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Business of Video Games

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### Electronic Arts Executive Memo

Electronic Arts (EA) is one of the most influential and successful video game publishers in the world, known for shaping the gaming industry with its innovative titles and franchise presence. Since its founding in 1982, EA has emerged as a global leader in gaming by producing a wide variety of games that appeal to a broad audience across consoles, PC, and mobile platforms. The company has consistently leveraged its technological advancements and game development expertise to create immersive experiences that have defined multiple gaming generations. With a portfolio of successful franchises such as *FIFA* (now renamed *EA Sports FC*), *Madden NFL*, *The Sims*, *Battlefield*, and *Apex Legends*, EA has established itself as a dominant game publisher. However, recent challenges, including the underperformance of *EA Sports FC 25* and *Dragon Age: The Veilguard*, indicate that EA may be relying too heavily on established franchises. *EA Sports FC 25* saw lower-than-expected sales, likely due to its transition away from the FIFA branding, increased competition from Konami's *eFootball*, and a lack of major gameplay innovation. *Dragon Age: The Veilguard* suffered from development challenges, delays, and only saw 1.5 million players in engagement; nearly 50% less than EA expected. This was likely due to changes in its combat system and deviation from fan expectations. These struggles highlight the need for EA to reduce its reliance on sequels and invest in original IPs in order to sustain long-term growth while meeting increasing consumer demand for new gaming experiences.

EA ranks among the top game publishers worldwide, with annual revenues exceeding \$7.5 billion and a market capitalization of approximately \$37.5 billion. Over the past five years, EA's revenue composition has shifted significantly towards digital content, with live-service games and microtransactions now contributing over 73% of total net revenue. Digital net revenue increased from \$5.49 billion in FY23 to \$5.55 billion in FY24, reflecting a 1% year-over-year growth. This shift has been driven by sustained engagement in franchises like *Apex Legends*, *FIFA Ultimate Team*, and *The Sims 4*, which generate recurring revenue through in-game transactions and seasonal content updates. Despite a modest overall revenue increase of 2% year-over-year, digital services remain EA's most reliable revenue source, accounting for the majority of its financial growth. However, its reliance on annual sports titles and established franchises has led to fluctuations in performance, as seen in the recent underperformance of *EA Sports FC 25*. In comparison, competitors such as Activision Blizzard and Take-Two Interactive have diversified their portfolios with both long-standing franchises and new IPs that have resonated with modern audiences, such as *Overwatch*, *Diablo IV*, and *Red Dead Redemption 2*. This highlights the importance of EA adopting a similar strategy by investing in original IP development to ensure sustained growth and market leadership. The company's current business model is primarily dependent on annual sports titles, live-service models, and microtransactions. EA's performance across different platforms reflects this strategy, as indicated by the growth of PC and mobile revenue. Additionally, EA reported \$7.43 billion in net bookings for FY24, up 1% year-over-year, signaling stable consumer spending even amid shifting market trends. Despite challenges with certain game titles, EA achieved record cash flow of \$2.315 billion in FY24, up 49% year-over-year, demonstrating strong financial stability. While EA's live-service models and microtransaction strategies have been lucrative, they have also made EA vulnerable to market

fatigue. The underperformance of *EA Sports FC 25* serves as evidence of EA's vulnerability to market fatigue, as the game experienced a slower-than-expected performance, contributing to a 4-6% decline year-over-year for the Global Football franchise in Q3 FY25. This underperformance was one of the key drivers behind EA revising its financial guidance downward, leading to a 6% decline in net bookings and a 3% drop in total revenue for the quarter. The game struggled to maintain momentum, as fewer players felt incentivized to transition from past versions. Additionally, *Dragon Age: The Veilguard* engaged only 1.5 million players—50% below projections. These figures suggest that EA's dependence on legacy franchises is no longer a guaranteed formula for success.

The gaming industry is evolving, with players gravitating towards unique and exciting experiences rather than repetitive sequels. The success of new IPs such as *Elden Ring*, *Palworld*, and *Black Myth: Wukong* demonstrates a strong consumer appetite for original content. Additionally, franchise fatigue has negatively impacted long-standing series such as *Call of Duty* and *Battlefield*, both of which have seen diminishing returns due to a lack of significant innovation. Meanwhile, independent studios are capturing market share by delivering inventive gameplay mechanics and compelling narratives, as seen with *Hollow Knight*, *Hades*, and *Baldur's Gate 3*. Furthermore, diversifying revenue streams through new IPs allows companies to experiment with different monetization strategies, from single-player premium experiences to live-service integrations.

Investing in original IPs provides several key advantages. It fosters long-term growth by reducing reliance on annualized sports titles and sequels. It enhances brand differentiation, positioning EA as an innovator, rather than a company known primarily for rehashed franchises. It also increases player engagement by offering experiences that appeal to a broader

demographic, ensuring sustained consumer interest. To successfully develop and market new IPs, EA must be strategic, as investing in original IP comes with risks.

These risks include high development costs, market uncertainty, and potential failures if new titles do not resonate with players. Unlike established franchises with built-in audiences, new IPs require extensive marketing efforts to generate awareness and interest. Additionally, development timelines can be unpredictable, and delays or misaligned player expectations can result in financial losses. To mitigate these risks, EA should conduct extensive market research before greenlighting new projects, leverage early access programs for player feedback, and implement phased development cycles for iterative improvements. Additionally, EA should balance its portfolio by introducing new IPs gradually while continuing to support successful franchises to diversify its offerings without overextending resources. The company should provide creative teams within BioWare, Motive, and EA Originals with dedicated funding to experiment with new concepts. Encouraging autonomy will foster innovation and allow these studios to develop games that break from traditional EA formulas. Additionally, EA should invest in mid-tier projects with budgets between \$20 million and \$50 million. This approach enables the company to test new ideas without the high-stakes pressure of AAA game development. Successful mid-budget IPs can later be expanded into larger franchises if they resonate with players.

EA should explore new gaming genres and trends, including immersive RPGs, cooperative multiplayer experiences, and narrative-driven sci-fi. Leveraging cutting-edge technology, such as Unreal Engine 5 or enhancements to Frostbite, can further distinguish these games in the market. To build excitement and refine game mechanics based on player feedback, EA must integrate early access programs and beta testing. Additionally, partnering with

influencers and content creators can generate organic marketing reach and help build a dedicated player base before launch. If a new IP proves successful, EA should capitalize on its momentum through expansions, sequels, and potential transmedia adaptations such as TV series, films, and merchandise. Monetization should be player-friendly, balancing optional DLCs, cosmetic items, and expansions without aggressive paywalls.

By prioritizing original IP development, EA can reduce its dependence on annual sports franchises, broaden its player base, and establish itself as a leader in gaming innovation. New IPs will in turn create new revenue streams, enhance brand perception, and ensure EA remains competitive in an industry that rewards creativity and originality. Given the market's strong demand for new gaming experiences, this strategic shift is essential for EA's long-term success. To implement this plan, EA should approve the development of two to three original IP projects within the next fiscal year and allocate appropriate funding. By doing so, the company can ensure that they remain at the forefront of the gaming industry.