

Retail Buyer Report July 2011

*Measuring the success
of Sony's Welcome Back Program*

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EEDAR
CONTEXT IS EVERYTHING

Introduction

- Sony offered a “Welcome Back” program after the PSN outage that provided users with two choices from a selection of four free PlayStation Network digital titles (*Infamous*, *LittleBigPlanet*, *Dead Nation* and *WipEout*) as incentive for users to resume their use of the PlayStation Network service.
- EEDAR research indicates that core consumers make up 75% of all console digital activity and the demographic of IGN users is a strong sample for measuring the success of the Welcome Back program.

Executive Summary

- All four Welcome Back titles, *Infamous*, *LittleBigPlanet*, *Dead Nation* and *WipEout* were in the top 25 of consumer reported title acquisitions in June 2011, according to IGN GamerMetrics.
- 17% of IGN users indicated they acquired a PlayStation Network digital title in June 2011, up from 13% in March 2011 before the PlayStation Network service was interrupted.
- Even when factoring out the four Welcome Back titles, 15% of IGN users indicated they acquired a PlayStation Network digital title (an increase from 13% in March 2011), indicating that the Welcome Back program likely increased sales of other digital products.
- Among 7th Generation home consoles (X360/PS3/Wii), the PlayStation 3 had a 44% share among acquired titles reported by IGN users (all formats) compared to 40% in March 2011.
- The success of the Welcome Back program may have negatively impacted physical retail sales in June 2011.

- Three independent data sources (IGN, GameTrailers, and Google) indicate that the Welcome Back program caused an increase in awareness and acquisition of titles where a newer iteration was available (i.e. *LittleBigPlanet 2*). In one case, it increased the awareness and possible purchase intent of sequels even though a sequel was non-existent (i.e. *Dead Nation 2*).
- The Welcome Back program may have highlighted a new successful sequence strategy for video games.
- EEDAR recommends that publishers should explore the possibility of releasing older iterations of titles for free to support the release of a new iteration.
- EEDAR recommends two different methods to capitalize on the free release sequence:
 - The first recommendation being a high risk/reward strategy where an older iteration is released free for a limited time before the new iteration’s release. This strategy, however, may negatively impact the relationship with physical retail outlets.
 - The second recommendation, a more palatable risk/reward strategy, where an older iteration is released two to four months post a new iteration launch, which could increase sales of the new iteration while retail pricing is still at a premium.

Definition Clarification

Please note that this issue of EEDAR’s Retail Buyer Report, makes several references to title ownership/acquisition according to the actions of IGN users. Acquisition can occur through several forms including new purchases at physical retail, used purchases, online purchases, digital download or person-to-person trade.

Welcome Back Program Successful

Ownership data, where IGN users specify they've added a title to their collection, indicates that all four of the free PS3 games ranked in the Top 25 acquired games during the first three weeks of the program (Table 1). In fact, *Infamous* ranked as June 2011's most acquired title for both 7th generation home consoles (PS3/X360/Wii) (Table 1) and all consoles (home/handheld).

During the month of June 2011, 17% of IGN users indicated they purchased a PlayStation Network digital title, up from 13% (a 30% relative increase) in March 2011, immediately prior to the PlayStation Network outage. While it may initially appear that the increase in downloads were due to the free offerings, a deeper analysis indicates otherwise. With the four Welcome Back titles removed, users indicated 15% of their purchases in June 2011 were PlayStation Network digital titles, compared to 13% in March. This positive trend, coupled with the success of all four digital titles in June, indicates that Sony's Welcome Back Program was successful in rekindling the activity and trust of PlayStation Network users, and lends to the notion that consumers can be forgiving if a company is sincere and authentic with its consumers.

PlayStation 3 Gains Share

Among users claiming title acquisition in June 2011, the PlayStation 3 had a 44% share among 7th generation home consoles, up from 40% prior to the PlayStation Network outage. As with the previous analysis, removing the four Welcome Back titles resulted in a 1% increase in market share from March 2011. While this increase in market share is small, the fact that the PlayStation 3 market share increased both with and without the free offerings indicates that the Welcome Back Program likely boosted sales of other paid content, specifically those available either exclusively through download or those that had a physical or digital purchase options.

Impact on Physical Retail in June

Given that the Digital Only and Physical/Digital category increased while the Physical-only category declined, it would be logical to assume that while the Welcome Back program positively impacted the PlayStation Network, it may have negatively impacted physical sales in June 2011.

A New Sequence for Video Games

ESRB president Patricia Vance once discussed the lack of "release sequences" in the video game industry compared to other forms of entertainment. For instance, a movie is first released in theatres where it generates the most revenue, then moves to the Pay-Per-View market, followed by the rental market and lastly, broadcast for free on network television. Within the video game industry, however, these sequences typically occursimultaneously with games being available physically, digitally and for rental concurrently and rarely made available for free.

The data would indicate that the free sequence may be incredibly beneficial to the video game industry. For instance, *LittleBigPlanet 2* experienced a 66% gain in IGN Page Views and a 23% increase in Unique Interest (an IGN viewer indicating interest or purchase in a title) in June compared to the month of May. A strong possible explanation for this would be that after consumers played *LittleBigPlanet* for free through the PlayStation Network, many actively looked for the sequel and in some cases purchased the game.

Using a separate metric, GameTrailers.com Media Views, *LittleBigPlanet 2* trailer views increased 69% over the comparable time period, independently reinforcing IGN's results.

Lastly, using Google Insights, a third independent data sourceand *Dead Nation*, another game from the Welcome Back program, consumer searches for "Dead Nation 2" skyrocketed the week of June 11th. Similar to *LittleBigPlanet 2*, EEDAR believes this data suggests consumers were actively seeking for more information (and possibly would have made a purchase, if a sequel had existed) for *Dead Nation 2*.

It Just Makes Financial Sense

While the Welcome Back program was designed to rekindle the activity and consumer trust of PlayStation Network users, the data suggests it may have highlighted a new profitable sequence for video games.

EEDAR offers two recommendations based on the current data and trends in the market on how to best implement a free sequence.

Free Prior

The first recommendation is to make free, for a limited time, an older iteration of the product prior to the launch of the title's next iteration.

When broken down mathematically, the results make a sound financial argument. If a game that once sold 2 million units in the market is currently available digitally and physically, it is likely producing gross receipts of about \$500,000 a month. Assuming that gross receipts reduce to \$0 during a 30 day period where a title is free (-\$500,000), as long as the free offering boost sales of the next iteration by 8,500 units (at \$59 ASP), then it would produce a net/net benefit to the publisher. EEDAR believes that the publicity generated from the free offering, in addition to new consumers being introduced to the series, would make the 8,500 unit mark easily achievable.

There exist two downsides, however, with offering a free title prior to the release of the next one in the iteration. First, series with strong storylines (e.g. *Mass Effect*), typically realizes much stronger sales on previous iterations the month prior and after a new iteration is released, to the point where the risk of losing all those sales may not be made up through purchases of the new iteration.

Second, this would be unfavorable to physical retailers due to the loss of potential back catalog sales of the older iteration immediately prior to the launch of the new title.

Free After

The second recommendation would be to release an older iteration, for free for a limited time, two to four months after a new iteration has been launched. The theory being that the free offering would likely boost sales of the new iteration while the new iteration still maintains its premium pricing structure (\$59.99/\$49.99) and has appropriate shelf space.

While the net/net benefit may not be as high as the first recommendation, it does limit risk to the publishers, while providing some potential upside to retailers.

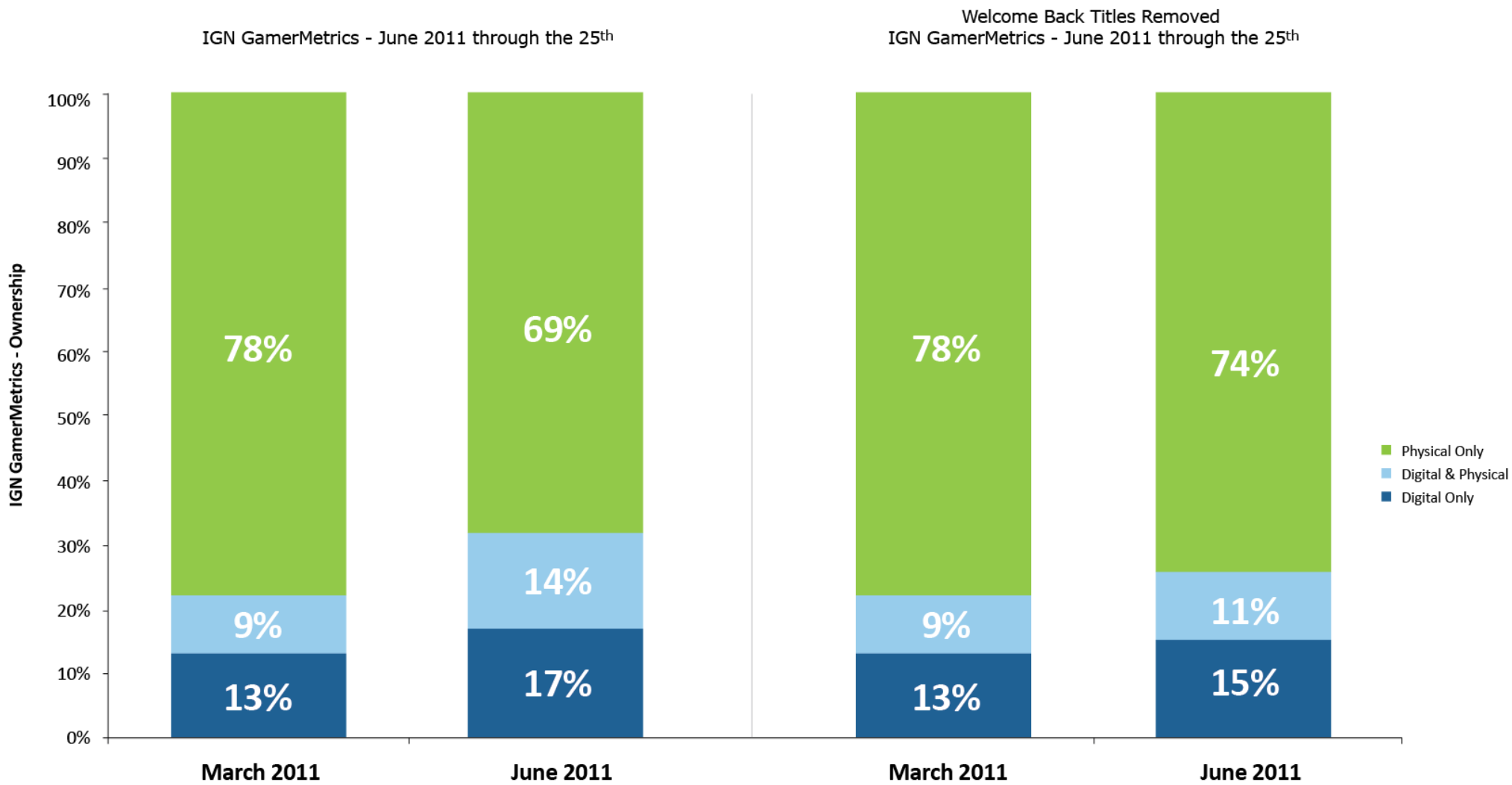
Acquisition/Ownership - 7th Generation Home Consoles

(06/03/2011 - 06/25/2011) - IGN GamerMetrics

RANK	TITLE	PUBLISHER	DISTRIBUTION METHOD
1	<i>inFamous</i>	Sony Computer Entertainment	Digital, Physical
2	<i>Call of Duty: Black Ops</i>	Activision	Digital, Physical
3	<i>L.A. Noire</i> [Rockstar Games Presents]	Rockstar Games	Physical
4	<i>Call of Duty: Modern Warfare 2</i>	Activision	Digital, Physical
5	<i>LittleBigPlanet</i>	Sony Computer Entertainment	Digital, Physical
6	<i>Red Dead Redemption</i> [Rockstar Games Presents]	Rockstar Games	Digital, Physical
7	<i>Halo: Reach</i>	Microsoft Game Studios	Digital, Physical
8	<i>Assassin's Creed II</i>	Ubisoft	Digital, Physical
9	<i>inFamous 2</i>	Sony Computer Entertainment	Digital, Physical
10	<i>Mass Effect 2</i>	Electronic Arts	Digital, Physical
11	<i>Uncharted 2: Among Thieves</i>	Sony Computer Entertainment	Physical
12	<i>Assassin's Creed: Brotherhood</i>	Ubisoft	Digital, Physical
13	<i>Grand Theft Auto IV</i>	Rockstar Games	Digital, Physical
14	<i>Fallout 3</i>	Bethesda Softworks	Digital, Physical
15	<i>Batman: Arkham Asylum</i>	Square Enix	Digital, Physical
16	<i>WipEout HD</i>	Sony Computer Entertainment	Digital
17	<i>Portal 2</i>	Valve	Physical
18	<i>Halo 3</i>	Microsoft Game Studios	Digital, Physical
19	<i>Call of Duty 4: Modern Warfare</i>	Activision	Digital, Physical
20	<i>Assassin's Creed</i>	Ubisoft	Digital, Physical
21	<i>Dead Space 2</i>	Electronic Arts	Physical
22	<i>Gears of War 2</i>	Microsoft Game Studios	Digital, Physical
23	<i>Dead Nation</i>	Sony Computer Entertainment	Digital
24	<i>Mortal Kombat</i>	Warner Bros. Interactive	Physical
25	<i>Final Fantasy XIII</i>	Square Enix	Physical

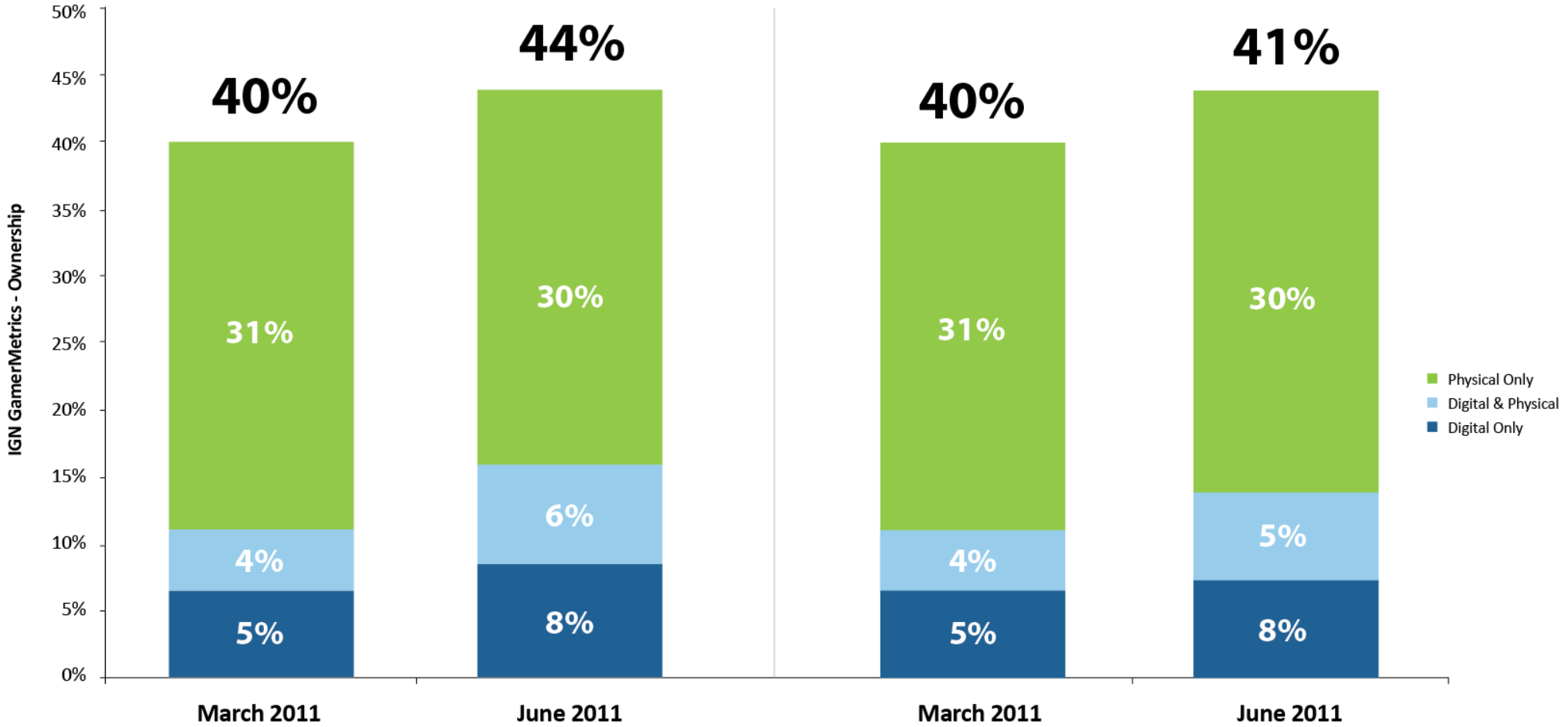
Note: Ownership/Acquisition can come in several forms including physical retail new, physical retail used, digital, or person-to-person trade.

Percent of Ownership - PlayStation 3



PlayStation 3 Share vs. 7th Generation Home Consoles

IGN GamerMetrics - Ownership Metric June 2011 through the 25th Welcome Back Titles Removed
 IGN GamerMetrics - Ownership Metric June 2011 through the 25th



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.

About EEDAR

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.

About IGN

IGN Entertainment, a unit of News Corporation, is the leading Internet media and services provider focused on the video game and entertainment enthusiast markets. Collectively, IGN's properties reached more than 45 million unique users worldwide November 2010, according to Internet audience measurement firm comScore Media Metrix. IGN's network of video game-related properties (IGN.com, GameSpy, FilePlanet, TeamXbox, Direct2Drive and others) is one of the Web's leading video game information destinations. IGN also owns the leading men's lifestyle website AskMen.com and provides technology for online game play in video games. IGN is headquartered in San Francisco, with offices across North America, Europe and Australia.

About GameTrailers

GameTrailers (GT) is the premier video destination for gaming entertainment and information. GT delivers timely, high-definition broadband video content for gamers that include original shows, video reviews, game trailers and comprehensive video coverage of gaming events from around the world. GT also has a robust community that features user-generated content, a community marketplace and a variety of communication tools so gamers can talk to friends and share media such as fan movies, machinima and daily blogs. GT has offices in Los Angeles, San Francisco and New York and is a division of Viacom Inc.'s (NYSE: VIA, VIA.B) MTV Networks Entertainment Group.