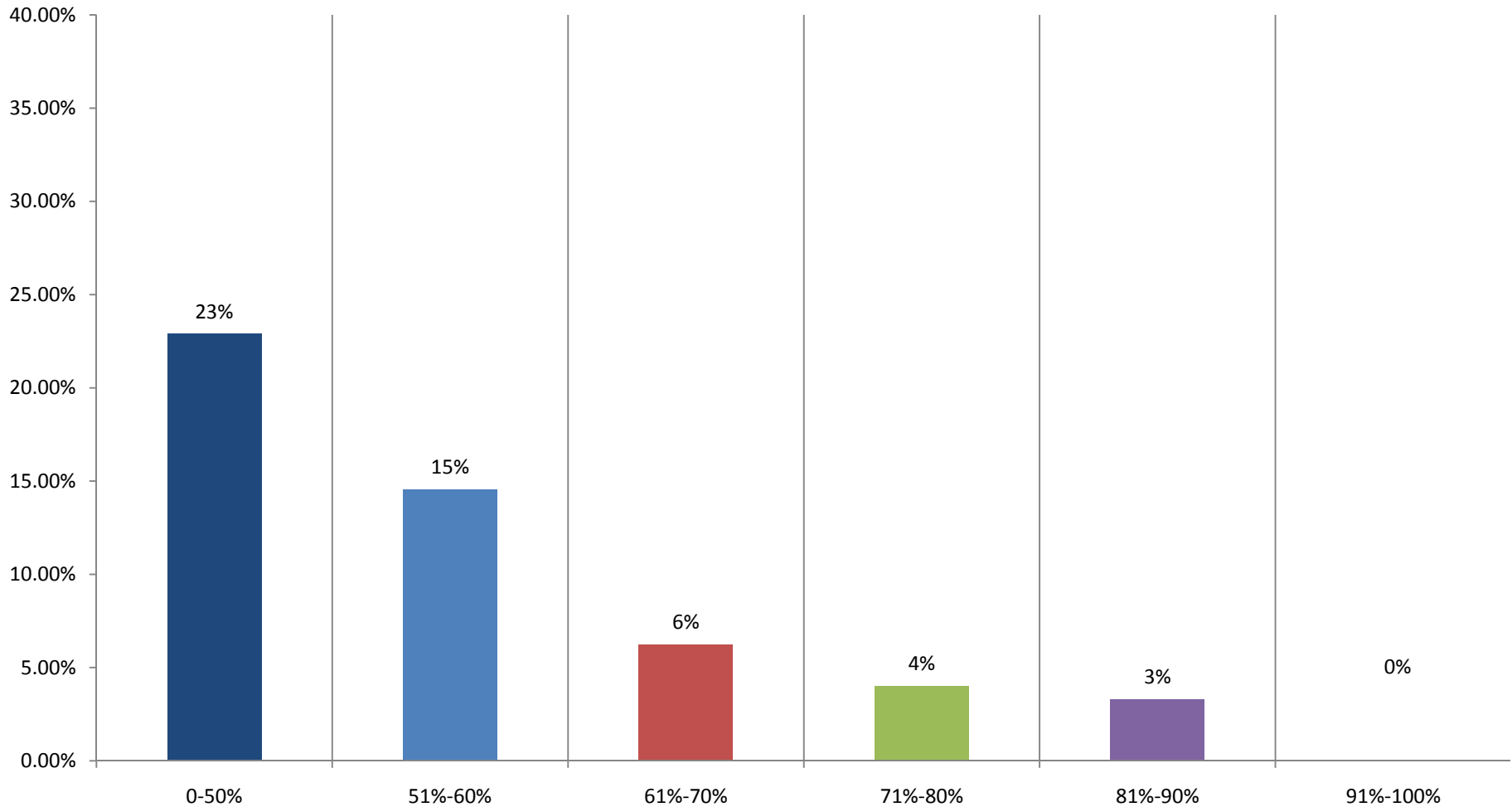
Again, EEDAR believes that the highly competitive landscape of the mainstream and casual genres play a significant role in these figures. Furthermore, we believe that profit margins play a larger role during the publisher's decision-making process for these types of games on whether or not a title enters into early price protection. Anecdotally, mainstream and casual titles often have higher profit margins. Publishers can therefore be more flexible with their pricing strategy on their mainstream and casual titles, as 20% reduction in the per unit cost is not as financially damaging as a 20% reduction on core targeted title.

We can further theorize that because a title's research budget often directly correlates with a title's overall budget, core targeted titles would have more research to spend to ensure that the proper combinations of features are implemented, increases the game's chances resonating with its target audience and having a successful release.

An EEDAR DesignMetric report can significantly reduce the risk of early price protection for publishers and developers by identifying the correct feature combinations for their titles target audience.

## Percentage of Titles by Review Scores- Early Price Protection

Next-Generation Only - Data as of 08/02/2008



Source: EEDAR & The NPD Group

## ANALYSIS

---

The data set in the graph above reflects games with three months or more of sales on the PlayStation 3, Wii and Xbox 360 released in the U.S. market.

Game quality has always been one of the most discussed topics in EEDAR monthly newsletters. Every time we use our data set of aggregate game reviews, we generally come to the same conclusion; quality is one of the most impactful features for a video game. Whether we dissect quality scores by genre, sales, multiplayer components, Accomplishments or in this month's subject, early price protection, high review scores tend to correlate to a positive outcome, while low review scores correlate to below-average results.

What is most astonishing from this dataset is that games that achieve quality scores above 91% have never been price protected early on the PlayStation 3, the Wii or the Xbox 360. Furthermore, EEDAR data indicates that there was not much of a difference between a game with a quality score of 75% and that of one with 88%. In other words, mediocre to above average games have a similar chance of going into early price protection.

We should all keep in mind that publishers and developers should not use this dataset alone when forecasting the probability of their title entering into early price protection as other factors, such as genre, multiplayer components, marketing budgets, and demographics play a significant role influencing the retail shelf-life of their titles. As always, those looking for more detailed information, applying directly to their title, should contact EEDAR for a custom report.

## Publishing Guidelines

1. This report is EEDAR's monthly Exposé Newsletter that is distributed to clients of the firm.
2. When citing the company name, first citation should provide full company name and abbreviation.  
*For example: Electronic Entertainment Design & Research (EEDAR)*  
Subsequent citations may simply use the abbreviated company name for the remainder of the same article/document.  
*For example: EEDAR*
3. Company Information  
Company Name: Electronic Entertainment Design & Research  
Company Description: Video Game Research and Risk Analysis Provider  
Company Headquarters: Carlsbad, CA  
Company Website: <http://www.eedar.com>
4. Graphs are available for download, but some data may be restricted (See: Publishing Restrictions and Logos, Graphs, and Misc.)

## Publishing Restrictions

1. Due to outside vendor agreements and publishing restrictions, any data set, graph title, or quote with two asterisks in between them are not eligible for republishing.

*For example: "Sales for X in Europe were \*400,000 units\* in November (Chart Trak)."*

2. This document cannot be redistributed to unauthorized users or made available to the public

## Logos, Graphs, and Misc.

### **Logos:**

[http://www.eedar.com/images/uploads/eps\\_logo.zip](http://www.eedar.com/images/uploads/eps_logo.zip)

### **More Information:**

<http://www.eedar.com/About/CitationPolicy.aspx>

THIS REPORT IS PROVIDED ON AN “AS IS” BASIS WITHOUT WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, OTHER THAN THOSE WARRANTIES WHICH ARE IMPLIED BY AND INCAPABLE OF EXCLUSION, RESTRICTION OR MODIFICATION UNDER THE LAWS APPLICABLE TO THE MASTER AGREEMENT FOR SERVICES.

THE FOLLOWING DISCLAIMER OF LIABILITY APPLIES TO ANY DAMAGES OR INJURY CAUSED BY ANY ERROR, OMISSION, DELETION, DEFECT OR USE OF, WHETHER FOR BREACH OF CONTRACT, TORTIOUS BEHAVIOR, NEGLIGENCE, OR UNDER ANY OTHER CAUSE OF ACTION:

IN NO EVENT WILL ELECTRONIC ENTERTAINMENT DESIGN AND RESEARCH OR ANY PERSON OR ENTITY INVOLVED IN CREATING, PRODUCING OR DISTRIBUTING THIS REPORT BE LIABLE FOR ANY DIRECT, INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES ARISING OUT OF THE USE OF OR INABILITY TO USE THE REPORT OR OUT OF THE BREACH OF ANY WARRANTY; YOU HEREBY ACKNOWLEDGE THAT THIS DISCLAIMER OF LIABILITY SHALL APPLY TO ALL CONTENT CONTAINED IN THIS REPORT. ELECTRONIC ENTERTAINMENT DESIGN AND RESEARCH'S LIABILITY TO YOU, IF ANY, SHALL IN NO EVENT EXCEED THE TOTAL AMOUNT PAID TO ELECTRONIC ENTERTAINMENT DESIGN AND RESEARCH FOR THE REPORT.

IT IS YOUR RESPONSIBILITY TO EVALUATE THE ACCURACY, COMPLETENESS OR USEFULNESS OF ANY INFORMATION, OPINION, ADVICE OR OTHER CONTENT AVAILABLE IN THIS REPORT. YOU SHOULD USE YOUR BEST JUDGMENT AND EXERCISE CAUTION WHERE APPROPRIATE.

NEITHER ELECTRONIC ENTERTAINMENT DESIGN AND RESEARCH NOR ITS THIRD PARTY CONTENT PROVIDERS SHALL HAVE ANY LIABILITY FOR DECISIONS BASED UPON, OR THE RESULTS OBTAINED FROM THE REPORT. NEITHER ELECTRONIC ENTERTAINMENT DESIGN AND RESEARCH NOR ITS THIRD PARTY CONTENT PROVIDERS GUARANTEE OR WARRANT THE ACCURACY OR COMPLETENESS OF ANY SUCH INFORMATION.

YOU AGREE TO DEFEND, INDEMNIFY AND HOLD HARMLESS ELECTRONIC ENTERTAINMENT DESIGN AND RESEARCH, ITS AFFILIATES AND THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS FROM AND AGAINST ALL CLAIMS AND EXPENSES, INCLUDING ATTORNEYS' FEES, ARISING OUT OF THE USE BY YOU OF THE REPORT.

Electronic Entertainment Design and Research (EEDAR) gathers its information from a variety of sources. EEDAR goes to great lengths to verify the accuracy of its information, as detailed below.

Where information is publicly available from an authoritative source, such as the issuer or the responsible industry agency, that data is used as authoritative. All authoritative information is then double checked by an EEDAR researcher through direct observation or by cross referencing the data with other authoritative sources. Where possible, the data that is visible to the consumer is used: this includes information printed on the retail boxed product or displayed on the manufacturer website. When discrepancies arise between authoritative sources, additional sources are checked until a clear consensus emerges.

Where information is not publicly available, EEDAR's internal staff performs directed studies to gather the appropriate data. Our researchers work using custom-built data collection and analysis applications. Each researched fact has an objective observation system which ensures that researcher bias is eliminated. Our data research is performed by multiple researchers simultaneously to ensure that individual facts are cross-checked before being input into the classification system established for that fact. Once information has been entered in the EEDAR Games Database, quality assurance staff reviews the data using boundary analysis tools to identify errors and pinpoint difficulties in the classification systems. Our quality assurance team maintains rigorous performance metrics and ensures that each report is validated to the highest quality standards.

EEDAR attempts to use standard industry vernacular and information classification whenever possible. Where industry standard vernacular or classification structures are not available, EEDAR uses its own vernacular and/or classification systems. This would occur in areas where no industry recognized authoritative body exists, or in areas where multiple authoritative sources use different classification systems. All of the classifications systems created for these reports by EEDAR researchers are detailed in the appendix sections of EEDAR documents.

All data from sources other than the EEDAR Games Database are clearly cited.

EEDAR is a research firm founded by a team of interactive entertainment veterans in 2006. The company's mission is to increase the profitability and creativity of the video game industry by allowing publishers, developers and investors to make more strategic decisions based on objective, accessible and meaningful data.

EEDAR supplies the industry's two leading analytical and information services: DesignMetrics® provides fact-based comprehensive analysis for proposed game titles detailing projected sales and competitive landscapes. GamePulse® is the only information service that delivers crucial sales, marketing and demographic insights on the video game industry via a "real time" accessible website.

In addition to DesignMetrics and GamePulse, EEDAR delivers custom research and industry publications critical to understanding and navigating the highly competitive electronic entertainment and videogame market.

EEDAR's products and services are built upon on its proprietary game feature database, the world's largest dataset of game features, allowing the company to produce highly accurate analysis at even the most granular levels.

EEDAR is based in Carlsbad, California.