UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS

UNDERGRADUATE THESIS

# EXAMINING THE POTENTIAL OF BRAND EXTENSIONS VS. NEW BRANDS IN THE VIDEO GAME INDUSTRY

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ŽAN TOPLIŠEK

**STATEMENT**

I, Žan Toplišek, student of the Faculty of Economics, declare to be the author of this undergraduate thesis, written under the mentorship of doc. dr. Tomaž Kolar. In accordance with the author's and related rights in Article 21, Paragraph 1 of the copyright law, I allow the publication of the undergraduate thesis on the web sites of the faculty.

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# TABLE OF CONTENTS



## TABLE OF FIGURES

**TABLE OF TABLES**

# INTRODUCTION

Peter Drucker, an influential writer and management consultant once said: "When the change outside is greater than the change inside, the end is near." (Drucker, 1985) While this rather general quote can be applied to various business fields and can be interpreted in numerous ways, the simple, yet significant message it delivers could not be more synonymous with the field of (new) product development – markets constantly evolve and if one does not keep up with the changes, then one is soon to be left behind. In other words, it underlines how very important it is for companies to constantly innovate.

Whereas in some industries the need for new product development is indisputable, the same doesn't seem to apply to the hit-driven video game industry, where brand extensions have dominated the sales charts for a number of years and have thus gradually hampered the development of new intellectual properties.

It also doesn't help that the video game industry has radically changed in the last years and the pace of change has altered dramatically which has only made the companies more risk-averse, as they struggle to capture audiences for their products. With such sweeping changes, the need to innovate and create new intellectual properties is more and more questioned.

With that said, the aim of the thesis is to discover whether or not new product development is necessary in the video game industry by examining the characteristics and potential of new original intellectual properties and brand extensions. The results of the research will then help to formulate a proposition as to how companies should manage their products.

The **research objectives** are as follows:

1. Discover the advantages and disadvantages of extending the life cycles of existing game brands

2. Discover the advantages and disadvantages of investing in a new game (brand) as opposed to making a sequel to an existing game series

3. Discover how sustainable one or the other brand strategy is in the short and long term

The research will be conducted by the **case study research method**, as this type of empirical method allows for an investigation of a contemporary phenomenon in depth and within its real-life context. The results of the research will then help to formulate a proposition as to how companies should manage their products.

The thesis is divided into six chapters and can be segmented into three parts: **introduction**, **body**, and **conclusion**.

Introduction is the introductory part of the thesis and serves to present the reader with the introduction to the problem that is being examined, the aim, objectives, and method of the research, and how the thesis is structured.

Body is the most extensive part of the thesis and consists of a theoretical and empirical segment. The theoretical segment familiarizes the reader with the concepts that will be discussed in the second half of the body, whereas the empirical segment first introduces the reader to the video game industry and then analyzes the brand philosophies of two video game companies as part of a multi-case study.

Conclusion is comprised of a comparison of research results obtained from the multi-case study and a conclusion which summarizes the main findings of the research and offers a concluding proposition for the industry.

# 1 NEW-PRODUCT DEVELOPMENT

## 1.1 Innovation and new products

The term innovation derives from the Latin word innovatus, which is the noun form of innovare "to renew or change," stemming from *in*-"into" + *novus*-"new". Although the term is broadly used, innovation is normally interpreted in business as a process by which an idea or invention is translated into a good or service for which people will pay, or something that results from this process (Innovation, 2011).

According to the reputable economist Joseph Schumpeter, who is regarded by many as the prophet of innovation, "creative destruction is the essential fact about capitalism." (Schumpeter, 1950) With this popular quote of his, he described the process of transformation that accompanies radical innovation. Unlike economist Adam Smith, who was of the belief that an "invisible hand" generated stability in the marketplace, Schumpeter believed that the force that sustained long-term economic growth was innovative entry into markets by new companies/entrepreneurs, even as that ruined the value of established companies which enjoyed monopoly power to a certain degree gained from previous technological, organizational, regulatory, and economic paradigms (The Father of Creative Destruction, 2002).

Roberto Verganti, the author of Design-Driven Innovation: Changing the Rules of Competition by Radically Innovating What Things Mean and a professor of management of innovation at Politecnico di Milano, notes in his latest work that innovation has so far centered on two strategies: significant strides in product performance thanks to breakthrough technologies – the domain of radical innovation pushed by technology – and improved product solutions enabled by better analysis of users' needs – the domain of incremental innovation pulled by the market (also known as user-driven innovation). He then unveils a third, new strategy: design-driven innovation. Innovations of this sort do not come from the market; they create new markets. They don't push technology; they push radically new meanings (Verganti, 2009, pp. 3–4).

While many top executives today aim only for breakthroughs, Rosabeth Moss Kanter, a tenured professor in business at Harvard Business School, cautions that presenting incremental and breakthrough innovations as polar opposites is, in fact, misguided, as the two go together. To explain this notion of parity, she compares an innovation system with a pyramid.

Lying at the base are a large number of small ideas which are gathered regularly both internally and externally. Thanks to these smaller ideas, continuous improvements and incremental innovations can be implemented immediately. With this base emphasized, companies ensure operational excellence and empower everyone to participate in a culture of creativity and change. Next, in the middle is the new-opportunity incubator which holds a portfolio of projects, prototypes, and ventures with growth promise. Finally, at the pyramid's peak are a few major bets companies make about future directions – technologies, growth businesses, and themes. These get priority for resources and management attention because of their breakthrough potential. In short, her belief is that companies need all the blocks of the pyramid, based on both incremental and breakthrough innovations (Kanter, 2010).

Innovation is put on the market in the shape of new products. Since new products come in a variety of forms, what constitutes a new product is debatable. According to Rogers and Shoemaker, while it's difficult to establish whether a product is actually new with regards to the passage of time, a product is new so long as it is perceived to be new. In other words, the newness of a product is relative to what preceded the product (Trott, 2005, pp. 393). Although there are many classifications of new products, the commonly accepted categories of new product developments are as follows (Trott, 2005, pp. 395–6):

1. **New-to-the-world products:** the first of their kind and create a new market. They make up only a small proportion of all new products.
2. **New product lines (new to the firm):** new only to the specific company, not the marketplace. Through these, companies enter established markets for the first time.
3. **Additions to existing lines:** different from the company's existing products, but not so much that they represent a new product line.
4. **Improvements and revisions to existing products:** replacements of existing products in a company's product line, normally with improvements to the performance and reliability. These represent a significant proportion of new products.
5. **Cost reductions:** usually not viewed as new from a marketing perspective, as they don't offer any new benefits to the consumer, save for a possible price reduction. From the company's perspective, however, they are treated as new products, as they provide immense added-value potential due to reduced production costs.
6. **Repositionings:** products resulting from the discovery of new applications for existing products.

Regardless of their classification, all new products are difficult to introduce. New products which provide incremental changes over its predecessors, as is the case with line extensions, are hard to sell, because consumers often wonder or can't perceive what is new about the product, which, in turn, requires companies to create things around them to make them interesting. Companies launching revolutionary products have an even harder job, as they are the first in their category and nobody yet knows what the product is supposed to do. Therefore, it's of paramount importance that they educate consumers as to what the purpose of their product is. Naturally, this is easier said than done. Attracting the attention of early adopters doesn't really necessitate much work, not when compared to the next step – getting the mass audience to adopt the product (Schneider & Hall, 2011). It is no wonder then that only 10 percent of all new products are considered truly innovative, with most new product activity revolving around improving existing products (Trott, 2005, pp. 395).

In the end, irrespective of whether a company decides to pursue an incremental innovation or breakthrough innovation, it all starts with a product idea. In the following sub-chapters, the reader will learn about what it takes to bring a new product to the market, as well as the risks and benefits of new-product development.

## 1.2 New-product development process

Considering the brisk, ever-changing consumer tastes, technology, and competition, companies must be able to bring out a steady flow of new products and services to satisfy the market needs and avoid falling behind its competitors. They can do so either by obtaining products through acquisition, as a result of buying a whole company, a patent, or a license to produce someone else's product, or through new-product development in their own R&D departments to produce original products, product improvements, product modifications, and new brands (Kotler & Armstrong, 2007, pp. 253). In order to create successful new products, a company must carry out strong new-product planning and organize a systematic new-product development process (Kotler & Armstrong, 2007, pp. 254–63):

1. **Idea generation:** Every new product starts when an idea is born in the stage of new-product development called idea generation – the systematic search for new-product ideas. However, not every idea is potential enough to be developed into a product. Far from it, as a matter of fact, as companies normally run through thousands of ideas before they settle on the one and only which they believe can lead to a successful product. As such, companies draw ideas from two major sources: internal and external environments.

   If a company opts to draw from internal idea sources, it usually turns to its executives, engineers, salespeople etc. To make idea searching an easier and more involving process, many companies have developed successful programs which encourage employees to come up with interesting new-product ideas.

   For example, Samsung has gone so far as to build a special center, called Value Innovation Program (further on referred to as VIP) Center, in Suwon, South Korea to promote new-product innovation internally. It has helped Samsung transform from a company once known as the maker of cheap knock-off products to one of the world's leading innovative and profitable consumer electronics companies.

   The other major source of new-product ideas are external sources, such as customers, competitors, distributors, and suppliers. As far as customers are concerned, the company can simply analyze their questions and complaints to find new products that better suit their needs, meet with them and work with them to come up with new ideas, keep its eyes open for any new uses its consumers create for its products on their own, or even give them the tools and resources to create their own products. Possibilities are endless. However, the company must not rely too much on its customers' input, especially when it comes to highly technical ones, because customers may not know what they need and send the company in a wrong direction.

2. **Idea screening:** Assuming the previous stage was a successful one and resulted in the creation of a large number of ideas, the next step in new-product development is to reduce this number through idea screening. Since product development costs rise more and more in the following stages, it's important for the company to pick good ideas out from the bad ones as soon as possible which is also the purpose of idea screening. Many companies go about reducing ideas by requiring their executives to assess the potential of ideas based on product description, target market, competition, estimated market size, product price, projected development time and costs, manufacturing costs, and estimated rate of return. A specially assigned committee then evaluates each idea against a number of general criteria.

3. **Concept development and testing:** An idea with high potential then has to be developed into a product concept, a detailed version of the new-product idea stated in terms a consumer can understand (usually, more than one concept is created). Once concepts are developed from the idea, they then have to be tested with groups of target consumers. Concepts can be presented to them symbolically or physically, however, the more concrete and physical the presentation is, the more reliable will be the results of the test. Having witnessed the concepts, consumers are then normally asked a series of questions so as to find out which concept has the strongest appeal.

4. **Marketing strategy development:** The product concept that target consumers rate the highest then receives an initial marketing strategy for introducing the product to the market. The marketing strategy statement typically consists of three parts: the product's target market, its planned price, distribution, and marketing budget for the first year, and, lastly, the projected long-run sales, profit goals, and marketing mix strategy.

5. **Business analysis:** Once management has settled on its product concept and marketing strategy, the business attractiveness of the product proposal is evaluated through business analysis, a review of the sales, costs, and profit projections to find out whether or not the product can meet the company's objectives.

6. **Product development:** If the product concept passes the business analysis, it's time for the R&D or engineering to develop it into a physical product to see whether the product idea can be made into a workable product. This transition from idea into physical product takes a lot of time and demands a large increase in investment. The goal is to create a prototype that will live up to, or even better, surpass the expectations of consumers and that can be developed quickly and with as low costs as possible.

7. **Test marketing:** Considering the product passes all the tests so far, the next step is test marketing. Here, marketing management is given the opportunity to market the product before it's fully introduced and see how the product fares in more realistic market settings.

The company's entire marketing strategy can be tested, including positioning strategy, advertising, distribution, pricing, branding, and budget levels. However, not all products need to be test marketed. In cases when the costs of developing and introducing the product are low or when management is certain the product will do well, especially if the product is a simple line extension or a copy of successful competitor product, there is little to no test marketing.

8. **Commercialization:** Following test marketing, management has to make the most important decision up until now – whether to commercialize the product or not. The fact that, from here on out, costs will only rise makes it even more essential that the management fully believes in the new product's success. Another crucial element of the new-product launch that the company has to get right is launch timing. Lastly, the company must decide where to first release the product – in a single location, a region, the national market, or the international market. In case the company doesn't possess the confidence, capital, or/and capacity to launch the product into full national or international distribution, and many of them don't, it devises a planned market roll-out over a specific period of time.

## 1.3 Risks and benefits of new-product development

For companies to survive in today's tumultuous environment, they must be able to adapt and evolve, especially considering they run their business knowing that their competitors will eventually enter the market with a product that changes the standards of the market.

In almost every industry, from aerospace to pharmaceuticals and from motor cars to consumer electronics, the leading companies are at the top for a reason: they innovate. And one cannot blame them, as the potential rewards of new-product development are enormous, not the least of which is an excellent opportunity for growing the business (Trott, 2008, pp. 4).

A notable example that nicely demonstrates the importance of innovation and new-product development is the well-documented success story of Apple Inc. Upon his return to the company, Steve Jobs first revitalized Apple's computer business with the release of the iMac personal computer in 1998 and new operating system named Mac OS X in 2001. Realizing that achieving real growth for the company would require even more creative thinking, Jobs incorporated a new innovation process at the company (Kotler & Armstrong, 2007, pp. 250 – 1).

Instead of starting their innovation process by listening to consumers and observing them using existing products to understand their needs, as the conventional management wisdom dictated, Apple instead opted to make a proposal about what could fit consumers' needs. In other words, the company told consumers what they should have (Verganti, 2010). This is how Apple launched three major market-disrupting innovations over the past decade: the iPod (in conjunction with game-changing iTunes Store), a ground-breaking MP3 player which now ranks as one of the greatest consumer electronics hits of all time, the iPhone (together with the App Store), a smartphone that four years later arguably still hasn't been matched by rivals, and the iPad, a tablet computer which already made a considerable dent in the traditional PC sales in just over a year on the market, despite considerable initial skepticism (Anthony, 2010).

The question that now lingers on everybody's mind is whether or not Apple can sustain this remarkable track record. Patrick Barwise, an emeritus professor of management and marketing at London Business School, and Seán Meehan, the Martin Hilti Professor of Marketing and Change Management at IMD, Lausanne, Switzerland, have published an article citing well-founded concerns over Apple's future, saying that the company's success "may have left it less open, less sensitive, less flexible, and less responsive." They back up their claims with a few examples of Apple's questionable business practices: the unethical response to the iPhone 4 antenna issues experienced by a large number of early adopters, its surprising decision to claim 30 % of the App Store revenue, and its unwillingness to share consumer data with App Store content providers. Note that the professors do not claim this means the end for Apple, but rather that it should be cautious not to end up like Motorola and Nokia, the once dominating companies in the mobile phone market (Barwise & Meehan, 2011).

On the other hand, innovation has also proven to be very expensive and very risky in countless cases. Reasons for failure are many. Even though an idea might be good at the outset, numerous products don't perform well, because their respective companies overestimate market size. Maybe the actual product isn't designed well or features unappealing packaging. It is possible that someone from higher management isn't doing his job in the interest of the company, but rather follows their own agenda by pushing an idea in spite of poor marketing research findings. Or it might be that the product wasn't positioned right, launched at the wrong time or in the wrong region, priced too high, or wasn't advertised enough. The company may have also just underestimated the competition or the costs of product development (Kotler & Armstrong, 2007, pp. 253).

Some examples of failed products from established companies include New Coke from Coca-Cola Company and Arch Deluxe sandwiches from McDonald's. In the case of New Coke, the company was desperate for an answer to the growing market share of its arch rival Pepsi, so it decided to tamper with the tried-and true Coca-Cola formula with the 1985 release of the new taste of Coca-Cola, New Coke. What it didn't know is how emotionally attached its customers were to the old drink and brand. The public's reaction to the change was extremely negative and the New Coke was a major marketing failure. Subsequently, the company was forced to reintroduce the old Coca-Cola which led to a significant gain in sales (It seemed like a good idea at the time, 2005). As for the failed Arch Deluxe burgers, McDonalds wanted to broaden its image, so it introduced the Arch Deluxe burgers in 1996, this time targeting the sophisticated, urban demographic. This was in complete contrast with its reputation as the symbol of fast, low-priced American food. Turned off by its high price and unconventional marketing campaign, customers ignored the new offering, making the new line of burgers a commercial disaster. McDonalds discontinued the Arch Deluxe soon after (5 Failed McDonald's Menu Items, 2011).

Altogether, there's no questioning if new-product development is required of companies or not; it is. Whether it's a ground-breaking new idea, or simply a new extension in an existing line, companies need to stay one step ahead of their competitors, despite the risks that new-product development carries (high level of uncertainty, clouded judgment, insufficient market research, and high development costs being chief among them). Companies that don’t do so, or get too comfortable with their current market position are nothing but sitting ducks for their competitors.

Since the aim of the thesis is to compare the potential of new, original properties with that of extensions from established brands in the video game industry, being familiar with the process of new-product development and the different forms new products take will prove instrumental in the empirical part of the thesis.

## 2 PRODUCT LIFE CYCLE MANAGEMENT

Having explained how an idea is introduced to the masses in the form of a new product, it’s now equally important to explore the other side of the issue at hand which is how to handle the product once it’s out in the competitive market.

As mentioned earlier, every product seems to go through a life cycle. First, it is introduced to the market. Then, it undergoes several stages. Sooner or later, the time comes when the product dies and, in its place, new products are introduced which better serve consumer needs. This kind of life cycle presents two major challenges, one of which has already been discussed at great length in the previous chapter: due to the fact all products eventually decline, a company must be proactive and adept at developing new products to replace the aging ones. Second, the company must be able to adapt its marketing strategies to what the state of the market dictates as its product undergoes life-cycle stages. Management wants the product to have a long and successful life cycle in order to recoup all the costs that went into launching it.

Product life cycle is thus defined as the course of a product’s sales and profits over its lifetime which is divided into five distinct stages (Kotler & Armstrong, 2005, pp. 269–73):

1. **Product development:** It begins when an idea for a new product is born and lasts until the product is ready for launch (if the product successfully passes through its development, of course). In this initial stage, sales stay at 0, whereas investment costs rise.

2. **Introduction:** Once the product reaches store shelves, the introduction stage starts. Due to high promotion/distribution costs and low sales, profits are normally either negative or low. Since the market is not yet ready for product refinements, a basic version is released at first, targeted at consumers who are most likely to buy.

   When a company launches its product, especially the market pioneer, its launch strategy has to be in line with the planned product positioning and must serve as a means to an end rather than an end in itself. If the company decides to go all-in right from the start, it may be sacrificing long-term revenue for the sake of short-term gain. It has the best chance of building and retaining market leadership if it leaves room for formulating new pricing, promotion, and other marketing strategies in the later stages of the life cycle.

3. **Growth:** If early adopters continue to buy the product and are followed by later buyers (most likely) as a result of positive word of mouth, it means the product has satisfied the market and, as such, entered a growth stage. Taking notice of this success, (new) competitors will

enter the market and release their versions of the product with new features, thus expanding the market. This increase in competition, in turn, augments the number of distribution outlets and sales increase just to build reseller inventories. Promotion spending remains at the same or a slightly higher level, since educating the market is still important. In addition to that, however, the company must now also face the competition.

As promotion costs are spread over a large volume and as unit manufacturing costs fall, profits increase. So as to maintain rapid market growth as long as possible, the company improves product quality and adds new product features and variations. To keep the momentum going, it enters new market segments and distribution channels. Two other marketing strategies used in this stage include shifting advertising from building awareness to building product conviction and purchase, and reducing prices at the right time to attract even more buyers.

The growth stage also presents the company with a choice between high market share and high current profit. If it further invests into product improvement, promotion, and distribution, it will able to obtain a dominant position, but will have to give up maximum current profit by doing so.

4. **Maturity:** Eventually, the sales growth of a product slows down or even levels off. This is when the product passes into the maturity stage, the stage that tends to last longer than the earlier stages and is known to cause strong challenges for the marketing management. As a consequence of the drop in sales growth, the market gets oversaturated which results in fiercer competition. In hopes of getting the attention of consumers, competitors lower prices, ramp up advertising and sales promotion, and increase their R&D budget to come up with better versions of the product. Naturally, these measures lead to a drop in profit which forces the weaker competitors out of the market, leaving behind only the more established companies. Instead of simply enjoying the sales while they still last, product managers should consider one of the following:

   a) Modifying the market: with this move, the company tries to increase the consumption of the current product by, for example, looking for new users and new market segments or ways to increase usage of the product among present customers.

   b) Modifying the product: by changing the characteristics of a product, like quality, features, style, packaging, or performance, the company can attract new users and encourage more usage of the product.

   c) Modifying the marketing mix: sales can also be improved by changing one or more marketing mix elements: price, place, promotion, product. The company may decide to introduce price cuts in order to attract new users, including competitor’s customers, or/and utilize aggressive sales promotions, such as trade deals, premiums, and contests.

5. **Decline:** When sales slowly decline, fall to a low level and continue for many years, or, simply, drop to zero, the product has transitioned to the decline stage. The reasons for the

decline are many: technological advances, change in consumer tastes, increased competition etc. In this stage, marketing management normally has three choices:

a) Maintain: a company may decide to maintain its product without change in the hope of the competition leaving the industry or reposition/reinvigorate the product with the intent to place it back into the growth stage of its life cycle.

b) Harvest: one of the alternatives is to harvest the product, i.e. reduce the various costs associated with the product in hope of maintaining the same level of sales. If successful, this move can increase the company's profits in the short term.

c) Drop: a company's last option is to either sell the product to another firm or liquidate it at salvage value.

In case a company doesn't pay a well-enough attention to its aging products, the results can prove very costly. A weak product can take up too much of management's precious time, since it, despite being in decline, still requires frequent price and inventory adjustments, as well as advertising and sales-force attention. Moreover, doing nothing about its weak products may delay the company's push towards replacing products, hurt its current profits, and weaken its market position in the future. Hence, it's crucial for companies to identify such products in a timely manner by constantly reviewing sales, market shares, costs, and profit trends.

However, not all products follow the typical product life cycle demonstrated above. There are products which enter the market, only to die quickly, others which stay in the mature stage for what seems like an eternity, as well as some which have transitioned to the decline stage and are then cycled back into the growth stage with the help of heavy promotion or a repositioning strategy (Kotler & Armstrong, 2007, pp. 267–8).

At the end of the day, it stands to reason that if a brand is well-managed, it could live forever. For a prime case in point, just take a look at Coca-Cola, the brand that has been around for 125 years. By keeping the brand (advertising, packaging, communication, and product) consistent all throughout its life-cycle and by having the various elements of the marketing mix work harmoniously together, the company has ensured a long, healthy life for the iconic Coca-Cola brand. (Coca-Cola's Consistency Most Remarkable, 2011)

The PLC concept can describe three categories of products to which it applies differently in each case. One is a product class (the Ford Escape) which has the longest life cycle out of the three, because the sales of product classes normally stay in the mature stage for a long time. Next is a product form (SUVs). Product forms, compared to product classes, possess the characteristics of the standard PLC shape – they go through a regular life cycle of introduction, growth, maturity, and decline. The last of the three is a product brand (the Ford Explorer) and it's also the one which tends to have the shortest life cycle, due to changing competitive attacks and responses.

In addition to product classes, forms, and brands, the PLC concept can also be applied to styles, fashions, and fads:

1. **Style:** a basic and distinctive mode of expression which, once invented, may last for generations, passing in and out of trend.
2. **Fashion:** a currently accepted or popular style in a given field which tends to grow slowly, remain popular for a period of time, and then decline slowly.
3. **Fad:** a temporary period of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity. It may be part of an otherwise normal life cycle or comprise a brand's or product's entire life cycle.

The PLC concept can be applied as a useful framework for describing how products and markets work. When used correctly, it can help in forecasting product performance and developing good marketing strategies for different stages of the product life cycle. However, such usage of the concept also has its challenges. For example, it's difficult to identify which stage of the product life cycle a product is in, how long a particular stage is going to last, or knowing exactly when the product moves into the next stage.

Additionally, marketing management may have a hard time determining which factors have an effect on the product's movement through the PLC stages; and even if the product's current PLC position implies the use of certain marketing strategies as the best way to go forward, there is still the possibility that these strategies will have a negative effect on product performance in the later life-cycle stages. This sort of dilemma is a consequence of the fact that marketing strategy is both a cause and a result of the product's life cycle (Kotler & Armstrong, 2007, pp. 268-9).

By explaining how to manage a product throughout its life cycle, the reader will now have a better understanding of not only the introduction of a new product to the market, but also the care and management it takes for the product to live a long, healthy life cycle. Additionally, knowing about the differences between the various types of the PLC concept will help later on when different kinds of products in the video game industry will be discussed.

# 3 BRAND MANAGEMENT

Before shifting focus to the empirical part of the thesis, one more important element has to be added to the theoretical framework and presented to the reader – brand management.

The American Marketing Association (further on referred to as AMA) defines a brand as a »name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition.« Many brand managers feel this is only the basic premise of brands, saying there's a lot more to brands, like having created awareness, reputation, prominence, emotional significance to customers, and so on in the marketplace (Keller, Aperia & Georgson, 2008, pp. 2). Therefore, brand management is the process of maintaining, improving, and upholding a brand, with the goal to keep the brand name associated with positive results (Brand management, 2011).

Although, on one hand, brands and products are essentially the same thing, it's actually important to differentiate between them. A product is a physical item, service, shop, person, organization, or idea which is offered to a market for attention, acquisition, use or consumption, with the intention of satisfying a need or want. A brand goes further than a product. It adds other dimensions which separate it from other products designed to satisfy the same need. These brand differences can be rational and tangible when related to the brand's product performance, or more symbolic, emotional, and intangible when related to what the brand represents (Keller, Aperia & Georgson, 2008, pp. 2–3).

Despite the rising importance of brands to consumers and the growing recognition of their value, brand management has been made more difficult by a number of developments. Consumers are more and more familiar with marketing and how it works, and are thus also more demanding. Traditional advertising media, such as TV advertising, have greatly diminished in importance and effectiveness, because of this. Marketing decisions have been made complicated by the proliferation of brands and products, mainly due to the rise in line and brand extensions (in other words, brands are now associated with a number of products of varying degrees of similarity). Both demand-side (stagnation, or worse, decline in consumption for many products and services) and supply-side (more and more competitor products due to globalization, low-priced competitors, rise in brand extensions, and deregulation) factors have brought about an increase in competitive intensity. As a result of increased competition, the cost of introducing and supporting a product has also increased, and quite rapidly too. Making brand management even more challenging are the growing organizational pressures experienced by brand managers who are encouraged to come up with quick-fix solutions to satisfy investors and senior management. To the detriment of companies, these solutions often come at the expense of long-term benefits (Keller, Aperia & Georgson, 2008, pp. 30–3).

Needless to say, understanding the intricacies of brand management is as important as ever to companies, including game publishers and developers in the video game industry. Throughout this chapter, the reader will learn about two other kinds of new products, complementing the knowledge gained in the previous chapter on new-product development, their strengths and weaknesses, and some of the brand strategies used today in business, all of which are relevant in one way or another to the video game industry.

## 3.1 Brand extensions

As demonstrated above with the marketing strategies a company should employ in the respective stages of a product's life cycle, existing products can very much grow a business if handled right. When a company decides to introduce a new product, it can develop an entirely new brand, as presented in the first chapter, it can apply, in some form, one of its existing brands, or it can combine a new brand with an existing one. A brand extension encompasses the latter two options, with the brand from which they derive called the parent brand. Should the parent brand already be linked with brand extensions, it may also be referred to as a family brand.

Brand extensions can be divided into two categories (Keller, Aperia & Georgson, 2008, pp. 568):

1. Line extension: a new product associated with the parent brand that targets a new market segment within the product category served by the parent. It normally involves a different flavor, ingredient variety, form, size, or application for the brand (e.g. Coke Zero, iPhone 4).
2. Category extension: a new product associated with the parent brand that enters a product category different from the one served by the parent brand (e.g. Virgin Airlines, Windows Phone).

## 3.2 Advantages and disadvantages of brand extensions

For many companies it's not whether they should or shouldn't extend a brand, but rather where, when, and how. If brand extensions are planned and implemented well, they can aid new product acceptance and enhance the parent brand.

Advantages offered by brand extensions to aid new product acceptance (Keller, Aperia & Georgson, 2008, pp. 577–99):

1. Improved brand image
2. Reduced risk perceived by customers
3. Increased probability of gaining distribution and trial
4. Increased efficiency of promotional expenditures
5. Reduced costs of introductory and marketing campaigns
6. Avoided cost of developing a new brand
7. Allowed packaging and labeling efficiencies
8. Consumers permitted to seek variety

Advantages offered by brand extensions to provide feedback to the parent brand:

1. Clarified brand meaning
2. Enhanced parent brand image
3. New customers in the brand franchise and increased market coverage
4. Revitalized brand
5. Permitted subsequent extensions

Although brand extensions grant many advantages if managed well, they can also spell trouble for companies.

Disadvantages of brand extensions:

1. Can confuse or frustrate consumers
2. Can be refused at retailers
3. Can fail and hurt parent brand
4. Can cannibalize sales of parent brand
5. Can succeed but diminish identification with any one category
6. Can succeed but hurt the image of parent brand
7. Can dilute brand meaning
8. Can cause the company to forgo the chance of developing a new brand

## 3.3 Reinforcing brands with product-related performance associations

When reinforcing brands, among other things, it's important to make a distinction between brands whose central associations are product-related performance benefits and brands whose central associations are non-product-related benefits. While the benefits of the latter can potentially be easier to change, say, through an advertising campaign which communicates a different type of user or usage situation, due to their intangible nature, the benefits of the former usually prove much harder to change. The reason lies in the fact that innovation is critical to maintaining or enhancing brands with product-related performance associations. This holds especially true for companies in categories as diverse as toys and entertainment products. A good example of such a brand is Gillette who has built remarkable equity in its razors and blades categories through innovation (Keller, Aperia & Georgson, 2008, pp. 658–660).

If a company which relies on performance-based products fails to innovate, it can find itself in deep trouble. One needs only to look at Nokia, the once leading mobile phone manufacturer. Once it shot to the top of the industry, it failed to do the most important thing – to innovate. Instead of creating innovative products which excite customers, it hung to its market share. Consequently, Nokia declined rapidly. Since the introduction of Apple's iPhone in January 2007, its shares have dropped 49 percent. Its profit margins have shrunk. The same goes for its market share and the average prices of its phones (How Nokia Fell from Grace, 2010). Now, Nokia desperately hopes to regain its position by partnering with Microsoft and replacing its dated Symbian platform with the Windows Phone 7 operating system (Nokia and Microsoft: Can two weaklings make a muscleman?, 2011).

Another important aspect a company has to keep in mind when making changes to its brand is that an improved product shouldn't deviate from its predecessor too much, as that can alienate the loyal customer base who might find the product to be too different. In addition, the company must also choose the right time to announce and introduce a product improvement – doing so too soon or too late can have damaging effects, as consumers may stop buying existing products or competitors may have already seized up the opportunity with their own improvements, respectively (Keller, Aperia & Georgson, 2008, pp. 661).

## 3.4 Fortifying brands versus leveraging them

Every company's dream is to have a strong and consistent portfolio of esteemed brands which stick in consumers' minds long after purchase. Brands of this type are greatly desired notably because they present the company with many benefits in terms of cost savings and revenue opportunities. When managing brands, it's important to be cognizant of the tradeoffs between the marketing activities whose goal is to fortify and contribute to brand equity and the marketing activities whose goal is to capitalize on existing brand equity to gain financial rewards.

That said, marketing campaigns can be specifically designed so that they capitalize on or maximize the aforementioned benefits offered by brands with a high level of awareness and a positive brand image by, for example, reducing advertising expenses, seeking increasingly higher price premiums, or introducing brand extensions. And the more brand equity benefits are capitalized on, the more likely is that the brand and its source of equity are neglected, all at the possible expense of other marketing activities whose goal is to fortify the brand (Keller, Aperia & Georgson, 2008, pp. 655–6).

## 3.5 Secondary brand associations

### 3.5.1 Co-branding

In addition to being applied to an existing brand through a brand extension strategy, a new product can also be linked to other brands from the same or a different company. This case of combining two or more brands into a joint product or marketing them together in some shape is called co-branding. It's a widely recognized and used business strategy which can increase the scope and influence of a brand, help it enter new markets and/or embrace new technologies, reduce costs and refresh brand image (Keller, Aperia & Georgson, 2008, pp. 310).

According to Blackett and Russel, co-operation between the parties involved can be segmented into four different forms, depending on the expected duration of the relationship and the amount of value that can be created in co-operation: co-branding, joint promotions, alliances, and joint ventures. Regardless of their differences, the underlying reason for any co-operation is the mutual benefits the parties involved hope to gain with synergy, beyond the ones they would be able to gain on their own (Blackett & Russel, 1999).

The obvious advantage co-branding presents to those involved is the virtue of two or more brands combined as opposed to that of a stand-alone brand. As such, these partnerships can create more compelling points of difference or points of parity, or both, for the brands used than might have been possible otherwise. Consequently, not only can co-branding generate superior sales from the existing market, open up opportunities with new consumers and channels, reduce the cost of product introduction and accelerate potential adoption, it can also serve as a much-needed means of creating a distinctive product, especially in poorly differentiated categories.

Naturally, co-branding also comes with its share of possible disadvantages. For one, if the brands involved don't perform as expected, their reputation can be significantly damaged in consumer minds. The stakes only get higher when you take into account that consumer expectations about the level of involvement and commitment with co-brands are likely to be high. Add to that the lack of control that comes as a consequence of co-branding and a possible lack of focus on existing brands, and it becomes apparent that co-branding must not be taken lightly by companies.

For a successful co-branding strategy, both brands need to have sufficient brand equity with strong, positive, unique associations. Most importantly, there needs to be a logical fit between the brands so that the combined power of brands involved can maximize the advantages of the standalone brands and minimize the disadvantages (Keller, Aperia & Georgson, 2008, pp. 315–6).

### 3.5.2 Licensing

Licensing occurs when a firm decides to use another firm's brand (its name, logo, character etc.) for the purpose of amplifying the brand equity of its own product. Since it can be used as a shortcut to building brand equity in the case of a licensee and can serve as an easy way to increase a brand's exposure and image, as well as generate extra revenues and profits, in the case of a licensor, licensing is a very popular business practice – in North America alone, retail sales of licensed products reached 52.5 billion EUR in 2005 (Keller, Aperia & Georgson, 2008, pp. 326–8).

It's especially popular in the entertainment industry. The lucrative videogame industry, for example, used to be known to be heavily reliant on licensed products in the late 1990s and early 2000s, be it based on sports, movies, or kids TV shows. Since this industry, like any other creative one, is a hit-driven business, and as game budgets incessantly rise, videogame companies have no choice, but to do everything necessary that their games, at the very least, break even. Making matters worse for said companies is that it is next to impossible to predict what will resonate with consumers. The answer to this enormous financial uncertainty in many companies' eyes used to be licensing. The logic went that if consumers became fans of a certain movie hit, they would want to immerse themselves in the world they knew and liked even further – licensed games were, therefore, viewed as a superb means to extend a brand's success (Invasion Of The IP Snatchers: Exploring Licensed Versus Original Games, 2005).

Licensing today is not as popular as it used be in the video game business, notably movie-videogame adaptation business, due to reduced profit margins, higher royalty fees, and creative limitations that it presents. Because of these changed circumstances, publishers opt to invest more and more into their own properties (A Frank discussion with EA, 2010).

From an overall standpoint, like any co-branded arrangement, licensing is not without its risks. One big concern among companies is that the product using the license won't live up to the reputation of the licensor's brand. Among other things, inappropriate licensing can dilute brand meaning in consumer minds and temper with marketing focus within the organization (Keller, Aperia & Georgson, 2008, pp. 329–30).

Ultimately, a brand is a perceptual entity which resides in the minds of consumers, even though it originates from reality (Keller, Aperia & Georgson, 2008, pp. 10). When it comes to brands with product-related performance associations (the category which videogames fall into), product innovation is chief in maintaining continuity and expanding the meaning of the brand. Managing these also requires knowing the tradeoffs between activities which aim to fortify and contribute to brand equity and activities which aim to capitalize on existing brand equity to reap some short-term financial benefit.

With the ever-growing number of brands in the marketplace and increased competition, more and more companies make use of such secondary branding practices as co-branding and licensing. Although not without their faults – loss of control, negative feedback effects, and risk of brand equity dilution to name a few – co-branding and licensing enable companies to make use of and take advantage of brand equity they don't have, reduce cost of product introduction, increase access points, and generate additional revenue.

As new product development plays a crucial role when bringing a new product to the market, so does brand management when it is time to maintain and improve upon a brand with extensions. Which types of brand strategies are used in the video game industry and what opportunities and risks they carry will be discussed at great length in the following, latter half of the thesis. The goal of this ensuing part will be to determine whether it's more profitable for a company to focus on the development of new, original IPs or extensions of established brands by taking two prominent game publishers as examples and examining their brand strategies.

# 4 INTRODUCTION TO VIDEOGAME INDUSTRY

With the theoretical framework established, it's now time to move on to the empirical half of the thesis. However, before proceeding to the case study research, it's important to first present the video game market to the reader.

The one-day record holder for a movie premiere is currently Harry Potter and the Deathly Hallows: Part 2 which brought in $ 91 million in ticket sales on its opening day in the US (Box Office Mojo, 2011). The one-day record holder for a video game in the US is currently Call of Duty: Black Ops which managed to eclipse the sales of the latest Harry Potter movie considerably – first-day US sales of the latest installment in the Call of Duty series, which became the top selling game of all time in March 2011, were as high as $ 310 million (Call of Duty breaks sales record, 2010). This wasn't the first time video game sales outpaced movies. The video game industry surpassed the movie industry in gross sales for the first time in 2007. In 2010, the US video game revenue totaled $18.6 billion (NPD: Behind the Numbers, December 2010, 2011).

The video game industry of today is very different from the one 10 years ago. Gone is the emphasis on high-budget video games and disconnected users. What is even more striking is that today's video game players are of all ages, demographic and geographic backgrounds, whereas ten years ago young, "hardcore" male gamers were thought to be the only market segment worth targeting (The Video Game Industry: An $18 Billion Entertainment Juggernaut, 2008).

While it’s true that video games are definitely more like brands than they are products, because it’s such a competitive market with so many products which strive to be different from one another in so many different ways, product quality still plays a huge role in a video game’s success. It’s an industry which is most certainly all about the product. Therefore, video games can be considered as both products and brands (E3 perspective: An interview with John Riccitiello, CEO of Electronic Arts, 2008).

Being profitable in the video game industry isn't as straightforward as investing in the company making a high-budget game. You also have to take into account the machines these games are played on. The industry can be divided into games, consoles, and accessories. Games are sold in many different formats at retail and digitally. Most prominent are console games. These work only on a specific company’s video game system – called a (video game) console – and are the most expensive type of video games to make in the industry (more on costs later on) (The Video Game Industry: An $18 Billion Entertainment Juggernaut, 2008).

Another very important platform in the industry is the PC (personal computer). Although PC gaming was said to be dying for the past decade, due to the ever growing popularity of game consoles, this isn’t so according to the industry’s professionals (id Software: PC Gaming Is Not Dying, 2010). The truth is simply that the platform has significantly changed over the past years, spurred mainly by the move into the digital space. Also growing in importance as a gaming platform in the recent years have been mobile phone game applications. A recent 30-day Nielsen study goes a long way to show that: the results clearly show that games continue to be the most popular mobile phone application category (Play Before Work: Games Most Popular Mobile App Category in US, 2011).

The console market is dominated by three video game console manufacturers: Nintendo which produces Wii consoles, Microsoft which produces Xbox 360 consoles, and Sony which produces Playstation 3 consoles. Hundreds of game developers around the world develop games for these consoles and release them with the help of game publishers (The Video Game Industry: An $18 Billion Entertainment Juggernaut, 2008). Whereas the Wii is geared toward the casual gamer market, the Xbox 360 (with the exclusion of its movement-based peripheral Kinect) and Playstation 3 are targeted more at the core gamer market which is why the majority of products for the latter two are made for male gamers, the average age of which is 37 years old (Nintendo Boasts 9 Million Player Advantage Among Female Console Gamers, 2009; Industry Facts, 2011).

Excluding the massive amount of time that goes into the development of a game engine, upon which games are built, labour is the largest cost in developing a game. In 2010, for example, an average annual salary for programmers equaled $85k and that of artists and animators amounted to $ 71k. The cost to make an average console game can run from $ 10 all the way up to $ 50 million (Game Developer Reveals 2010 Game Industry Salary Survey Results, 2011). When compared with the average 2007 movie cost of $ 106 million, it becomes clear why the profit margins in the video game industry are so attractive. Making the profit margins even higher when compared to the movie industry, although less accessible to the mass audience, is the manufacturer’s suggested retail price of console games which equals $ 60 (Gears of War 3, 2011).

Although the profit margins certainly are attractive, it’s the high uncertainty surrounding game sales forecasts that makes the video game business very risky. As Michael Pachter, a consumer analyst at the leading financial services and investment firm Wedbush Morgan, candidly puts it, “The truth is that nobody is really good at forecasting game sales. I’ve only gotten it right once in my entire career” (Pach-Attack! - Episode 226, 2011). Since the sales potential is the only deciding factor when it comes to green lighting new game projects, publishers have been putting out more and more brand extensions or **sequels**, as they are called in the industry. These prove to be a safer investment, as they already have an established user base, thanks to its predecessors (Pach-Attack! - Episode 139, 2010).

As will be discussed later on, most publishers release games on an annual basis, every two years, or every three to five years (Activision: 500 developers working on Call of Duty, 2011; Axed THQ studios were ‘not consistent with’ publisher’s strategy, 2011; Take-Two isn’t interested in “beating” a franchise “to death” with yearly releases, 2011). Even though these have more sales potential, based on the success of the **originals**, the product quality still plays a crucial role which keeps game companies on their toes and evolving their game series (Call of Duty: Modern Warfare 3 - E3 2011: Development Interview, 2011). If product quality suffers, it’s highly likely the sales will suffer too. The product quality is measured by the aggregate score of reviews written by the industry’s top game critics – game product elements such presentation, graphics, sound, gameplay, and lasting appeal are graded (IGN Ratings and Reviews Policy, 2011; Gears of War 3 Review, 2011). These are collected by the website Metacritic, the game industry’s current standard review aggregator (High Scores Matter To Game Makers, Too, 2007).

Even so, game publishers can’t rely solely on sequels. They also need to invest into the riskier new, original game projects to keep their businesses aloft. It’s for this reason that a competent brand strategy is of paramount importance for the companies in the video game industry.

# 5 RESEARCH

## 5.1 Research plan

### Research aim

The research will deal with examining the potential of brand extensions and new, original brands in the videogame industry. The main goal will be to determine which of the two brand strategy alternatives is more appropriate for a videogame company in terms of profitability. The extent of success or failure will be measured by sales, the magnitude of which depends on a variety of factors; these will be uncovered throughout the analysis of research data and then presented at the end.

### Research design

Due to the exploratory and contemporary nature of the problem at hand, the case study research method has been chosen to carry out the research. A case study is normally described as an empirical inquiry which investigates a contemporary phenomenon in detail and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. It also allows investigators to retain the holistic and meaningful characteristics of real-life events. Like any other research method, it complements the strengths and limitations of other types of research (Yin, 2009, pp. 4–18).

To make the research more robust and reliable, it will use a multiple-case design, with the units of analysis being Electronic Arts and Activision Blizzard (Yin, 2009, pp. 60–2). Both of these will first be analyzed separately and then compared at the end through research findings. The reason for selecting these two companies as units of analysis is the abundance of evidence available on the internet, as well as the fact that they are the industry's leading videogame publishers with a long track record. However, the two companies differ in their respective brand strategies which will provide the research with contrasting results.

**Research objectives**

The research objectives are as follows:

1. Discover the advantages and disadvantages of extending the life cycles of existing game brands

2. Discover the advantages and disadvantages of investing in a new game (brand) as opposed to making a sequel to an existing game series

3. Discover key success factors for the two brand strategies

4. Discover how sustainable one or the other brand strategy is in the short and long term

**Sources of evidence**

The following case study data will be collected to conduct the research:

1. **Documentation (secondary data):** announcements, progress reports, financial reports, critical evaluations of videogames, online data bases

2. **Interviews (secondary data):** in-depth interviews, focused interviews with the industry's top executives (Activision, Electronic Arts, Take-Two, etc.)

All of this data will be collected via secondary sources.

**Analytic strategy**

The objectives and design of the thesis were based on a set of theoretical propositions which in turn led to the chosen research question. Accordingly, a sufficient theoretical framework has been set to precede the research portion of the thesis. Therefore, it’s only fitting that the case study analysis will be guided by the theoretical propositions that led to this case study:

1. New game series pose considerable financial risk for game publishers compared to sequels
2. Failure to innovate leads to reduced market share, as competitors bring to the market better products
3. Leveraging existing brands shortens their life cycles but reaps short-term financial benefits

Each one of these theoretical propositions will be compared and tested with the evidence collected for the two companies. The goal will be to make a literal replication across the two cases.

**Research limitations**

The research will take into account the last ten years of Electronic Arts and Activision and will focus primarily on their products for the Xbox 360 and Playstation 3 entertainment systems up until now. Only the Xbox 360, Playstation 3 and PC products of the two companies will be observed, as these are the only platforms which pose a considerable financial risk to videogame companies at present.

Due to the high availability of secondary data on the internet relating to the videogame industry and the very busy lives the industry’s top executives lead, only secondary data will be used.

## 5.2 Case study: Electronic Arts

### 5.2.1 Introduction

Electronic Arts (best known as EA) is a leading American developer, publisher and distributor of interactive software worldwide for video game systems, personal computers, wireless devices and the Internet. Founded in 1982 by Trip Hawkins, the company was a pioneer of the early home computer games industry and was known to properly credit and compensate the talent that developed games, treating them with the same respect as artists in other media enjoyed.

At first, EA only produced games for computer platforms, such as the Apple II, IBM PC, and Commodore 64. In the late 1980s, the company started its first in-house development and produced console games by the early 1990s, as it could no longer ignore the blossoming console market. Later, EA grew by acquiring several successful developers which not only significantly enhanced its portfolio of games, but it also brought much needed new talent into the company. By the early 2000s, EA was one of the world's largest third-party publishers (We See Farther - A History of Electronic Arts, 2007).

With the acquisition of the popular online family games site Pogo.com in 2001, the company made a move toward direct distribution of digital games and services (EA.com acquires Pogo.com, 2007). To strengthen its footing in social entertainment and consolidate its focus on the transition to digital gaming, EA acquired the London-based creator of social network games

Playfish in 2009, and launched a new digital platform called Origin in June 2011 to sell downloadable games directly to consumer (EA Welcomes Playfish to the EA family!, 2009; Electronic Arts launches Origin, 2011). In July 2011, EA continued its drive into the digital business by announcing that it had acquired PopCap Games, a leading provider of games for mobile phones, tablets, PCs and social network sites (EA to Acquire PopCap Games, 2011).

Currently, EA develops and publishes games under five labels (John Riccitiello: Changing and growing, 2011; EA.com, 2011):

1. **EA Games:** home to the largest number of EA studios and development teams. Together they create an expansive and diverse portfolio of games in a wide variety of genres. The EA Games label also houses the EA Partners co-publishing arm which teams with external game developers to provide them with a number of services, namely development, publishing, and distribution.

2. **BioWare:** previously part of the EA Games label, BioWare is a standalone EA label as of August 4th, 2011. It covers BioWare divisions in Edmonton, Austin, Montreal, and Fairfax.

3. **EA Sports:** unites a wide collection of sport-based games that range from simulated sports titles with realistic graphics based on real-world sports leagues, players, events and venues, to more casual games with arcade-style gameplay and graphics.

4. **EA Play:** develops and publishes easily accessible casual games for gamers and non-traditional gamers. The EA Play label includes The Sims Studio and Maxis Software.

5. **EA Interactive:** represents EA’s business in the emerging areas of online and mobile games, including EA Mobile, Playfish, PopCap Games, EA Hasbro, and Pogo.com.

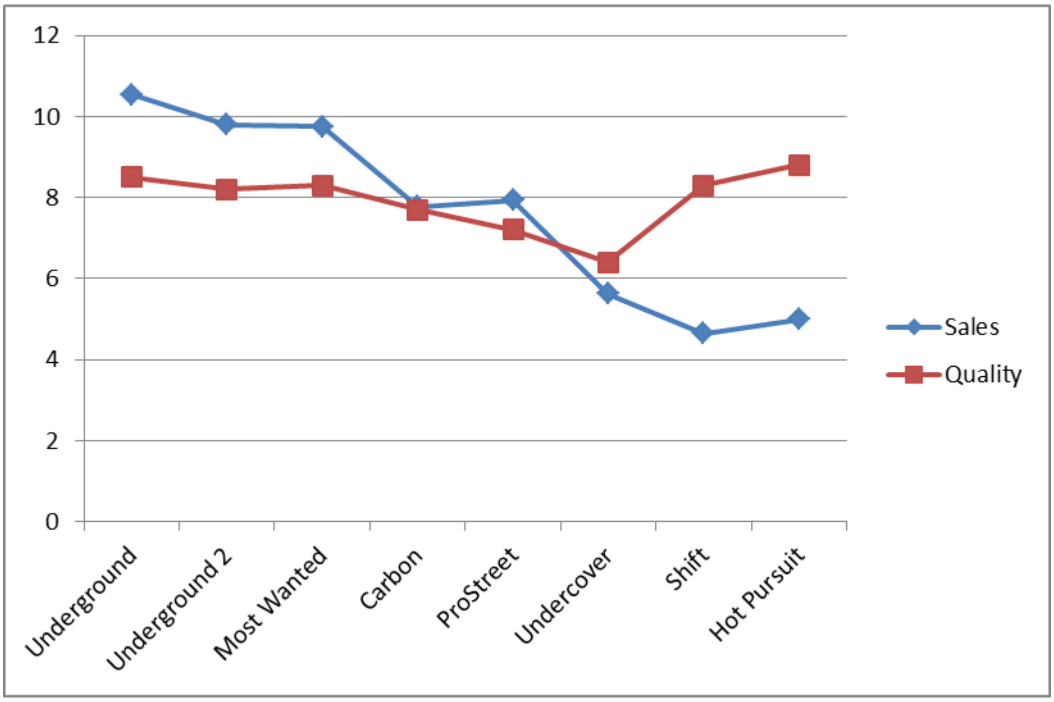
### 5.2.2 EA’s brand strategy

For many years, Electronic Arts (EA from here on out) was the leader in the video game business who knew exactly how to satisfy both consumers and investors. The recipe for its long-lived success was simple: base your product on a popular sports or movie series, spend many a million dollars marketing it, and then pump out a new version of said product year after year. Impressive sales of such products, based on properties like the omnipresent Harry Potter, James Bond, and the Lord of the Rings, meant consumers were content with EA's way of running its business, as were investors, knowing the company had a reliable stream of revenue in the infamously hit-or-miss video game business.

However, as the industry was preparing for a new home console transition in years 2005 and 2006, when Microsoft launched the Xbox 360 and Sony and Nintendo released the Playstation 3 and Wii, respectively, it became more and more clear that EA's seemingly invulnerable strategy was, in fact, full of faults (Electronic Arts: A Radical New Game Plan, 2006). As the current CEO of EA John Riccitiello recalls (Riccitiello Talks Turning EA Around, Old Republic's Prospects, 2011): “Through this last transition to the PS3 era... for a whole bunch of reasons that are worth getting into, I think it's fair to say we dropped the ball. Our IP deteriorated, our costs went up, and we didn't really have an answer for the rise in digital." During the debut of Microsoft's Xbox 360 in late 2005/early 2006, EA lost out on its usual number one market share to its then smaller competitor Activision. The main reasons for this fall from the top spot were delayed games, higher-than-expected development costs, and disappointing sales of EA's key franchises. (Electronic Arts: A Radical New Game Plan, 2006).

One of EA's most popular and long-lasting franchises, Need for Speed, is a good example of how it mishandled its properties over the years. Need for Speed: Most Wanted gave no reason for concern when it released in late 2005, as the sales held steady in comparison with the previous installments in the series (Electronic Arts Reports Fiscal Third Quarter Results, 2006). It was Need for Speed: Carbon, which hit the market in 2006, that shined light upon EA's flawed strategy (among EA's other running franchises). Selling some 2 million units less than its predecessor and scoring a 77/100 on Metacritic.com, 6 points less than the year prior, Carbon was the first in a string of disappointing Need for Speed installments (VG Chartz, 2011; Metacritic, 2011). Need for Speed: ProStreet, the subsequent release in the series, managed to move as many units as Carbon, but the same didn't hold true for its quality, dropping to 72/100 on Metacritic.com (VG Chartz, 2011; Metacritic, 2011). The biggest disgrace in the franchise's history came in the form of Need for Speed: Undercover in 2008 which sold only 5.63 million units and hit an all-time low as far as quality is concerned (VG Chartz, 2011; Metacritic, 2011).

*Figure 5.1: Sales* and quality** of the Need for Speed titles from 2003 to 2010.*



**Legend:** *Sales are made up of sales numbers from all Need for Speed platform releases, except mobile phone platforms; **quality is measured by the aggregate score on the Xbox 360 platform.

*Source: VG Chartz, 2011; Metacritic, 2011.*

At Bank of America Merrill Lynch 2010 Media, Communications & Entertainment Conference, EA admitted that the decline in both sales and quality of the Need for Speed franchise was its own fault. Said current CEO John Riccitiello (EA: We ruined Need For Speed with studio 'death march', 2010): “In the '04 to '07 period, we had a single studio, Black Box, up in Vancouver, building our [NFS games]. And we literally had them on a death march building for five years in a row. [They were] annual iterations, they had to put it out; no rest for the weary. It was definitely our fault. It'd happened before - games publishers do this from time to time. We should have put them on two-year alternating cycles but we didn't. And the title declined dramatically. We started to lose people. They didn't want to work 24 hours a day, seven days a week, 365 days a year. […] It was definitely our fault.”

Making matters worse for EA, Need for Speed wasn’t the only victim of poor product management. EA’s other top key franchises also underperformed in quality and sales. Pacific Crest Securities analyst Evan Wilson was just one of the industry’s professionals who brought the issue up in November 2006, saying that review scores of all of EA’s annualized titles, which he pointed out were its primary source of profit, had declined over the two years prior and warned that EA’s market share would decline significantly if the quality of its titles didn’t improve (Analyst: EA brand tarnished, 2006). The negative results of the drop in the quality and sales of EA’s top franchises were also reflected in the 2006 fiscal year financial results – net revenue of $ 2,95 billion, down 6 % from the year prior (2006 Proxy Statement and Annual Report, 2006).

Fortunately, EA started to see the error of its ways that same year. During its earnings call in May 2006, it recognized the need for “building wholly owned intellectual property”, as opposed to relying so much on licensed properties, and revealed that its R&D spending in its console studios would increase by 5-10% (EA Slips To Quarterly Loss, Talks Next-Gen, Spore, 2006). In addition, Larry Probst, the then CEO of EA, declared in the 2006 fiscal year annual report (2006 Proxy Statement and Annual Report, 2006): “In an effort to improve both game quality and margins, we are striving to increase the percentage of our revenue contributed by wholly owned properties from roughly forty percent today to at least fifty percent in the next cycle.”

In February 2007, EA went a step further, as it announced that Larry Probst was resigning from his position as CEO after 16 years of being in charge, to be replaced by John Riccitiello, its former President and COO who left the company in 2004 to co-found Elevation Partners, a private equity firm. Upon his return to EA, the new CEO reaffirmed to the press that he put original intellectual property on the top of the list of growth opportunities (Riccitiello back as EA CEO, 2007). In June that year, Riccitiello unveiled his strategic plan for the company: reorganization into four distinct divisions or labels, each with its own president and dedicated studio and publishing teams, to streamline decision making, manage costs, hold people accountable and enable good ideas to be introduced quickly to the market (EA Announces New

Company Structure, 2007). In an interview with the Wall Street Journal a month later, in July 2007, Riccitiello spoke frankly about his concerns for the future of the industry, suggesting that EA, as well as other companies, need to be more original and innovative or risk losing audiences to more compelling forms of entertainment (EA Chief Cites Need For More Innovative Games, 2007).

For a company that basically pioneered the business model of annualizing franchises to suddenly change its course so significantly was nothing short of stunning. As sound as EA's new direction may have been, the transformation, which is still in progress, hasn't been an easy one (EA CEO: 'Two-Year Comeback Is Clearly Taking Longer', 2010). As part of its restructuring plan, EA laid off "a very small percentage" of employees that same year, which included closing down its EA Chicago studio for not meeting the standard expected for product quality, ship dates and profitability (EA Chicago to close, 2007). This number of layoffs, however, paled in comparison with the reduction of facilities and work force that followed in December 2008 – 10 % of EA's worldwide work force or 1000 employees (EA Releases Details on Previously Announced Reduction of Facilities and Work Force, 2008). Due to weak game sales and uncertain economic environment, it was forced to announce additional job cuts of 1,500 employees beyond the initial 10 percent in November 2009. These cuts included the closing of Pandemic Studios which it acquired only two years prior (EA closes Pandemic Studios unit, 2009).

In spite of the mounting pressure, EA wasn't giving up on its revised direction. In September 2008, EA Games label president Frank Gibeau shared his views on the company's slow transformation to the press. He first recognized the need for change: "I think our quality slipped, and that was one of the things -- as an assumption and then an objective -- that I brought to this job, which was, "We are going to improve the quality of our products, and we are going to create IPs that have the same resonance as some of the top ones we're seeing in the industry." Addressing Riccitiello's controversial comment from earlier that year (EA: Investors don't give a sh*t about quality, 2008) – "I don't think the investors give a shit about our quality." – Gibeau explained the ramifications poor **product quality** can have in the long term (In-Depth: EA's Gibeau On Reinvigorating EA Games, 2008): "Strategically, you've got to find a methodology that allows you to orchestrate all of these different game releases into a financial plan. But it all operates off the idea that good games generate good profits. Frankly, they generate long-term, enduring profitability, and when you cut corners on quality and ship a game that's a 65 in order to make a quarter, you might make the quarter, but I can guarantee you that the gamer customers are not going to be happy and they're not likely to buy the sequel in any sizable numbers." He concluded by reaffirming EA's intent on winning its customers back (In-Depth: EA's Gibeau On Reinvigorating EA Games, 2008): "We've been there where we've been pumping out games, and you can look at the reception and the response from gamers out there and our fans kind of starts diminishing. You can't get that back. The only way you get that back is by making great games and winning them back one at a time. That's what we intend to do and are doing, frankly."

And doing it they were. In late 2007, EA launched two new franchises, Skate and Rock Band, both of which were not only met with critical acclaim, but were also considered a commercial success (Skate Beats Tony Hawk Down (In Sales), 2008; EA Reports Third Quarter Fiscal 2008 Results, 2008; Metacritic, 2011). In the fall of 2008, EA followed it up with another pair of new franchises – Mirror's Edge and Dead Space. While these two were praised by critics and gamers alike, they didn't do so well at retail, particularly Mirror's Edge (Dead Space, Mirror's Edge 'fell short' of expectations, 2010; Metacritic, 2011). As Gibeau recalled the two new IP launches in 2009, he admitted that he would have picked different **release windows** and a longer marketing campaign to **create better awareness** if given the chance (A Different Track: Frank Gibeau Talks Strategy, 2009): "I would have spread them out and found better windows for them. I would have had longer marketing for them. The marketing cycles were fairly short. […] It was kind of unknowable at the time, because a lot of IP gets created in those times. Big traffic, lots of volume. We didn't anticipate a dramatic downturn in the economy at the same time. So, new IPs, we learned a lot about how to launch them and how to create them." EA continued its streak of quality releases with critically and commercially successful Dragon Age and Mass Effect 2 in late 2009 and early 2010, respectively (Left 4 Dead 2, Dragon Age Sales Hit 3 Million Each, 2010; Mass Effect 2 sales top 2m, 2010; Metacritic, 2011).

The new intellectual properties weren't the only products receiving EA's attention. All of its existing key franchises were set to change for the better as well. As mentioned earlier, EA's celebrated racing series Need for Speed was in serious decline quality and sales-wise for many years. As part of its restructuring plan in 2007, EA expanded its Need for Speed team and split it in two, so that they had two teams on a 24 month development cycle, as opposed to one team on a 12 month cycle (EA: We ruined Need For Speed with studio 'death march', 2010). This, as Gibeau explained in 2009, was done to get the series back on track (A Different Track: Frank Gibeau Talks Strategy, 2009): "If you look at what we're doing now with Need for Speed, we're re-inventing it with Shift, Nitro, the multi-studio alternating year strategy that we embarked upon so that we could raise the quality of Need for Speed, get it back into the charts, get people fired up about the game. It's a huge franchise, but it was sliding out on quality. We needed to shake it up and change it." Following this change, the series improved both in quality and sales (Electronic Arts Reports Q3 FY11 Financial Results, 2011; Metacritic, 2011).

It was no different with EA Sports titles. In May 2008, the former head of EA Sports and current COO of the entire company, Peter Moore, commented on the progress the sports division had made in a year (EA Sports' Peter Moore, 2008): "The team has done phenomenally well; you've probably seen it here [Season Opener event at EA Canada]. We're making huge steps. We gained 15 Metacritic points this past year, from an admittedly low base." And sure enough the increase in quality resulted in improved sales, with FIFA 08 selling 3 million units more than FIFA 07 (VG Chartz, n.d.). In August 2011, Moore reminisced about the journey that it took for the FIFA brand to regain the market leading position (Battlefield 3 is about taking market share – Moore, 2011): "If you remember, FIFA and Pro Evolution Soccer used to be, as recently as three or four years ago, head-to-head in a lot of markets, with PES as the dominant brand. We invested enormously in both the quality of the game, the marketing, a real focus on getting the game right, and being there for gamers and building a community around it." Despite the success, Moore knows very well that work has to continue (Moore: PES is in FIFA's "rear view mirror", 2009):

“We've got a little bit of distance in the rear view mirror between ourselves and our competitor [PES] right now, but we can't get complacent and we can't stop trying to innovate and making sure we keep that distance between us and them.”

In November 2009, EA managed to do another thing that would’ve been thought of as impossible back in early 2000s – it canceled NBA Elite 11, a new installment in its popular annual NBA series due to quality concerns (*EA: NBA Elite 11 Canceled, Personnel Restructuring 'Relatively Small'*, 2010). Although 2011 also won’t be seeing a new NBA Elite installment, Moore reassured in August 2011 that the franchise will be back in 2012 (Moore: NBA Elite “not walking off the court crying”, 2011): “We’re focused on building a great game for next year. The team has got the time to be able to look at everything that we need to do to make sure that we bring quality back up and be competitive. It’ll take a while to get back, yeah. It’ll take us a few years maybe, but if that’s what it takes, that’s what it’ll be. We’re not a short term player.”

Talking about the reboot of the Medal of Honor franchise, which was also in dire need of fresh breath, prior to its release in late 2010, Gibeau explained how the series was ruined (EA's Gibeau: Over-Annualization, Lack Of Innovation Led To Medal Of Honor's Downfall, 2010): “I think any franchise that's been around for a long time, they get in a rut, they become over-annualized. They run out of innovation. The team pounds on a game every year, and they get tired, they run out of time and effort to be innovative and try and take some new risks. That was my view on how the franchise has fallen.” Perfectly aware of the negative effects of annualization, Gibeau has now made it clear history won’t repeat itself (Gibeau: Criterion making a game every year would “burn them out”, 2011): “The worst possible idea would be to make Criterion [EA’s subsidiary in the UK] build a game every year. That would limit their creativity and hurt quality. We’ve tried to get a team to do it every year. You burn them out. You can’t do it at the level of quality the market wants now.”

In one of the interviews with the press, Gibeau gave further clarification as to why EA lost its focus (A Different Track: Frank Gibeau Talks Strategy, 2009): […] We got too successful and we got too focused on analyst reports and too focused on financial presentations and we forgot about product. It was important to kind of relearn how important product is and bring us back and start doing best backing an IP. But starting new IPs is a risky business. Once you get a critical mass of IPs created, then you've got a business that can start to scale and build and invest in more. That was the problem we had. We had very lean years there where we didn't have a lot of IP generation. We had a lot of rentals, and so we found ourselves in a glut where we had the sports business, we had the Sims business, and we didn't have a lot else. So, we had to rejuvenate and refocus...”

In the commencement speech to the 2011 undergraduate graduating class at the Haas business school, John Riccitiello shared with the students what he had learned as the CEO of EA. He recalled EA as the most successful company in the industry in the early 2000s. However, the company found itself in serious trouble by the time the Xbox 360, the Playstation 3, and the Wii hit the market in 2005/2006, as EA’s product quality suffered, its development costs skyrocketed, and the company stopped growing, and it was forced to choose between change or eventual demise. Riccitiello described the transformation as very challenging (Haas School of Business, 2011; How EA's John Riccitiello sees the past few years of struggle, 2011): "We knew it would be hard, but we had no idea how hard. We knew the enormous investments would be unsettling to investors and that the return would be a long way off. Perhaps most painfully, we had to do these three hard things when the press and the financial analysts told us we were crazy — that the cutting was great, but the investment in digital was just not a good idea. It proved very hard to hear the negative drumbeat while tackling very hard challenges at work."

Although EA's game quality is up, its costs are down and its profits are up, Riccittiello knows that the fight is far from over (Haas School of Business, 2011; How EA's John Riccitiello sees the past few years of struggle, 2011): "I wish I could tell you that it has all paid off. That, like Truman, Jobs and Chambers, we have been fully vindicated. Not yet. Yes, we've had a few wins but there is much more to do. I would argue we failed well. We are students of our own failure. We used our failure to shape and impel us to a better strategy. One that we believe will ultimately succeed in ways that our previous strategy, even if perfectly executed, could never have done."

On the whole, EA had made a very costly brand management mistake by over-relying on borrowing other intellectual properties and adapting them into video games, investing far too little into the creation and maintenance of its own properties, both new and existing, and forgetting that it had been their attention and devotion to the quality of product that had brought them to where they were. Realizing the mistakes it had made, arguably already too late, it changed its philosophy completely.

No longer is the company on the lookout for the next hot property from the movie industry, but is rather entirely focused on incrementally innovating and evolving its established franchises and giving proper attention to the creation of new, original properties. Its product portfolio may consist more of the former than the latter, but that doesn't mean it's not taking enough risks. It's important to note that the majority of its current successful franchises are fairly new, having existed for only up to three to four years.

There's no denying that EA has gone through a remarkable transformation. The amount of stress it now puts on quality and innovation is bigger than ever, even if that means angering its shareholders who cannot accept that the company is thinking long term as far as its brand strategy is concerned. The same cannot be said for Activision whose brand philosophy contradicts that of EA's.

## 5.3 Case study: Activision

### 5.3.1 Introduction

Activision is one of the games industry's largest third party video game publishers. It develops and publishes video games for consoles, handheld platforms, mobile devices and the PC through internally developed franchises, as well as license agreements. It was founded in 1979 by former music industry executive Jim Levy, venture capitalist Richard Muchmore, and former Atari programmers David Crane, Larry Kaplan, Alan Miller and Bob Whitehead. In the same vein as EA, Activision took the approach of crediting and promoting game developers along with the games themselves.

Activision was the world's first independent developer and distributor of video games for gaming consoles, with the Atari 2600 video game system being its first console platform. Following its birth, it released a number of high-quality titles for the Atari 2600 which performed very well at retail. This string of successful titles enabled the company to go public in 1983.

Naturally, the success of Activision gave rise to a number of new start-ups. After cashing in on the buzz with very poor-quality titles, the new companies slumped retail shelves with games which did not sell, forcing retailers to heavily reduce the prices on their shovel ware. This in turn resulted in the bankruptcy of several companies producing home computers and video game consoles, bringing along the 1983 North American video game industry crash. Weathering the fall of the video game console industry, Activision allocated its resources to the development of games for the emergent PC market and other platforms, such as Intellivision and Apple. Nevertheless, the efforts of Jim Levy to put the company back on its feet weren’t enough to satisfy the board which, consequently, appointed Bruce Davis as the new CEO of Activision in 1987.

With the new leadership also came significant changes to the culture of the company. Not being able to identify with the company they helped to create, all the other founders left as well. In 1988, still trying to recover and find a viable market strategy, the company reorganized by adding business applications to its product portfolio and changed its name to Mediagenic. Unfortunately, these changes didn’t help much either. Teetering on bankruptcy, the company was subsequently acquired by the BHK Corporation headed by Robert Kotick who then replaced Bruce Davis as the CEO. Kotick shifted the company’s focus back to games and changed its name back to Activision in 1992. In the following years, the company quickly regained its former glory with a slew of successful titles (The History Of Activision, 2007).

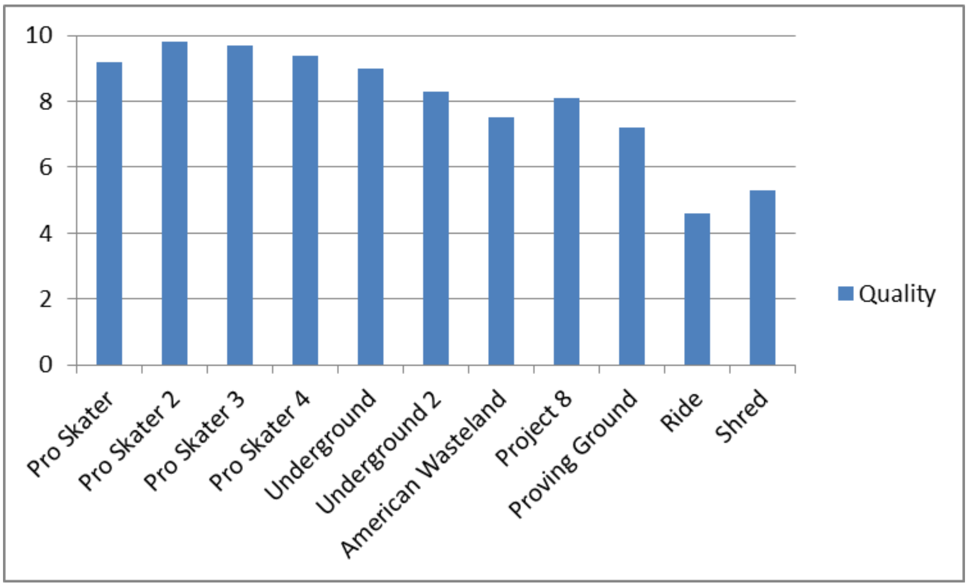
In July 2008, the French conglomerate Vivendi acquired a controlling stake in Activision in a deal (worth $18.8 billion) which merged Activision and Vivendi Games under the name of Activision Blizzard, with Kotick in charge as President and CEO. Since the merger, Activision Blizzard acts as the holding company for Activision and Blizzard Entertainment (previously part of Vivendi Games), meaning Activision still exists as its subsidiary and develops and publishes the same games as prior to the merger, along with some of Vivendi Games’ owned titles (Vivendi to Acquire Activision, 2007).

### 5.3.2 Activision’s brand strategy

Activision’s reputation as the number one publisher in the industry can mainly be attributed to the success of the following three renowned franchises: Tony Hawk, Guitar Hero, and Call of Duty. It was this trio of Activision’s wholly owned intellectual properties which caught the eye of Vivendi Games in 2008, resulting in the aforementioned merger between the two under the name of Activision Blizzard (Vivendi to Acquire Activision, 2007).

It all started with Tony Hawk. Activision leapt into the upper echelons of the videogame industry with the release of Tony Hawk's Pro Skater in 1999, a skateboarding game with an innovative spin on the dying extreme sports genre. Soon after the game's very successful launch, the company acquired its developer Neversoft and tasked them with developing a new Tony Hawk game every year, turning it into an annual franchise with intent of creating a steady, dependable cash flow to impress investors (The History of Activision, 2010). For the first five years, the series managed to uphold the quality bar set by the original game. With the release of Tony Hawk's Underground 2, however, quality dropped and continued to do so gradually over the subsequent years.

*Figure 5.2: Quality* of Tony Hawk titles from 1999 to 2010*




**Legend:** *quality is measured by the aggregate score on the Xbox 360 platform.

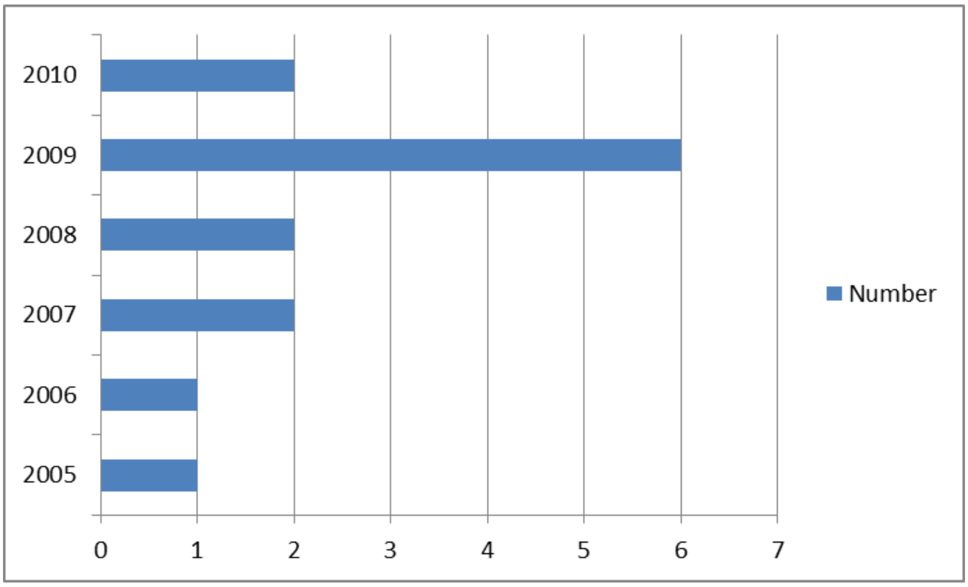
*Source: Metacritic, 2011.*

When Skate, EA's foray into the skateboarding genre, considered by critics and consumers alike as highly superior to Tony Hawk, hit the market in 2007 alongside Tony Hawk's Proving Ground, Activision decided to put the series, which spawned eight annual sequels since the original's release in 1999, on hold (Neversoft Exits Tony Hawk Franchise, 2009). The reason was the significant market share it lost to EA in that year (Skate Outsells Tony Hawk 2:1; Rock Band, Crysis, Orange Box "Exceeded Expectations", 2008). Following a two-year pause, during which Activision re-engineered the franchise and set a new direction for the brand, (Activision confirms Bond movie tie-in, new COD, two Guitar Heroes, 2008) skateboard peripheral-equipped Tony Hawk: Ride was released in 2009 (Activision Unveils Tony Hawk Ride, Skateboard Peripheral, 2009). To the chagrin of Activision, Ride performed poorly, both commercially and critically, selling only 114,000 units in its first month and scoring a measly 46/100 on Metacritic (Tony Hawk: Ride Stalls at Retail, 2009; Metacritic, 2011). Not willing to let Tony Hawk fail so miserably, Activision followed up Ride with Tony Hawk: Shred in 2010, this time targeted at a younger audience, but still relying on the flawed skateboard peripheral (Tony Hawk Franchise Targets Younger Audience With Shred, 2010). Alas, Shred turned out to be an even bigger commercial disaster than Ride, moving only 3000 units in its first week on the market (Tony Hawk: Shred Sells Only 3,000 Units in October, 2010). Due to this extremely disappointing re-launch of the franchise, Activision thought it best to discontinue the Tony Hawk franchise indefinitely in February 2011 (Activision: 'No new music or skateboarding games' this year, 2011).

Although Tony Hawk proved out to be an iconic franchise for Activision, it was the Guitar Hero series which propelled the company to new heights. Taking notice of the successful release of Guitar Hero by publisher Red Octane and developer Harmonix in 2005 and realizing its potential as a franchise, Activision acquired Red Octane in June 2006 (Guitar Hero: More Than a Video Game, 2007). The company's assumptions were proven right when Guitar Hero II launched several months later and sold over 3 million units, twice as many copies as the original (November Sees DS, Wii Swell, COD4, Mario, Assassin's Tops Charts, 2007). The new hit series showed its true potential with the release of Guitar Hero III in 2007, in spite of the successful launch of EA's Rock Band, an arguably superior music rhythm game (Guitar Hero Leads Activision's Record Q2, 2007). Not only did the third installment go on to sell 20 million units, it was also the first retail video game to exceed one billion dollars in sales (How much 'Guitar Hero' is too much?, 2009; Guitar Hero 3 Is The Highest Grossing Retail Game Ever, Claims Activision, 2009).

This tremendous success, as well as that of Guitar Hero: World Tour and Guitar Hero: Aerosmith in 2008, prompted Activision to announce that it intended to triple the amount of Guitar Hero releases by 2010 (Guitar Hero World Tour sells 978K in Nov., 2008; Activision: 'Guitar Hero' A Bigger Money-Maker For Aersomith Than Any Album, 2008; Activision Tripling Guitar Hero Releases by 2010, 2008). As such, 2009 saw the release of as many as five different Guitar Hero games, in addition to DJ Hero, a spin-off of the franchise (Guitar Hero Gets "Greatest Hits", 2009). By this point, numerous concerns were raised with regard to the overabundance of SKUs on the market by various industry professionals. For example, many critics equated the overabundance to Activision milking the brand name and **oversaturating the market** (Activision has three new IPs for 2009, 2009; Activision Milking Guitar Hero Franchise Further With Guitar Hero Greatest Hits, 2009). Additionally, analysts stressed that the games must continue to innovate, rather than simply provide more content in order to prevent franchise fatigue (How much 'Guitar Hero' is too much?, 2009). Joining the consensus, former CEO of RedOctane Kelly Sumner believed that Activision abused the brand, as it tried to get too much out of the franchise too quickly (No More (Guitar) Heroes, 2011).

*Figure 5.3: Number of Guitar Hero releases per year from 2005 to 2010.*




*Source: Metacritic, 2011.*

As a result of the oversaturation of music rhythm games in 2009 and the effects of the late-2000s recession, the sales of 2009's Guitar Hero offerings were very low. In fact, according to the game's developer Neversoft, the sales of all the Guitar Hero games released in 2009 equaled the number of Guitar Hero: World Tour units sold in 2008 (Neversoft on 'selling out' in the race for sales, 2010). Consequently, the market for rhythm games dropped from $1.4 billion in 2008 to $700 million in 2008, a staggering 50 % decline (Despite "The Beatles: Rock Band," Music Video Game Sales Slip in '09, 2009). Because of this, Activision released only two music rhythm games in 2010: DJ Hero 2 and Guitar Hero: Warriors of Rock (2010 Guitar Hero lineup trimmed to two, 2010). However, by then, the damage was done. The performance of these last two titles was disappointing as well, leading Activision to discontinue the Guitar Hero franchise in February 2011 (Activision: 'No new music or skateboarding games' this year, 2011).

Having shelved both Tony Hawk and Guitar Hero, Activision's now left with only one major franchise – Call of Duty – which also happens to be the most successful one out of the three. First released in 2003, first-person shooter Call of Duty was met with very positive reception from critics and consumers alike (The History of Call of Duty, 2010). Capitalizing on its success, the company released two subsequent installments, Call of Duty 2 and 3, in 2005 and 2006, respectively, thus further cementing its foothold in the first-person shooter market (Activision Ships Trio of 360 Titles, 2005; Retail Answers the Call of Duty 3, 2006). Although already profitable for Activision up to this point, the franchise showed its true colors potential-wise in 2007 with the release of Call of Duty 4: Modern Warfare, the most highly-rated installment in the series (The History of Call of Duty, 2010). By May 2008, the title sold over 13 million units, an increase of 12 million copies over its predecessor, Call of Duty 3 (Call of Duty 4 Sales Pass 13 Million Mark, 2009). The ensuing Call of Duty releases managed to sell even more, save for Call of Duty: World at War in 2008 (Call of Duty: World At War Tops 11 Million, 2009), with the latest installment Call of Duty: Black Ops moving an astounding 25 million copies in less than a year on the market (Activision reveals sales figures for Black Ops and Modern Warfare 2, 2011).

Due to being so incredibly successful, Call of Duty has often been compared with Guitar Hero, the franchise which enjoyed similar short-term success, but tanked in the end. The question is whether or not the same fate awaits Call of Duty. According to the industry's analysts, the two are like apples and oranges: "With GH it seemed that it was very likely to be a fad that would be milked until it dried out. It was somewhat the same issue as extreme sports and hunting games. FPS games are a long proven genre and thus don't seem to have fallen into that fad issue." They do, however, warn that the **quality has to be maintained** (Here's Why Call Of Duty Will Never Be As Big As Guitar Hero, 2011): "However, there is a very real danger of milking a franchise and causing quality to decline, which can result in turning consumers off." Activision Publishing CEO Eric Hirshberg is of the same belief, pegging the two franchises as "dramatically different situations". He points out that Guitar Hero "reached great heights very early in its existence, and it started a slow and steady decline. It became a steep decline toward the end." Call of Duty, on the other hand, falls into the genre that's tried and true and has been commercially viable for decades, with the franchise itself growing every year of its seven-year existence (E3 2011: Activision Publishing CEO sounds off on Wii U, Vita, and Call of Duty: Elite, 2011).

Adding to Activision's troubles, consumers and media often criticize the company for its strong focus on exploiting commercially successful franchises on an annual basis and not investing enough in new intellectual properties (Activision has three new IPs for 2009, 2009). Given Activision's recent history with new IPs, no one can blame them. After severely underperforming at retail, the company's new IP Blur in 2010 led to the closure of Activision-owned celebrated studio Bizarre Creations (Bizarre closed due to "a perfect storm of unfortunate circumstances", 2011). Activision reasoned the closure by saying (Activision Publishing CEO Eric Hirshberg on True Crime, Bizarre Creations, the 'Hero' franchise, and transparency, 2011): "It was a big investment in marketing. And sometimes you pour the chemicals into the beaker and nothing explodes. There are these big, very well established franchises that we would be competing against, fighting for a shrinking opportunity."

The same blow was delivered to all the new IPs (Ghostbusters, 50 Cent: Blood on the Sand, new Riddick title, WET, Brutal Legend) which Activision inherited in the merger with Vivendi Games, because they didn't fit in with the company's annual franchise business plan (The History of Activision, 2010). Activision Blizzard CEO Bobby Kotick bluntly explained why this had been so (Why Activision Let Go Of 'Ghostbusters' And '50 Cent' Games, 2008): "[They] don't have the potential to be exploited every year on every platform with clear sequel potential and have the potential to become $100 million dollar franchises. ... I think, generally, our strategy has been to focus... on the products that have those attributes and characteristics, the products that we know [that] if we release them today, we'll be working on them 10 years from now."

Such views on the video game business led to consumers and media decrying Activision for its lack of innovation. From the perspective of Activision Publishing CEO Eric Hirshberg, however, this isn't true: "I don't feel like Activision gets credit for the support it gives to the big ideas we get behind. And when we get behind something, we get behind something big." He also feels that it's unfair to say that Call of Duty and Blizzard's World of Warcraft are the only properties they invest in, highlighting Skylanders: Spyro's Adventures, Prototype 2, and the new IP from the newly-acquired studio Bungie as the titles which also get a big investment (Hirshberg: "You can't say" Activision isn't investing in new ideas, 2011): "You can critique us for narrowing our slate and making tough decisions, but what you can't say is that we're not investing in new IP and new ideas. […] Now if it succeeds remains to be seen, but you can't say that Activision underinvested in new ideas. You can't say that we're under investing in Bungie. You can't say that we're under investing in Radical and Prototype."

When it comes to its narrower focus on a few titles, Hirshberg compares Activision with Apple, saying: "Being willing to say 'no' to a lot of cool opportunities does allow companies to focus on the opportunities they do decide to do more intensely and with more success." In spite of the increased investment into fewer games, Hirshberg reiterates that doesn't mean the company is the one responsible for its significant backing of proven franchises, but rather the consumers (Activision Publishing CEO Eric Hirshberg on True Crime, Bizarre Creations, the 'Hero' franchise, and transparency, 2011): "If you look at the top 10 games, not only are there only 10 of them generating the industry's profits, eight of them I think are sequels. Gamers didn't learn that from gaming companies; gaming companies learned that from gamers."

Therefore, Activision's business strategy basically consists of two things: focusing on only a handful of high profile games from established franchises and saying no to investing into new properties as it's too risky. While it certainly seems to be reaping enormous benefits in the short term, one cannot help but be reminded of EA's misfortunes when it didn't dedicate enough attention to the constant creation of new properties and properly evolving its established properties. As EA later admitted, it found itself too focused on quarterly reports, in other words, short-term benefits, all at the expense of its products which soon suffered a sudden, unexpected drop in sales.

Thinking back a little, Tony Hawk and Guitar Hero showed the same signs of deterioration as EA's franchises once did, but instead of figuring out how to make these two well-known, arguably still strong brands matter again, Activision decided to discontinue them and divert its attention to the other few properties it still had, notably Call of Duty. It's clear that Activision genuinely believes in the efficacy of its approach to brand management, but it's the theoretical propositions set forth earlier which make many people in the industry doubt its longevity.

## 5.4 Dissection of Activision's strategy and views from other parties

Even though EA and Activision are the videogame industry's leading publishers, they differ considerably when it comes to the treatment of their intellectual properties, as demonstrated by their brand strategies in the previous two chapters. EA was once notorious for its ruthless annual franchise business strategy, short-sighted views, and lack of innovation. When things went terribly wrong, due to the unsustainable nature of their strategy, however, EA was forced to go back to the drawing board and change its direction. Rejuvenated and refocused, EA now promotes ideas that it so strongly ignored only half a dozen years beforehand. While Activision seems to be indulging in the same business practices as the EA of old, if not to an even greater extent, it currently shows no notable signs of negative consequences in terms of financial performance.

Recalling the theoretical propositions set earlier as a result of the theoretical framework established in the beginning of the research, EA's new brand philosophy is more in less in line with that of the companies from other industries. As brand management and the product life cycle concept normally dictate, if a company doesn't innovate and keep evolving its products throughout their life cycles, new competitors soon swoop in and take away market share. EA wasn't in the same position when it lost its number one leadership in the industry to its rival Activision. Next, leveraging brands by continuously releasing insignificant new extensions which are hard to differentiate from their predecessors in terms of added value means the company will only benefit in the short-term, since negative effects are sure to kick in over the long haul as the brand's value declines due to dilution, franchise fatigue, and reduced consumer perception. EA's past problems with once-deteriorating brands such as Need for Speed and Medal of Honor are a testament to this belief. In addition, the theoretical framework also emphasizes the need to invest into new ideas, despite the high risks that this brings. EA realizing this need, now consistently creates new, original properties and looks for new ways to expand its product portfolio.

*Table 5.1: Comparison between EA and Activision based on a number of characteristics.*

| Characteristics | EA | Activision |
|---|---|---|
| **Public image** | good | bad |
| **Financial success** | strong | very strong |
| **Strategy** | long-term focused | short-term focused |
| **Product portfolio** | diverse | limited |
| **Relationship with developers** | good | bad |
| **Risk-averse** | yes, but only slightly | yes, very much |
| **Product quality*** | 83/100 | 78/100 |
| **Investment into new IP** | strong | very low |

**Legend**: * quality is measured by the average aggregate score of all 2010 releases on the Xbox 360 platform.

*Source: Metacritic, 2011.*

Activision, on the other end of the spectrum, goes against these rules. Although its controversial brand management practices have so far netted the company considerable financial benefits, one has to wonder how sustainable their strategy is over the long haul. Activision's decision to indefinitely drop Guitar Hero, Tony Hawk, and True Crime franchises in February 2011 painted a very clear picture of the company's extremely risk-averse nature. As far as their headline lineup of products is concerned, this leaves the company with Call of Duty, Blizzard's few, but proven IPs, and whatever comes to fruition from its publishing deal with Bungie. That's it.

Taking into account that this is the world's biggest third party publisher, their product slate looks very limited.

It's not hard to see what Activision's intent is in the short term. The company's top executives are clearly laser-focused on one main goal – earnings per share, the all-important profit margin. If boosted sufficiently, these would propel the company's shares sky-high. Its intent in the long haul, however, is much less clear, especially when you consider that this is the company which killed more key franchises than it has created. Now, normally, this is all well and good when you have something to replace them with. When you don't, it's a rather short-sighted business strategy.

Yet Activision doesn't have any replacements for the cancelled franchises in its repertoire, due in large part to its handling of new IPs. The company demands immediate success from its IPs, a commercial hit right from the beginning, followed by a constrained development schedule which makes it possible to release annual updates until the cash-cow is milked dry. Ironically, Call of Duty didn't really hit its stride until four years into its existence.

From a profitability standpoint, Activison's way of running its business is completely reasonable. In fact, there is a school of thought in business management which supports Activision's actions – cutting something that isn't working out before more money is spent. It's a school of thought which applies well to certain markets, but in a business which is defined by creativity, image, and consumer sentiment, its efficacy is questionable.

To add to the company's damaged public image, the deluge of closures and consolidations within the publisher in early 2011 has made many of the industry's developers wary of its practices – acquiring studios, milking their IPs and quickly disposing of them once they have served their purpose. That's not to say this will happen to all the deals to come. What it does mean is that developers will now seriously question whether they are willing to risk meeting the same fate. At the end of the day, Activision still has the lucrative Call of Duty to rely on. The series' persistent sales growth over the last years shows that there's plenty of life left in it. Although, for how many more years the unpredictable public will continue to crave the franchise is a matter of complete uncertainty (The Show Goes On, 2011).

*Table 5.2: Advantages and disadvantages of new IPs and established franchises.*

| Type | Advantages | Disadvantages |
|---|---|---|
| **New IPs** | - add diversity to product portfolio<br>- present new growth opportunities<br>- prevent market from growing stale<br>- help grow the value of workforce<br>- can hide untapped potential | - carry considerable financial risk<br>- tend to be overshadowed by established franchises in terms of awareness<br>- require lots of marketing<br>- don't get as much retail shelf space as established franchises<br>- impossible to forecast sales |

| | | |
|---|---|---|
| **Established franchises** | - high consumer acceptance due to familiarity<br>- more shelf space from retailers<br>- much less unpredictable than new IPs as user base already exists<br>- can enjoy a long life cycle<br>- generate a steady and reliable flow of revenue<br>- allow for shorter development cycles | - sales performance drops if quality suffers<br>- prone to be over-annualized if successful; leads to overexposure<br>- high risk of causing franchise fatigue among consumers<br>- need to be constantly evolved with each new release; otherwise sales performance suffers |

As far as other major games publishers are concerned, EA's not alone in stressing the importance of innovation when it comes to established franchises and the need to invest in new IP. Take-Two Interactive also falls in this latter camp. Renowned for its critically acclaimed, multi-million-selling franchises, such as Grand Theft Auto and Red Dead Redemption, Take-Two invests a lot of time and money into their offerings (T2 swings to loss in Q1, LA Noire ships 4 million units, 2011; Grand Theft Auto 4 Sales Reach 13 Million Mark, 2009; Metacritic, 2011): "We don't subscribe to that philosophy of bringing a franchise out every single year. We think it takes a little bit more time to do something that is notably and meaningfully different each time you come out with a new title within a franchise. And for us, it is about creating long-term value by creating franchises. It's not just about getting excited about one franchise and beating it to death until it dies and going on to the next." Take-Two describes their franchise philosophy as more along the lines of managing a long-term brand which is more than evident in the long development cycles of its games (Take-Two's Karl Slatoff won't rush blockbuster video games out the door, 2011).

2K Games, Take-Two's subsidiary, shares the same sentiment (Interview: Christoph Hartmann, 2K Games, 2011): "Our studios don't want to do the same things all the time. I have seen so many franchises die because of poor quality or creativity running out. Not everything is meant to go on forever. You have to push yourself and build new things, there's no way around it." Gearbox Software, the developer behind 2009's best-selling new IP Borderlands, is also an advocate for more original content (Borderlands Becomes The Best Selling New IP Of 2009, 2009; Gearbox: Content dumping 'a disservice to gamers', 2011): "At many studios there is a lot of what we call "content dumping", where people make a load of extra content with their first game, put it together on a disk, and add a "2" to the original game's name. It's a disservice to gamers."

Japan-based Square Enix agrees with its peers, saying that nurturing new IPs is important for the viability of the business. With regard to existing franchises, Square Enix dismisses the need for radical innovation, as these already have fans of their own, but it does say they need to be evolved with incremental innovations (Yoichi Wada - Part One, 2009). UK's publisher Codemasters thinks that saying new IPs can't be successful in today's economy is just an excuse and calls upon other companies to invest more in new franchises (Cousens: Industry must pursue new IP, 2009): “If all you're going to do is more of the same, then we'll face all the hurdles and obstacles that the music and movie businesses have faced before. If we don't learn from that, then shame on us.”

Venerable video game designer Garry Whitta put it well at Penny Arcade Expo 2011 by pointing out that all established franchises started with an original idea (Pach-Attack! - PAX 2011: Pach-Panel Part 3 - Guest Panel HD, 2011): “Think about it, every franchise has to start with an original game… You know, there’d be no Final Fantasy XII or whatever we’re up to now if, you know, somebody hadn’t originally said let’s make Final Fantasy I.”

And, contrary to Activision’s beliefs, EA is very much aware of the fact that new IPs can also be highly successful (A Frank discussion with EA, 2010): “A new idea obviously has a lot of risk attached to it, but if you get it all right it can be huge.” Borderlands, Red Dead Redemption, and Dead Space are but just a few new franchises in the last several years which prove this belief.

Consumers’ opinions, on the other hand, are very much divided over whether video game companies should innovate more or not. When Activision released the first video of its upcoming new Call of Duty title, Modern Warfare 3, for example, one video game consumer commented (Modern Warfare 3 Teaser Trailer Released, 2011): “It's [will be] a good game, but it's also the same exact game that we've all played many many times. People are losing interest.” Going through numerous online threads reveals there are a lot of consumers who share the same sentiment. Another consumer said (Modern Warfare 3 to "push genre forward", 2011): “It will most certainly add to the stagnation.”

Unsurprisingly, they are also aware that the game will still sell just as much as its predecessors, despite the lack of innovation (Modern Warfare 3 to "push genre forward", 2011): “Five CoD games released on the same engine, with the exact same gameplay mechanics, and the exact same multiplayer in the space of 4 years. That's really pushing the boundaries… Although we all know that it's going to sell trillions of copies, and every twelve year old boy in the land will have it for Christmas.” Herein lies an interesting thought – much of the Call of Duty 20+ million user base may consist of consumers who only buy one or two titles a year and, as such, don’t really care whether a new release of their favourite franchise has properly evolved from its predecessor or not.

This thought can be supported by plenty of views which are in favour of Activision releasing the same product every year. One such consumer defends Activision by saying (Call of Duty: Modern Warfare 3 Gameplay Trailer, 2011): “It's a very simple, fun game that's really easy to get into and is designed to constantly reward you and keep you engaged. […] There is really no other way to explain why the game is such a huge success.” It seems Activision infused its Call of Duty franchise with something that attracts more than just die hard video game fans and that something appears to be the game element of always being connected with friends, as well as constantly being rewarded for the actions made in the game. This is how Activision has been able to make its fan base keep coming back for more year over year.

Does this mean that this segment of more casual gamers can't be swayed and diverted away from Call of Duty by the next big game on the market, like hardcore gamers normally are? Honestly, it's too early to tell, because five years ago 20+ million selling video games on the Xbox 360 and Playstation 3 platforms didn't even exist yet. Call of Duty is a true phenomenon in this regard, there is no doubt about that, but it remains to be seen whether this successful streak can last for much longer and whether or not the general rules concerning the need to innovate (will) apply to it as they have to all the other games so far.

## 5.5 Research findings and recommendations

The analyses of Electronic Arts and Activision featured one recurring term all throughout from start to finish – **sales**. It's the number of units a game sells which ultimately shows whether it's commercially successful or not and what the company will do with the IP next. The case studies go on to show that the magnitude of this success indicator heavily depends on three key factors, however. Two of these factors new, original IPs and sequels share, although they apply differently to each one, whereas the third one is different for each of the two types of games.

*Figure 5.4: Key success factors of new IPs and sequels*


By far the most important element of games which factors in a game's sales performance on the market is **quality**. It pertains to both new IPs and sequels, but in different ways. For new IPs, quality plays a decisive role at how the game will be received commercially. Not only will it affect the sales of this first title, but also the sales potential of any possible subsequent release in the new franchise. This especially holds true for new IPs which are planned to be a successful, long-lasting series with multiple new releases in the future. If a brand is low quality from the outset, the consumer will not forget this once the first brand extension comes around.

This is why game companies refuse to release half-baked products more and more, with Activision being a prime example, as evidenced in the case study, having publicly admitted it only invests in titles with franchise potential and recently proving this statement by canning many of their projects already in development – Brutal Legend for example, as noted earlier. Surrounded by countless sequels, new IPs have to strongly rely on quality to stand out in the eyes of the consumer. To the disadvantage of developers and publishers, this high level of quality also demands a high development budget, as all art assets, gameplay mechanics, and other parts of the game need to be built from scratch.

With sequels, quality plays a slightly different role. New releases in established franchises still have to be constantly evolved, or risk dropping in sales and brand image, as EA's case study nicely demonstrates, but the amount of risk involved is greatly lessened by the shorter development cycles, as art assets and gameplay engine are most of the time just modified to accommodate new direction, and the fact that a new release in an existing franchise is normally preceded by an already commercially and critically successful starting game. In this respect, sequels stand on safer and more stable ground than new, original IPs.

As mentioned, EA's case study (as well as the demise of Activision's Tony Hawk and Guitar Hero brands) greatly shows how important it is to innovate and be one step ahead of competition when it comes to sequels. Just like in all other industries which focus on brands with product-related performance associations, videogame companies have to be mindful of their competition which is always on the lookout for new opportunities to take over the dominant position in market and keep innovating with each new release in a proven game series. Maintaining the quality bar, which involves innovating a little with each new extension, set by the original game in a franchise is the most important and also most difficult task with sequels.

The second important factor that has to be taken into account when releasing new titles, be they new IPs or sequels, is the **timing of new releases**. As EA confessed earlier in the case study, releasing both of their two new IPs in 2008 in the crowded holiday season greatly undermined their sales performance. Activision's commercial flop Blur was met with the same fate when it released a day or two apart from a competing title Split Second, and only a week later from the hugely successful Red Dead Redemption (Red Dead Redemption Delayed, 2010). The lesson that can be learned from these two cases of underperformance is that releasing new IPs close to new titles from established franchises or too many equally, if not more, promising new IPs is unwise. If looked at from the perspective of consumers, the underdog nature of new IPs among sequels from established franchises is completely understandable, as consumers are familiar with and know exactly what to expect from the latter. Hence, a new IP has a much better chance of survival if put out in a release window with no new significant titles. This is why Take-Two launched both of their recent new IPs in the month of May which is known to be rather bereft of major new titles (Red Dead Redemption Delayed, 2010; L.A. Noire Release Date Announced, 2011).

Although to a much lesser extent, sequels can also suffer from being released at the wrong time. This is especially evident by the moves of many a publisher in the recent years which saw them delay their major new additions to existing franchises from the holiday season into the year following just so they can avoid sure-fire hits like Call of Duty (BioShock 2 Delayed to 2010, 2009; The Darkness 2 delayed to 2012, 2011). Such moves are made to ensure the games sell as many copies as possible; releasing them right alongside other sequels could hurt their sales potential.

Lastly, unlike the other two, the third factor differs between new IPs and sequels. In case of the former, the final crucial factor that has to be recognized and considered all throughout the development of new IPs is the **amount of marketing** that they receive. Since these games present new ideas and new takes on existing genres, or even genres that don't yet exist, it's that much more important for game publishers to allocate enough marketing budget to these new unproven projects. Consumers need to be made aware of and properly educated as to what these new games are and what they offer to them. Games which fail to do so, get lost amidst countless other, more known releases. As pointed out in the case studies, EA's new IP Mirror's Edge was one such example, as it fell victim to insufficient marketing prior to its release, in addition to being released in an improper window. Due to already having an established user base, sequels don't run the same risk.

While some brand managers struggle to build awareness for new IPs, others try to figure out the best release schedule for futures updates to their established franchises, which brings us to the third key factor for sequels – **frequency of new releases**. As evidenced by Activision's case of running its Guitar Hero brand into the ground by releasing too many brand extensions in one year (as many as 6 new Guitar Hero releases in 2009, as previously noted), bringing too many extensions on an annual basis to the market in the video game business is not a smart idea, as it completely dilutes the brand's meaning and overexposes the brand. Moreover, it kills the creativity of the development staff making the game and completely tires them out which normally leads to negative ramifications for the product.

Within the theoretical framework presented in the early part of the thesis, releasing so many extensions so often amounts to severely leveraging the brand for short-term benefits. Instead, as the realigned EA, Take-Two and 2K Games have stressed time and time again, it's better to space out releases to every two years, at the very least (Take-Two has a habit of waiting up to five years to release a game) and thus avoid milking a brand. This enables the brand to live a healthy, long life cycle and provide a reliable stream of revenue.

Taking into account all of these factors, as well as the previously stated advantages and disadvantages, it can be concluded that, when choosing one or the other, **investing into brand extensions holds more potential in terms of profitability than investing into new, original IPs**. Sequels have proven to hold less risk, thanks to being part of already established franchises, and generate more reliable and predictable streams of revenue.

To answer the main question which led to this research – which brand strategy is more appropriate for a company in terms of profitability – **investing into both new IPs and games from existing franchises is the best strategy to go with**. The reason why is simple. As previously demonstrated from EA's lessons of past, relying solely on existing franchises is not a sound strategy over the long term, especially if the number of these is minimal, as no franchise is bulletproof from the unpredictable changes in the market and can be sustained forever. Companies need to do what they did with their established franchises in the first place – support an original idea and launch new IP.

Relying solely on new, original IP, on the other hand, also doesn't make much sense. In and of itself, new IP is a very risky business. Therefore, a company which deals exclusively with new IP is simply a fantasy too far removed from reality. It would also mean losing huge potential of additional revenue by not capitalizing on the success of original ideas.

The solution to the problem at hand is such – a coexistence of new IPs and brand extensions from established franchises within a company's product portfolio. Only this way can a company in the video game industry remain relevant and sustain its business over the long haul. This conclusion to the research not only makes a literal replication across the two cases, as intended, but also confirms all the theoretical propositions set forth at the very beginning of the research.

## CONCLUSION

The videogame industry, like all other major entertainment industries, is hit-driven and has been so for many, many years. Once considered to be quite stable, it's now anything but that. Six years ago nobody would have guessed that the tables would be turned and the casual gamer market would dwarf the once prominent core gamer market, that social games would be such a profitable business, and that the move to digital software would be so sudden and significant. Needless to say, the past years have completely changed the rules of the game in this $60 billion industry.

As such, it's more important than ever for publishers around the globe to do what they do best – make games that consumers won't be able to say no to. However, with so many players being present on the market and only so much retail store shelf space available, publishers want nothing more than to release critically and commercially successful hits which will not only attract the attention of consumers, but also media and retail stores.

With that said, it's no wonder that sequels are in such high demand today. They have better chances of catching the consumer's eye amidst hundreds of similar products, as brand awareness plays its role. They have better chances with retailers, as they are more willing to dedicate store shelf space to products which are guaranteed to generate traffic. As a result of this, they also have better chances of meeting, if not surpassing, the companies' expectations.

However, as proven time and time again throughout the analysis of the industry's top publishers Electronic Arts and Activision and as concluded by the research, creating new original IPs is as equally important, in spite of the increased risk they carry. The reasons why they should be an essential part of a publisher's product portfolio are aplenty. First and foremost, new IPs can freshen up a company's product slate and add diversity if grounded in new genres. Consequently, new IPs present excellent opportunities for increased growth, especially if launched in the right release windows and on well-suited platforms. Looking at the bigger picture, new IPs also happen to play a crucial role in preventing the market from growing stale and thus losing audiences to more compelling forms of entertainment. The list doesn't end there. One of the bigger advantages new IPs offer and the one that many companies seem to overlook is that they allow the developers to work on new projects, thus giving them the freedom to think in new ways, as well as allowing them to grow creatively which only increases their value to the company.

That is not to say that sequels are bad, as appears to be the general consensus among the core, dedicated consumers and some media outlets as of late. If done right, that is, if the properties aren't over-annualized, so as to avoid overexposure and dilution of the brand, consistently maintain the quality set by the original, and evolve incrementally with each new release, sequels are good for the business. In fact, they are vital to the financial well-being of the companies, since they can generate a steady and reliable flow of revenue.

By taking two contrasting units of analysis – Electronic Arts and Activision – examining them, and then comparing the analysis results with the theoretical propositions made in the very beginning, a literal replication has been made across the two cases. Thus, the research goal has been achieved, leading to the conclusion that there is absolutely no reason as to why new IPs and established franchises can't and shouldn't coexist within a company's product portfolio. As a matter of fact, the thorough analyses of the industry's top two publishers and the findings of the research demonstrate clearly that a good balance between the two is required, so that companies can provide a diverse product portfolio which meets the needs of customers and, consequently, generates a reliable profit stream, satisfying shareholders in the process. Bluntly put, publishers need to pay attention to and invest in not only established, proven franchises, but new IPs as well. Only by doing so will video game companies be able to stand out from the competition and sustain their business in the ever-changing and increasingly turbulent video game market over the long term.

# POVZETEK DIPLOMSKE NALOGE

## Uvod

Medtem, ko v nekaterih panogah potreba po razvoju novih izdelkov ni vprašljiva, se tako ne zdi za industrijo video iger, kjer uveljavljene blagovne znamke prevladujejo na seznamu najbolj prodajanih video iger že mnogo let, zaradi česar razvoj nove intelektualne lastnine vedno bolj nazaduje.

Dejstvo, da se je industrija video iger v zadnjih letih korenito spremenila v smislu poslovanja, samo še doda k problemu. Hitrost sprememb se je dramatično povečala in podjetja so posledično samo še manj pripravljena tvegati. S tako temeljitimi spremembami se podetja vedno bolj pogosto sprašujejo, če je sploh potrebno inovirati in ustvarjati novo intelektualno lastnino.

Namen naloge je zato bil odkriti, ali je razvoj novih proizvodov sploh potreben v industriji video iger. Raziskovanja sem se lotil s preučevanjem značilnosti in potenciala nove intelektualne lastnine in širitev ustaljenih blagovnih znamk.

Cilji raziskave so bili naslednji:

1. Odkriti prednosti in slabosti podaljšanja življenjske dobe obstoječih blagovnih znamk;
2. Odkriti prednosti in slabosti naložbe v nove igre (blagovne znamke);
3. Odkriti, kako trajnostna je ena ali druga strategija upravljanja z blagovnimi znamkami.

Raziskava je bila osnovana na študiji primera kot metodi raziskovanja, saj ta vrsta empirične raziskave omogoča ustrezno preiskavo sodobnih fenomenov. Z rezultati raziskave se je nato oblikoval tudi predlog, kako naj podjetja v industriji video iger upravljajo s svojimi izdelki.

Diploma je razdeljena na šest poglavij, ki jih je mogoče uvrstiti v tri dele: uvod, telo in zaključek.

1. Uvod je uvodni del naloge in služi kot seznanitev bralca z raziskovalnim problemom, namenom naloge, cilji raziskave, metodologijo raziskave in s strukturo naloge.

2. Osrednji del je najbolj obsežen del naloge in je sestavljen iz teoretičnega in empiričnega segmenta. Teoretični segment seznani bralca s koncepti, ki so obravnavani v drugi polovici osrednjega dela, medtem, ko empirični segment najprej seznani bralca z industrijo video iger in nato razišče strategije blagovnih znamk dveh igralnih podjetij (Electronic Arts in Activision) v okviru študije primera.

3. Zaključek je sestavljen iz primerjave rezultatov raziskav, pridobljenih iz študije dveh primerov, in sklepa, ki povzema glavne ugotovitve raziskave in poda predlog za boljše upravljanje blagovnih znamk v industriji video iger.

Na koncu sledi še povzetek diplomske naloge v slovenščini in seznam terminologije, ki predstavi pomene najbolj uporabljenih in ključnih terminov v nalogi.

## Teoretično ozadje razvoja novih izdelkov in upravljanja z blagovnimi znamkami

Z zaključkom uvoda se začne osrednji del, ki najprej predstavi pomen razvoja novih izdelkov, kot tudi sam proces izdelave novega izdelka in njegovega posledičnega lansiranja na trg. V tem poglavju ugotovim, da je v glavnemrazvoj novih izdelkov absolutno potreben od podjetij. Ali gre za revolucionarno novo idejo ali preprosto za novo širitev obstoječe blagovne znamke, podjetja enostavno morajo ostati en korak pred svojimi konkurenti, kljub tveganjem, ki jih razvoj novih izdelkov predstavlja (npr. visoka stopnja negotovosti, prešibka tržna raziskava in visoki stroški izdelave).

Sledi poglavje o življenjskem ciklu proizvoda, ki bralcu pojasni, kako upravljati s proizvodom vseskozi njegov življenjski cikel, tako, da proizvod lahko preživi dolgo in zdravo dobo na trgu. Predstavljene so tudi razlike med različnimi vrstami koncepta življenjskega cikla proizvoda, seznanjenost s katerimi je bralcu v pomoč kasneje v nalogi.

Nato je predstavljen pomen upravljanja z blagovnimi znamkami. V tem delu je večkrat poudarjena potreba po inovacijah za ohranjanje kontinuitete in krepitve moči blagovne znamke ter znanje o kompromisih, ki so prisotni med aktivnostmi, katerih cilj je utrditi in prispevati k moči blagovne znamke in aktivnostmi, katerih cilj je izkoristiti obstoječo moč blagovne znamke z namenom pridobitve kratkoročnih finančnih koristi.

## Strategije razvoja novih izdelkov in upravljanja z blagovnimi znamkami v igralni industriji

Pred začetkom raziskave o razvoju novih izdelkov in upravljanju z blagovnimi znamkami v industriji video iger je najprej predstavljena sama industrija kot tudi njen trg. Izpostavljeno je dejstvo, da biti dobičkonosenv tovrstni industriji ni tako enostavno, saj je zelo težko predvideti, kakšna bo prodaja proizvodov, še posebej izdelkov nove intelektualne lastnine. Tveganje je samo še večje, ko se upošteva hitro spreminjajoči se trg, ki je danes precej drugačen od tistega izpred 5 let.

Nato sledijo študije primerov strategij upravljanja z blagovnimi znamkami podjetij Electronic Arts in Activision, pri katerih je podrobno predstavljeno delovanje omenjenih podjetjih v zadnjih 5 letih. Iz tega je razbran glavni indikator uspeha video igre – prodaja – in trije dejavniki, od katerih je prodaja odvisna.

Dejavnik ključnega pomena je kakovost video igre, tako z vidika nove intelektualne lastnine kot tudi za nadaljevanje obstoječih blagovnih znamk. Za nove igre je kakovost izredno pomembna, saj morajo tovrstne igre izstopati od drugih iger na trgu, še posebej v smislu nadaljevanja obstoječih znamk, s katerimi so kupci že seznanjeni in jim zatoveliko bolj zaupajo. Za širitev obstoječih blagovnih znamk pa igra kakovost pomembno vlogo, ker je treba blagovno znamko nenehno vzdrževati in jo razvijati z novimi dodatki, tako da kupci ne izgubijo zanimanja in se raje ne odločijo za katero drugo blagovno znamko na trgu, ki tudi ustreza njihovim preferencam. Če podjetje uspešno ne inovira ali pa ne uspe vzdržati kakovost z vsakim novim nadaljevanjem blagovne znamke, potem je zelo visoka verjetnost, da bo prodaja padla, moč blagovne znamke pa se bo znižala.

Drugi pomemben dejavnik, ki ga je treba upoštevati pri obeh tipih iger, je čas izdaje. Za nove igre je še posebej pomembno, da so izdane v času, ko ni veliko ostalih novih iger na trgu – po možnosti, ko ni nobenih drugih izidov – ker, kot sta pokazali študiji primerov, imajo tako dosti večjo možnost uspeha.

Medtem, ko sta tovrstna dejavnika – kakovost igre in čas izdaje - pomembna z vidika nove intelektualne lastnine kot tudi z vidika nadaljevanja obstoječih blagovnih znamk, je grajenje prepoznavnosti kot dejavnik pripisan samo novim igram. Za razliko od nadaljevanj, so nove igre na začetku še neprepoznavne med kupci, zato je izredno pomembno, da podjetja primerno poučijo kupce o naravi nove igre in njenih lastnostih ter jim ustrezno razložijo, zakaj je igra vredna njihovega denarja pred ostalimi igrami na trgu.

Pri nadaljevanju blagovnih znamk pa je kot tretji dejavnik izpostavljena frekventnost novih izdaj, saj ima le-ta velik vpliv na podobo blagovne znamke in njeno povpraševanje na trgu. Če se blagovno znamko nadaljuje z več izdajami letno, je velika verjetnost, da bodo kupci hitro izgubili zanimanje, saj se je bodo preveč in prehitro navadili. Zato je pomembno, da podjetja primerno načrtujejo, kdaj izdati nova nadaljevanja in da ne mislijo samo na kratkoročne finančne koristi, ki jih ponuja znamka.

## Sklep

Z dvema nasprotujočima si primeroma – Electronic Arts in Activision – sem analiziral dve strategiji upravljanja z blagovnimi znamkami in nato primerjal rezultate teh strategij s teoretičnimi predpostavkami, predstavljenimi v začetku raziskave, ter posledično prenesel teoretične koncepte z enega primera na drugega. S tem sem ugotovil, da imajo nadaljevanja blagovnih znamk, obravnavana posamezno, v bistvu več potenciala kot izdelki nove intelektualne lastnine, saj predstavljajo znatno manj tveganja in ponujajo dosti več prihodkov. To pa seveda ne pomeni, da se lahko podjetja zanašajo samo na nadaljevanja blagovnih znamk, saj kot sta pokazala študijska primera, blagovne znamke prej kot slej izgubijo svojo moč, za vzdrževanje katere pa je potrebno ustvarjanje nove intelektualne lastnine, ki nato lahko nadomesti staro. Poleg tega je pomembno za podjetje, da ponuja čim bolj razpršen spekter proizvodov in tako pokriva čim večji del trga.

Torej, za podjetja je priporočljivo, da investirajo tako v razvoj nove intelektualne lastnine kot tudi v nadaljevanja obstoječih znamk. Samo tako lahko izstopajo na trgu od konkurentov in si zagotovijo uspešno poslovanje na dolgi rok.

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# APPENDIX

# TABLE OF APPENDICES

# APPENDIX 1: TERMINOLOGY

**Annualized game:** a game brand which gets a new extension every year.

**Casual gamer:** a consumer who is either new to playing games or has been doing so for some time, but whose time or interest in playing games is limited compared with a hardcore gamer. This type of consumer makes up for the majority of the user base of Nintendo Wii.

**Development:** time period it takes to make an entire game from the moment a game concept is greenlit until all work is done and the game is ready to be printed on discs and shipped to retail stores.

**Downloadable/digital game:** a game which is available for purchase from online platforms.

**Franchise:** a very common term to describe a game series or brand.

**Game developer:** a development studio which makes games.

**Game publisher:** a company which markets, distributes, and finances the development of games made either by an internal development studio owned by the publisher or an external development studio.

**Hardcore/core gamer:** a consumer who has been buying and playing games for many years and will most likely continue to do so for time to come. This type of consumer makes up for the majority of the user base of the Xbox 360 and Playstation 3, games of which this thesis focuses on.

**IP:** an abbreviation for intellectual property. More of than not, intellectual properties are referred to as franchises/game series, or vice-versa in the video game industry.

**Licensed game:** a game based on an existing license, usually from the movie, comic book, or sports industry.

**Metacritic:** an online website which curates a large group of the world's most respected critics, assigns scores to their reviews, and applies a weighted average to summarize the range of their opinions. The result is a single number that captures the essence of critical opinion in one score. This score is the standard indicator of a game's quality in the video game industry.

**Original (game):** a game which starts off a new intellectual property or game brand. In other words, it's the first game in its respective series.

**Release:** a new game which is either a new extension of an existing game series/brand or the first game in a brand new series/intellectual property. Also called a new entry, iteration, or installment.

**Sequel:** a brand extension or a new game in an existing series.

**Title:** A common term for a game.