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Xbox LIVE Games Marketplace – Guiding Principles, Mission and Vision

June, 2011

Outline

- Introduction and Methodology
- Guiding Principles, Vision and Mission
- Sample Use of Principles
- Detailed Guiding Principles and Data
- Appendix

Introduction

- The purpose of this presentation is to outline the Guiding Principles, Vision and Mission for Xbox LIVE Marketplace
- The presentation is intended for internal Microsoft use only
- The Guiding Principles, Vision and Mission can be shared with Xbox ecosystem partners but are not intended for the end user of Marketplace (i.e. consumers)

Over the course of 3 months, the Marketplace team worked to develop the Guiding Principles, Mission and Vision.

Feb, 2011

Today

Set Charter

- Develop actionable Guiding Principles, Mission and Vision
- Principles, Mission and Vision to be forward looking based on market, consumer and competitive trends

Trends Analysis*

- Market Analysis**
- Enabling technology
 - Content
 - Devices
 - Consumer
- Competitive Analysis**
- Revenue models
 - Consumer experience
 - Pricing and positioning

Team Reviews

- Identification of key business questions
- Evaluation of business implications and considerations

Core Attendees (A-Z):

- James Burns
- Jessica Cui
- Adam Fossa
- Jason Ing
- Jenn McCoy
- Chad McFadden
- Marissa Mierow
- Alexandru Teodorescu-Badia
- Chris Young

Final Output

- Guiding Principles
- Mission
- Vision
- Sample Implementation Tools

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Xbox LIVE Marketplace Guiding Principles

Guiding Principle	Short Descriptor
1 Marketplace will strive to maintain the equal or higher value of digital entertainment versus its physical counterpart	Drive Digital Value
2 Marketplace will position the Xbox LIVE brand in a premium manner as well as deliver on Principle 1 by focusing first on content, then on merchandising, and lastly, discounting	Discount Last
3 Marketplace will experiment with and evolve new business models and marketing levers that focus on the benefits of digital products (e.g. promo of back catalog, targeting, content customization, windowing)	Experiment Often
4 Marketplace will act as an advisor to publishers to evaluate and experiment with methods to deliver against Marketplace's complete digital content roadmap	Advise Partners
5 Marketplace will price competitively, without becoming the low price leader, to ensure overall sustained financial health of the ecosystem	Price Competitively
6 Marketplace will evolve retailer relationships to sell to customers where they want to buy and include retailers in the move to digital if/when warranted	Evolve Retail
7 Marketplace will dynamically balance its focus between core and non-core gamers as the subscriber base changes, while also optimizing for geographic variances	Dynamically balance Core & Broad
8 Marketplace will collaborate with current (i.e. WP7, PC and .com) and future platforms to drive Marketplace revenue	Include Future Platforms
9 Marketplace will focus on Xbox LIVE subscribers. Non-connected Xbox owners are a distant second priority	Focus on Connected Users
10 Marketplace will strive to be ahead of evolving customer behaviors and partner business model needs	Ensure Future Success

Vision and Mission Statements

Vision

- Create the industry leading marketplace for games and digital entertainment services by delighting customers, evolving the entertainment ecosystem and rapidly innovating new business models.

Mission

- Employ an unmatched level of customer and partner insight to drive the success of the LIVE Marketplace and the Xbox ecosystem.

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The Guiding Principles can be made actionable as a checklist cover on any proposal submitted for Marketplace consideration.

Example Checklist

Marketplace Proposal Cover Page	
Guiding Principle	Meets?
Drive Digital Value	✓
Discount Last	✗
Experiment Often	✓
Advise Partners	✓
Price Competitively	✓
Evolve Retail	✗
Differentiate Core from Broad	✓
Include Future Platforms	✓
Focus on Connected Users	✗
Ensure Future Success	✓



- Evaluate proposal based on the number of Principles met
- Weigh the unmet Principles in the order listed
- Establish a guideline for the minimum number of principles that must be met to obtain approval

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Customer Segment Guiding Principles

Guiding Principle	Supporting Market Data	Implications
1 Marketplace will strive to maintain the equal or higher value of digital entertainment versus its physical counterpart	<ul style="list-style-type: none"> • Core gamers have high engagement, low price sensitivity and affinity for a small number of hit tiles • Steam maintains a premium digital position with marketplace features valued by gamers 	<ul style="list-style-type: none"> • Marketplace will not expedite the “race to zero” that is happening with games on non-console platforms • Marketplace will work closely with 1st party and 3rd party publishers to define and demonstrate the value of digital games
2 Marketplace will position the Xbox LIVE brand in a premium manner by focusing first on content, then on merchandising, and lastly, discounting	<ul style="list-style-type: none"> • Core gamers have high engagement, low price sensitivity and affinity for a small number of hit tiles • Most marketplaces focus on core gamers • Steam trains customers into ‘lower margin’ behavior by running frequent promotions 	<ul style="list-style-type: none"> • Determine quality of games based on customer belief of quality (i.e. this will vary across a new user vs. a casual user vs. a core gamer) • Marketplace will emphasize high quality content when merchandising • Greater need for data and analytics to better use content and merchandising as primary levers over discounting or price

Guiding Principle	Supporting Market Data	Implications
3 Marketplace will experiment with and evolve new business models and marketing levers that focus on the benefits of digital products (e.g. promo of back catalog, targeting, content customization, windowing)	<ul style="list-style-type: none"> • Emerging gaming platforms provide alternative revenue models -advertising based models on mobile phones and micro-transaction based models in social games • More gaming options provided on cheaper, more powerful technology on non-console devices • Digital marketplaces attempting to find ways to differentiate • Zynga made over \$500M on Facebook in 2010 • Rovio has sold over 12M copies of the paid version of Angry Birds in the Apple App Store 	<ul style="list-style-type: none"> • Develop dynamic bundles based on customer usage/preferences • Personalize presentation of title selections based on customer segment or specific consumer preferences • Manage relationship with retailers to minimize impact on sales of other Microsoft products via retail channels • Conduct ongoing experimentation with merchandising to ensure that XBLM stays relevant and is able to tailor offerings to its customers as they evolve • Experiment with 1st party and 3rd party content, such as avatars, to include time based exclusives for premium tiers etc. • Create new product cycles to extend sales lifespan for game titles • Work closer with 1st party to develop evaluate new business models to enhance monetization of franchises

Guiding Principle	Supporting Market Data	Implications
4 Marketplace will act as an advisor to publishers to evaluate and experiment with methods to deliver against Marketplace's complete digital content roadmap	<ul style="list-style-type: none"> • Higher cost, complexity and risks associated with console game development • Doubling game development costs across generations from \$4M to \$11M for lower end games • 'Hit-based' gaming business driven by lower-risk game sequels • Mobile and social platforms compete for game developers • Development across platforms is crowding distribution of games 	<ul style="list-style-type: none"> • Evangelize and educate publishers with MGS data to help extend franchises, and to offer features (such as avatars, consumables etc.), add-ons and transactional in-game apps that customers seek • Investigate new partnership options to generate greater revenues and re-evaluate current partnerships based on sales data vs. cost to support analysis
5 Marketplace will price competitively, without becoming the low price leader, to ensure overall sustained financial health of the ecosystem	<ul style="list-style-type: none"> • Doubling game development costs across generations from \$4M to \$11M for lower end games • Higher cost, complexity and risks associated with console game development • Core gamers have high engagement, low price sensitivity and affinity for a small number of hit titles 	<ul style="list-style-type: none"> • Do not focus on volume pricing, or commoditized pricing strategies as a core strategy • Track competitive pricing across platforms to ensure that games will be priced to compete with equivalent games in other console marketplaces • Price and promote within guidelines of publisher contracts • Avoid undercutting other channels

Guiding Principle	Supporting Market Data	Implications
6 Marketplace will evolve retailer relationships to sell to customers where they want to buy and include retailers in the move to digital if/when warranted	<ul style="list-style-type: none"> • Development across platforms is crowding distribution of games • Success of games on App Stores driven by developer supply and consumer demand • Growing consumer time spent on social networks and social games make it an important marketing and future transaction channel 	<ul style="list-style-type: none"> • Evaluation of ways to engage the retail channel more through products/services to help bridge physical and digital content as a method of customer engagement, customer retention and branding • Develop dynamic bundles based on customer usage/preferences • Personalize presentation of title selections based on customer segment or specific consumer preferences • Manage relationship with retailers to minimize impact on sales of other Microsoft products via retail channels

Guiding Principle	Supporting Market Data	Implications
<p>7 Marketplace will dynamically balance its focus between core and non-core gamers as the subscriber base changes, while also optimizing for geographic variances</p>	<ul style="list-style-type: none"> • Since 2006, more females are gaming but no change in age demographics • Females tend to play non-core games • Most marketplaces focus on core gamers • Game play innovation is engaging a wider more casual gamer • Core game marketplaces lack of success in monetizing casual gamer segment 	<ul style="list-style-type: none"> • In the short term, focus on core gamers (e.g. 80% on core today) but will change over time (e.g. less focus on core gamer) • Determine a way to distinguish casual vs. core gamers (e.g. Kinect users as a proxy for casual gamers, present a different featured titles for Kinect vs. non-Kinect users) • Correct issues in existing markets to ensure that offerings are localized • Set up processes to ensure application of local understanding in product offerings • Set up a partner evaluation process to identify geographic requirements and subsequent partner selection process

Guiding Principle	Supporting Market Data	Implications
8 Marketplace will collaborate with current (i.e. WP7, PC and .com) and future platforms to drive Marketplace revenue	<ul style="list-style-type: none"> • Mobile and handhelds lead growth in gaming devices at a rate of 18.5% between 2010-14 • Slowing console games market declining at a rate Of 2.4% between 2010 and 2014 • Game play innovation is engaging a wider more casual gamer • Downward pressure on pricing from games on emerging platforms 	<ul style="list-style-type: none"> • Work with leadership to guide the platform strategy to ensure optimization of revenues • Short term focus on .com and console • Mid term, expand focus on the Windows Phone 7, dependent on executive focus for XBLM • Long term focus on any additional platforms (e.g. streaming on TV etc.) determine the XBLM and Xbox LIVE strategy groups • Work with engineering and MCB to develop mobile apps to drive push-to-box purchases; keep in mind potential expansion to non-Xbox platform • Develop marketing campaign to educate customers on cross channel tools • Determine how to create a gaming experience across platforms that encourages additional purchases, or employs new revenue models (such as advertising)

Guiding Principle	Supporting Market Data	Implications
9 Marketplace will focus on Xbox LIVE subscribers. Non-connected Xbox owners are a distant second priority	<ul style="list-style-type: none"> • Xbox LIVE gold subscribers contribute the majority of Marketplace's revenue • Silver members on market place can be better monetized 	<ul style="list-style-type: none"> • Work with engineering to develop new capabilities needed to enable easy targeting, tracking and reporting across different customer segments • Short term, work with CRM group to develop means to use sign-up and usage data to appropriately time and customize consumer communications • Longer term, work with CRM group to experiment with messaging and targeting to gather better data to enable more effective targeting of customer segments
10 Marketplace will strive to be ahead of evolving customer behaviors and partner business model needs	<ul style="list-style-type: none"> • Mobile and handhelds lead growth in gaming devices at a rate of 18.5% between 2010-14 • Slowing console games market declining at a rate Of 2.4% between 2010 and 2014 • Downward pressure on pricing from games on emerging platforms • Growing consumer time spent on social networks and social games 	<ul style="list-style-type: none"> • Periodic refresh and evaluation of the industry, competitive and consumer landscape • Enhanced analytics to monitor and track changes in consumer behavior • Need for close publisher and retailer relationships for an exchange of data to be ahead of trends

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Market Analysis Summary – Details [HERE](#)

Drivers	Key Points	Key Implications to XBLM
Market Size	<ul style="list-style-type: none"> WW video game market will grow at a 10.5% CAGR from \$51B in 2009 to \$84B in 2014 Online game segment will grow from \$11.7B in 2009 to \$30.6B in 2014, a CAGR of 21.3%, driven by growth in APAC Wireless game segment will grow from \$7.3B in 2009 to \$13.1B in 2014, a CAGR of 12.3% PC Games is the only declining segment 	
Competition	<ul style="list-style-type: none"> Traditional physical retailers are expanding their digital presence in games All major competitors have digital offerings Competitors typically price digital games at a lower price point than physical games All digital retail websites focus on targeting the core gamer New competitors are on emerging gaming platforms such as mobile devices, social networks and cloud services 	
Market Trends	<ul style="list-style-type: none"> Fast improving technology on mobile phones make it a strong alternative to consoles for non-core gamers Developer community on emerging platforms is fast growing resulting in an abundance of games on these platforms Downward pressure on price is driven by freemium and ad-based games available on mobile and social platforms The Wii, Move, and Kinect coupled with social game publishers developing games for consoles, drives more non-core gamers to consoles than ever before New revenue models are being explored on mobile and social platforms that compete for gaming mind and wallet share 	<ul style="list-style-type: none"> Online and wireless games present strong growth opportunities where XBLM can leverage areas of Microsoft's broader portfolio A key point of differentiation is required to carve a unique value proposition for XBLM users Segmentation is becoming more important with the growth of non-core gamers on XBLM who are more price sensitive than core gamers There is a need for a strong developer value proposition for games on XBLM to counter developer focus on mobile and social games, and also maintain depth and breadth of games that appeal to XBLM's newer customer segments Low priced and free online social games and wireless games challenge traditional gaming price models Pricing schemes should be evaluated to combat popular, emerging revenue models being employed on competing gaming platform marketplaces

Pricing Analysis Focus of Evaluation – Details [HERE](#)

XBLM Levers and Value Chain Impact

