

Ubisoft executive summary essay



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EMBA 2010-2012, Group F UBISOFT CASE STUDY – EXECUTIVE SUMMARY

Industry's structure – Porter's five forces Competitive Rivalry within Industry

– HIGH * Very attractive, dynamic market * Large number of competitors *

High and innovative technology in use * Sophisticated, cross industry

creation process (Telco, IT, entertainment) Bargaining power of Suppliers –

LOW * Games made-in house, by hired developers having access to

necessary software and engine licenses * Fight for exclusivity on important

game titles Bargaining power of Customers – LOW * Mass market, mass

retailers, specialty stores Online purchases, electronic game distribution as

the cheapest source * Large number of alternatives, low bargaining power

Threat of new Entrants – HIGH * Little initial investment needed * Little exit

costs, no fixed assets (licenses, workstations) * Established brand not

necessary – the most important part is game playability * Barrier size for

major game releases – average size of production – 12 min \$, 2 years

development + marketing costs Threat of Substitute Products – LOW * Non-

electronic entertainment * Non corporate game creators * Open source

alternatives

Main opportunities and threats for video game industry Opportunities

Partnership with film-makers, sport's industries New technologies (mobile,

web-browser, Flash) Cross-platform games distribution Online and social

network gaming Shift of gamer profile – older and more woman, Shift of

business models in game advertisements Games developed after

blockbuster hits Subscription games – new trend, access to cash

Consolidation and unification hardware platforms Industry moving strongly

toward online gaming, both for massively-multi-player concepts and for on-line multi-player versions of existing titles

Penetration of untouched markets by means of bundling Electronic game distribution – global sales channels Simulators game development (army industry) Threats Power of platform goes up – higher requirements, constant need to adjust equipment Shift in gamers approach – now more casual games are popular Shortening of a game life cycle Increase in number of alternative games Regulatory constraints – piracy phenomenon High graphics demand, special effects, inclusion of movie stars – costs and profitability High marketing expenses due to high competition Regulatory restrictions against violent games

Capital investment, short life cycle, but long development phase, marketing expenditures Lower cost competitor i. e. Nintendo Antitrust issues in Europe Likely evolution of the industry and future trends * Intensity development of more online gaming * Targeting new users and groups – woman, older people who have higher income than young generation * Consolidation of game producers – limited number of companies capable to sustain AAA games * Movement based games (Wii Nintendo), innovations as a strong differentiator * More players – constantly growing market Less companies dealing with AAA titles, opportunity to enter market with “easier” games * Joint ventures of game and movie producers, big players able to secure lucrative exclusive contracts * Subscription based games * In game advertisements, free games with product placement * Game exclusivity (killer games), some platform providers pay for game development by third

parties How has EA generated such a strong position of leadership in the industry?

Building a sustainable business model * Securing expensive exclusivity agreements for popular game themes NHL, FIFA, Harry Potter, James Bond, Lord of the Rings * Creating sequels, easy to reproduce and cheaper for marketing * EA had also developed strong franchises with The Sims and Medal of Honor * EA signed an exclusive licensing arrangement with ESPN, an American based sports broadcaster, for a 15 year period Massive marketing spending EA has had a close association with sporting titles, dominating this genre of games * Involvement in gaming societies, promoting Electronic Sports, organizing gaming tournaments * Forging agreements with content providers and hardware manufacturers * Consistent building of reputation, quality control * EA had established brand recognition as a publisher by being able to develop its sub-brands, namely EA Sports, EA Big and EA Games Economy of scale * EA is the largest publisher in the world and had the largest production facilities, able to secure exclusivity due to large resources and negotiating power

How does Ubisoft's position compare to EA's? * Similar history, started as game distributor but much difference in growth and performance * No sustainability in approach, no hot topic to explore in the long run * Ubisoft is more European while EA global, US * In emerging markets / Asia – EA has a better position * One of the biggest publisher in the world, considered one of the world's leading players in video games industry * 5x smaller than EA (based on key financial figures) * Marginal exclusivity for long term agreements * Lack of extensive marketing campaign Limited player in

gaming society (championships etc) Do you think Ubisoft has created a sustainable competitive advantage in this industry? Rather not. The only sustainable advantage might be the rights to well known titles – if exploiting these titles is possible. Unique competences of Ubisoft (valuable, rare not replicable) – production cycle, developer and designer teams, the way they make good games. If the production is too relied on specific group it might be very dangerous for the company and they can demand high remuneration or join competition.

Key success factor held by companies: * EA: marketing, exclusivity rights, economy of scale * Ubisoft: high quality game engines, strong game development team Unlike EA, Ubisoft did not elaborate following important features: * They base their results on small number of good games but gamers are attached to a game – not the producer. With short game life cycle there is a threat that no good titles will follow and income will decline. This is specifically important in situation when game life cycle is getting shorter, sequels not always possible. Additionally no exclusivity agreements were secured for future * No marketing advantage elaborated How should Ubisoft react to EA's hostile equity move? From the shareholder perspective it might be a good chance to monetize on selling the company as it might be constantly losing ground and future is uncertain. Forgetting about the ownership aspects it might be good for both companies to find synergies in joining what they do better – Ubisoft as a software creator and EA as a business model provider.

If merger is not an option and Ubisoft should continue to develop on its own it might be necessary to take precautions from hostile takeover of the

company. The fact that EA is benefitting on its aggressive policy following options might be taken under consideration in order to increase Ubisoft market position: * Alliance / mergers with other game industry players * Increase marketing, involvement in gaming societies * Product diversification – finding niches, new special product development (army, hospitals) * focusing on specific target group, make them dedicated by creating games based in specific themes corresponding to target groups