

November 2009 EEDAR Exposé

Can Premium Price Points Hold?

Electronic Entertainment Design and Research

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OVERVIEW

- Topic 1:** Historical view of initial price points on the 6th Generation (PS2/GC/XBX)
- Topic 2:** Historical view of initial price points on the Xbox 360 and PlayStation 3
- Topic 3:** Historical view of initial price points on the Wii

DEFINITIONS YOU NEED TO KNOW

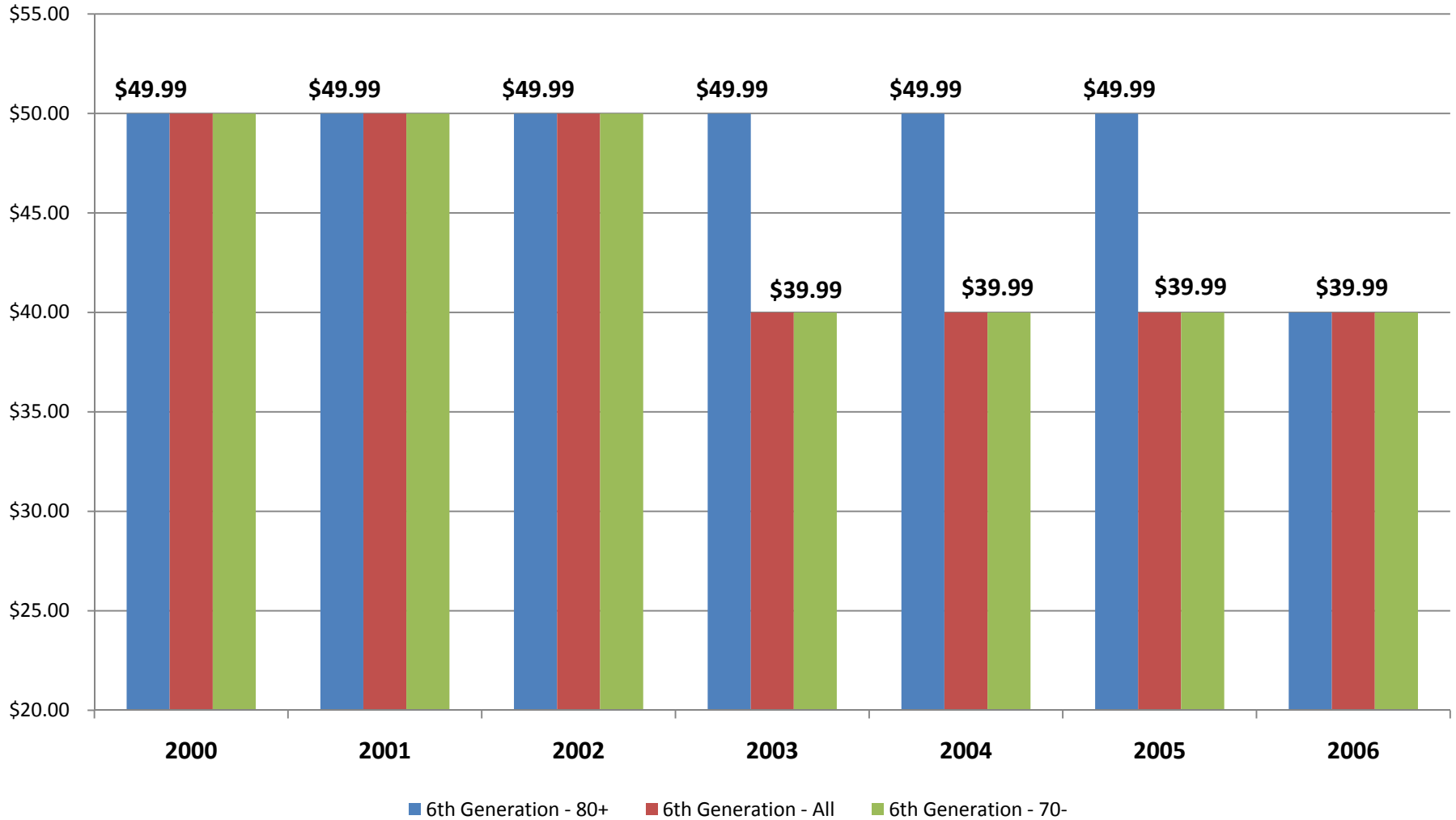
EEDAR Quality Scores: An aggregate review score, compiled in a manner similar to other aggregate review sites.

Initial MSRP (Initial price point): Manufacturer's Suggested Retail Price. Often the initial price seen on store shelves.

KEY TAKE AWAYS

- High quality games on the 6th Generation (PS2/XBX/GC) were able to maintain premium pricing through the life of the hardware cycle.
- 6th Generation (PS2/XBX/GC) pricing for high quality titles did not drop until the beginning of the 7th Generation.
- The average Xbox 360/PlayStation 3 games are maintaining higher prices much longer than 6th Generation games.
- Premium pricing will hold for the remainder of the 7th Generation.
- Wii pricing is erroring more quickly for lower quality/casual titles than 6th Generation games.
- Wii premium price points for high quality titles likely to remain at \$49.99 for the remainder of the hardware cycle.
- Sorry Gamers, the core games that we all love and deliver us hours of entertainment will always fetch a premium price.

Median Initial Price Points 6th Generation (PS2/Xbox/GC) - By Quality Score Band



Source: EEDAR GamePulse

Topic 1 – EEDAR Exposé – November, 2009

ANALYSIS

In previous Exposé newsletters, we examined the new title \$59.99 price point and determined that, considering inflation, the premium price points of the 7th Generation games (Xbox 360/PS3/Wii) are justified. However, due to the economic recession and the indications that this Generation of hardware will have a longer lifecycle than its predecessor, many have questioned if premium price points can hold.

For our November 2009 newsletter, EEDAR has examined current trends in pricing to determine if the premium price points for each system will hold for the remainder of the cycle or if pricing will decline beyond previous trends, lowering profit margins for both retailers and publishers.

Before analyzing the current Generation of games, we look back to the 6th Generation (PS2/Xbox/GC) of games and examine when and why premium price points began to decline. The following graphs are divided into three groupings, two by review score bands and one including all games. The median price point was chosen, as peripheral-based games (Rock Band) would drive up the average in some cases, while promotion based game (Burger King games, at \$3.99) would drive down the average in others. Additionally, most price points fall into certain groupings (i.e. \$39.99, \$44.99, \$49.99, etc) and an average would produce a result in-between these groupings (i.e. a \$47.33 average price point means nothing as a game will either debut at \$49.99 or \$59.99).

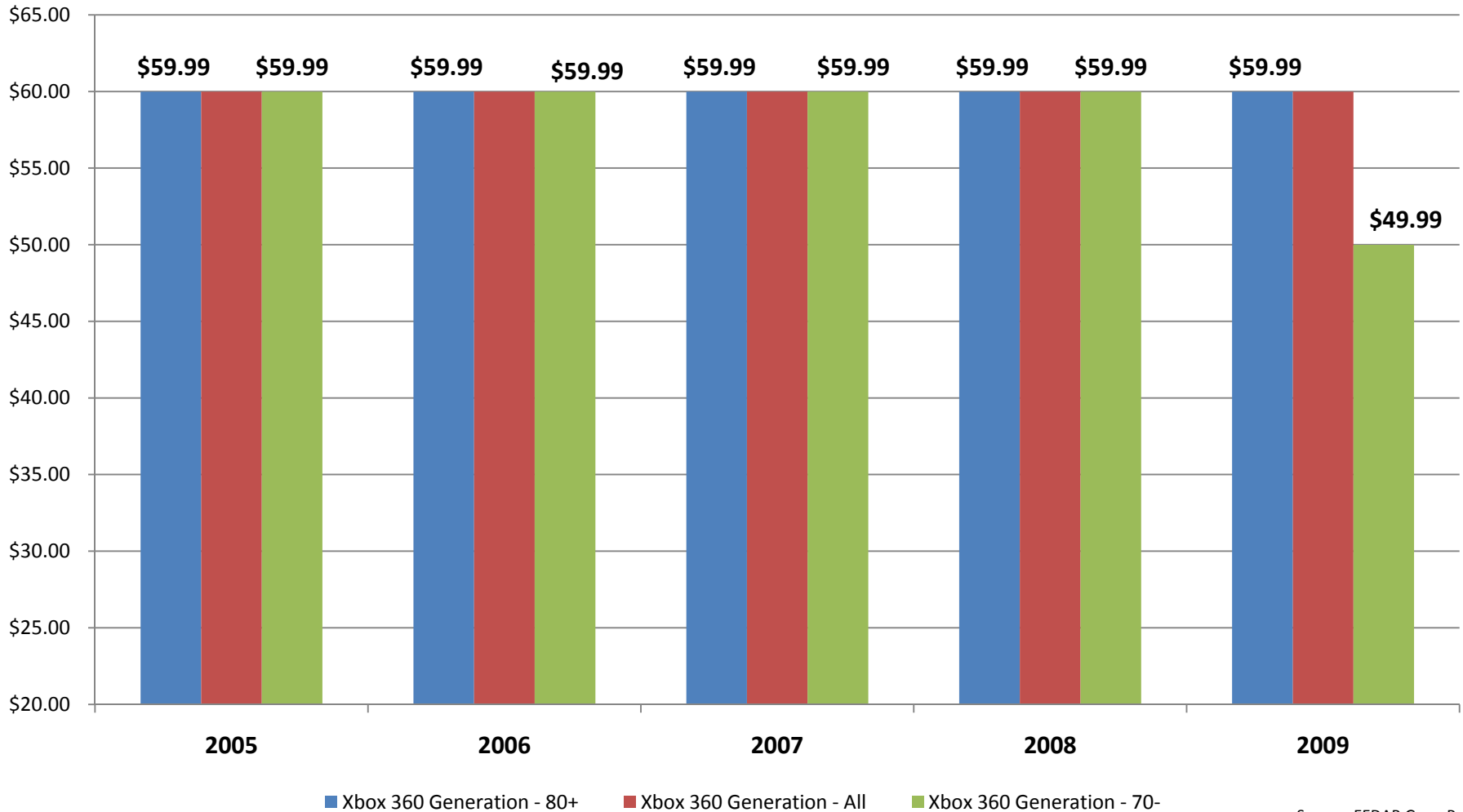
For reference, EEDAR performed similar analysis with other features (ESRB Rating, Genre, Release Month, etc) and found that quality scores had stronger correlations to initial MSRPs over other features.

Progressing through the 6th Generation (PS2/XBX/GC), shown on Graph 1, initial pricing as a whole and for games with lower quality scores did not decline until three years into the cycle*. However, games of high quality (80 or higher) maintained a constant initial price of \$49.99, the premium price point for the 6th Generation, for five years, which some consider to be the entire length of the 6th Generation.

Eventually, in 2006, median price points for highly rated titles declined to \$39.99. The cause was likely the release of the Xbox 360 and the pending holiday release of the Wii and PlayStation 3. In other words, pricing only declined due to a catalyst (the introduction of a new console) and not the result of the progression of time.

***Note: We consider the first year of the 6th Generation (2000) and 7th Generation (2005) as Year 0, since both Generations started near the end of the calendar year those calendar year.**

Median Initial Price Points Xbox 360 & PlayStation 3 - By Quality Score Band



Source: EEDAR GamePulse

Topic 2 – EEDAR Exposé – November, 2009

ANALYSIS

Examining the Xbox 360 and PlayStation 3, there is a similar trend in initial price points to that of the 6th Generation game titles. One extremely interesting item of note about the Xbox 360 and PlayStation 3 games is their ability to maintain a \$59.99 price point, for all games, for four years (three years on the PlayStation 3); one more year than the PlayStation 2, GameCube, and original Xbox.

EEDAR considers pricing for Xbox 360 and PlayStation games to be healthier than 6th Generation games – despite being in the midst of our current economic recession.

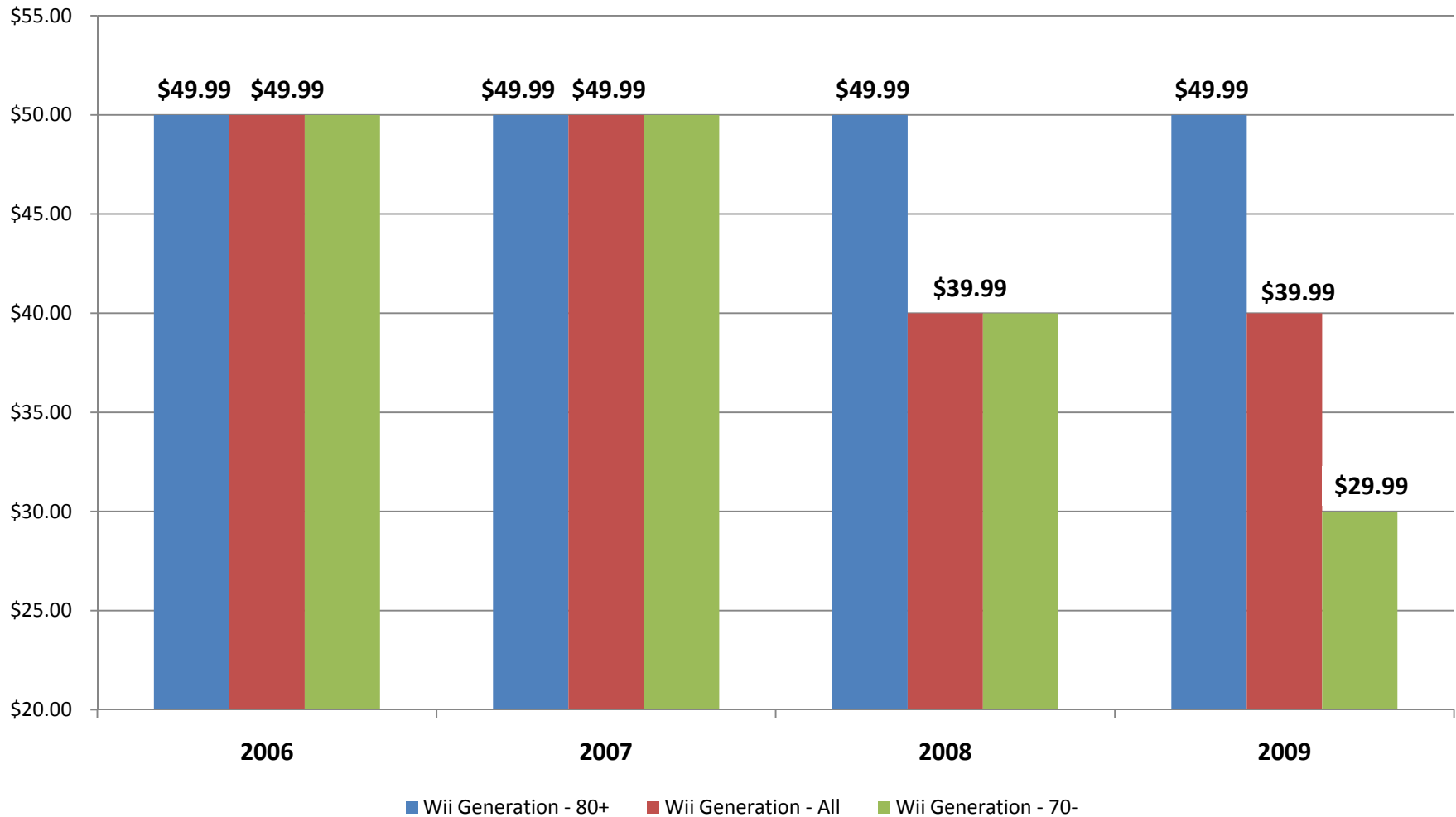
Looking ahead, EEDAR believes that median pricing for titles released in 2010 for the Xbox 360 and PlayStation 3, will decline to \$49.99, but likely will not occur until the beginning of the 2010 holiday season. The expected decrease to \$49.99 will be a directly attributable to the continued penetration of the casual market, an increase in quantities of low-cost casual games, and a decrease in development costs.

Additionally, Sony Motion and Project Natal will play their role in driving prices down. EEDAR believes that both the Sony Motion and Project Natal will create resurgence in demand among the casual market. Given that the casual market is more price sensitive and that overall economic health is not expected to dramatically improve in 2010, it is expected that there will be a sufficient increase in lower priced games targeted at this casual/mainstream audience to drive down the median price of titles for the Xbox 360 and PlayStation 3.

For games that deliver on quality (80+ rated games), premium pricing is likely to remain at \$59.99 for Xbox 360 and PlayStation 3. EEDAR does not foresee any significant catalysts that will change the current pricing landscape. Whilst there has been some experimentation around pricing of premium titles (*Beatles: Rock Band* for the Wii at \$59.99), we do not foresee any major shift by publishers to increasing initial MSRP's for flagship/premium titles.

The only scenario in which we foresee premium titles dropping in price is if a large publisher begins cutting prices in an attempt to gain market share in highly competitive genres. The NFL and NBA wars of the early 2000's being a prime example, where Take-Two released NFL 2K5 at \$19.99; NBA 2K5 at \$19.99 (EA priced their iterations at \$49.99 and \$39.99 respectively). This is unlikely to occur however as no publisher is currently in the financial position to give up profits for market share.

Median Initial Price Points Nintendo Wii - By Quality Score Band



Source: EEDAR GamePulse

ANALYSIS

The Nintendo Wii is in a category of its own, as the Wii's lower price points and unique demographic are radically different from the PlayStation 3 and Xbox 360.

Initial MSRPs for Wii games are comparable against 6th Generation console games, as both of these groups have a premium price points of \$49.99. For 6th Generation games, median prices begin to dip year three for the All Games and Below 70 categories. For the Wii, however, price points for All Games and Below 70 began to dip by year two; one year sooner than the 6th Generation. EEDAR believe this erosion in Wii pricing is occurring due to the casual and non-traditional gaming demographic that is more prevalent on the Wii than its competitors and previous Generations.

While many view these lower price points as a slippery slope for the entire industry, EEDAR believes differently. Nintendo the company and its consoles operate in a vacuum; its sales trends, formulas for success and even its technology, runs perpendicular to the rest of the industry.

Some classic examples of Nintendo's uniqueness:

- Microsoft and Sony leap the industry forward with consoles powered by multiple processors; Nintendo releases a console that has minor hardware upgrades from the GameCube, instead focusing on a revolutionary way in which we play games (motion control).
- Nintendo's competitors operate off a bleeding console business strategy (selling consoles at a loss); Nintendo does not.
- Publishers and console manufacturers are posting sub-part financial results; Nintendo breaks record profits.

These are just a few of many examples that demonstrate how different the Nintendo universe is from the rest of the industry. Applying Wii-like formulas to Xbox 360 and PlayStation 3 games has the possibility of producing extremely skewed results. An exception to this might be motion based gaming trends, which EEDAR believes translate well to other consoles entering this space. Of course, the Wii softened the ground to allow motion based gaming to succeed on other systems.

Additionally, many associate lower price points with the inferiority of a product, whilst this may be true in most cases for Xbox 360 and PlayStation 3 games, EEDAR believes differently on the Wii. Again, because of the Wii's unique and broad demographic, publishers are focusing more on targeting price sensitive consumers, which often mean creating a product that core gamers may consider inferior. Quality is truly in the eye of the beholder, and most Nintendo-Moms will tell you that Carnival Games (initial MSRP \$39.99 and quality score of 59) is a far more entertaining product than any Grand Theft Auto or Call of Duty.

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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.