

Essay

To begin, the video game market is a constantly growing industry and record numbers have been reached in recent years, despite the presence of the global health epidemic that has been holding back much of the world economy. In fact, the video game audience represented a total of 3.2 billion players in the middle of 2021 and is expected to generate 180 billion dollars in the same year.

The video games industry concerns three main aspects of video game entertainment: design, production and then marketing. Indeed, this industry is composed of several players such as machine manufacturers, digital offers, cloud gaming, graphic engine developers, a huge quantity of independent and non-independent development studios and an enormous distribution network. Nevertheless, what we have just mentioned is not the real tip of the iceberg of this industry. Besides, even if digital gaming has started to develop, physical offers still keep their unconditional superiority. In fact, it seems that there are a handful of global businesses that truly rule and dominate several aspects of the market: the video game publishers. Amongst them, three Big names such as Sony Computer Entertainment, Microsoft, and Nintendo, seem to take the lead thanks to a serious characteristic: they are the only ones to offer a physical console on this market, which seem solidly opaque to new competitors' entries. So, focus on the video games publishers market; can we say that we live in a winner-takes-all economy?

A first part will study the main actors that leads and dominates the physical console and video games publishers. Then, a second part will analyses if these companies monopolize the current market and how. Computers will not be discussed in this study because although they are an integral part of the video game landscape, they are not all from a single model released by a specific manufacturer, unlike consoles.

As we said before, three main publishers and their respective consoles currently dominate the physical video game market: Nintendo with the Switch, Microsoft with Xbox, and finally Sony with Playstation. Contrary to Xbox and Playstation which are purely home consoles, the Nintendo Switch is more likely to be a hybrid console, which can be used both in mobile mode and connected to a television via a fixed dock. Consequently, these companies cover the two main sectors of the physical video game market. By the way, these ones are strongly implanted in the market, and demonstrated it with their fiscal year 2020-2021 report. Indeed, for example, this fiscal year was the most prolific in the history of Sony's video game sector, with 25 billion dollars. This figure is notably driven by the 7.8 million of the new PlayStation 5 sold by March 31, 2021. A successful start for this new console that does better than the PS4 over the same period in 2013. Similarly, on 31 March 2021, Nintendo said it had sold 84.59 million Switch units. Moreover, the firm expected to sell 25.5 million machines over the next fiscal year. Thus, that permitted Nintendo to make a turnover of 17 billion dollars in the fiscal year 2020-2021. Finally, Microsoft did not publish its detailed reports for 2020 from the Xbox branch. However, it shared that the company achieved a first quarter 2021 with an 11% year-over-year revenue increase of 357 million dollars. Therefore, these financial statements demonstrate a solid presence on the market for these three players. Nevertheless, these results are not accessible to everyone who is trying to enter the market.

The current companies have been in the business for a very long time and have a solid foundation in it today. Since the 2000s, very few brands have tried to launch their own physical console. And those that have tried have never managed to shake the Nintendo/Sony/Microsoft triangle.

Actually, the latest to try was Ouya in 2013, which was also the first console funded by the popular concept of crowdfunding. However, major manufacturing flaws and development constraints prevented its release from exceeding a few hundred sales. The same is true for the console project "The phantom", presented during the 2004 Electronic Entertainment Expo (E3) by Infinium Labs, which never found the necessary funds despite a buzz when it was announced. In fact, these projects were the talk of the town when they were announced, and generated a lot of attention from the gaming public and the press. In fact, many problems prevented them from having a stable and sustainable launch. Only one fact came back systematically in the reports of these failures: the lack of contents and exclusivities.

Now that the financial strength and stability of the current publishers has been established, it is time to analyze the reason for their reduced number. And more precisely, to see the progressive opacity of the video game console market. In fact, several brands have already tried to enter the market and launch new consoles. Nevertheless, many failures have dampened the expectations of outside companies that now prefer to focus on producing entertainment contents via the current consoles. That question about the factors that prevent manufacturers from proposing and sustaining a new competing offer. Firstly, the exclusivity war (which was previously limited to game licenses) has been highly intensified a few years ago by the mass buyout of entire development studios by major publishers. Indeed, it is not uncommon to see a small independent studio, or sometimes even a large renowned studio, being integrated by a bigger structure following a great success. In fact, studio buyouts have multiple benefits. It allows the integration of new structures and talented workers at a lower cost. It also guarantees easily the enrichment of the buyer's game catalog. And most importantly, by assimilating a studio, you neutralize the opportunity risk of competitors.

Microsoft Xbox has been the most active in this area, growing from its traditional six studios to twenty-three in just two years. Among them, for example, are industry giants like Bethesda (Doom, The Elder Scroll) bought for 8.1 billion dollars, and Rare (Donkey Kong, Sea of Thieves) bought for 375 million dollars. This buying spree has stabilized in 2021, but the company has significantly solidified its offering as well as its production capacity in quantity and quality. In addition, it announced later that it would continue to make acquisitions. Conversely, Sony and Nintendo are slow to react to Microsoft's new acquisition strategy. Sony began its maneuvers by securing the acquisition of one of its close and successful first party collaborators: Insomniac Games (Spider-Man Ratchet and Clank) for 229 million dollars. Nintendo has purchased Canadian studio Next Level Game, but says the strategy of acquiring new studios is not its priority. Thus, the major companies already in place have a large catalog of exclusive brands and content and are gradually strengthening it through their acquisitions. When this strategy is applied, it allows them to meet a quick and almost certain success at the launch of their consoles because players know they can find games that are not available elsewhere. So why invest in a new, unproven console that simply contains games that are also available elsewhere?

Thus, publishers are gradually assimilating the majority of the world's development studios and thus diminishing the buying opportunities for direct competition. As a result, a new machine trying to enter the market needs to find exclusive partners and this quickly jeopardizes its entry into the market because it needs exclusive content to convince customers. Obviously, this fact is still not the only factor of failure, but it seems to be one of the main ones.

To conclude this test showed that the physical console market was composed of three main players (computers aside) solidly established and generating colossal revenues. This stability gives them the possibility to consolidate their presence, by buying strategic structures, all the access to the

market making it more difficult. This situation can therefore be characterized by a limited number of elements that occupy almost all of the market share. This reach close to a "winner-takes-all" definition.