

An analysis of game group plc



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Introduction

The landscape of how consumers purchase their media is continually changing, from vinyl to blue ray, retail shop have had to stay one step ahead of technology in order to survive. Digital downloading now proposes the greatest challenge to retail, how to justify their existence to consumers. Video game retailers unlike music retailers have been largely unaffected by the digital download revolution due to the large file size of games, but as technology advances video game retailers will have to adapt to this change in the market place. The purpose of this report is to critically evaluate the strategic position of GAME Group and propose how an emerging technology may impact on the future position of the organisation. This will be achieved through an analysis of the background and structure of the company in order to conduct a situation analysis of the macro and micro environment of the group, which will help identify possible technological adaptations that can be used to benefit the future position of the group through gaining a competitive advantage. This report will conclude on how these technological advances could be implemented and the impact they could have on GAME Group.

Background

Ownership

GAME Group plc is Europe's largest specialist of video games and computer software (<http://www.drakecircus.com/shops/game.aspx>) with over 1300 retail stores was founded in 1992 under the name Rhino Group, by Bev Ripley and Terry Norris. The company expanded during 1993 to 77 stores with the acquisition of Virgin Games. In 1995 the company was rebranded to <https://assignbuster.com/an-analysis-of-game-group-plc/>

Electronics Boutique due to Electronics Boutique acquiring 25% of the company (<http://www.independent.co.uk/news/business/analysis-and-features/good-at-games-673844.html>).

Electronic Boutique limited in 1998, purchased a chain of retail outlets that traded under the name GAME for £99 million. GAME added 86 stores and was originally established in 1990 by Peter Wickins and Neil Taylor (<http://www.guardian.co.uk/business/1999/apr/13/5>). Also during 1998 the group began to expand into the European market for the first time, with a store opening in Stockholm. The expansion into Europe continued in 2001 with acquisition of Centromail in Spain and Scoregames in France. In 2002 the group experienced its third name change to GAME Group plc and all stores were re-branded to GAME (http://www.gamegroup.plc.uk/gmg_plc/about/history/). The group acquired a number of other video game specialist companies that have now been re-branded GAME, Gameplay Limited an online and mail order retailer, which now operates as the group main online service in the UK, Gamewizards in Australia adding 14 stores and 8 franchises, and acquiring JRC in Czech Republic adding 19 stores.

One of the largest takeovers and strategically important to the group was in May 2007 with the acquisition of rival UK specialist video game retailer Gamestation for £74 million, the decision was made to retain the brand, when asked why the decision had been made to retain the two brands Lisa Morgan the Chief Executive response was, “ They are two specialist game stores, but if you were to visit each of the stores you would see that they are distinctively different. The Game store and its environment has been built and designed to appeal to the mass market customer, appealing to families <https://assignbuster.com/an-analysis-of-game-group-plc/>

and customers of all ages with a very simple offering in store. You visit a Gamestation store and you will see that the environment is designed and built much more to appeal to that hard core gamer. You walk in and the feel is much more edgy and there's a lot more presence from the trade-in and the pre-owned part of the business because that's really important to your typical male hard core customer". (http://w3.cantos.com/07/pr_kenna-704-4ivf5/video/pjx-d257-transcript.php?i=1).

Market Product

With two retail stores on the market, GAME and Gamestation, the GAME Group are in the position to carry the widest range of product on the high street, also being first to the market on with new games and consoles, accompanied by exclusive product and content. The core products that the group offer are home and handheld consoles ("hardware"), which are manufactured by Sony (PS2, PS3 and PSP), Microsoft (Xbox 360), and Nintendo (Wii and DSi) with each manufacture adopting different marketing and pricing strategies for each format. (http://www.gamegroup.com/gmg_plc/about/markets/products/).

The "hardware" is supported in the market place with a range of games ("software"); some "software" will be available cross "hardware" (i. e. PS3 and Xbox 360) such as Modern Warfare 2, whereas other games may be exclusive to a specific platform (i. e. Metal Gear Solid 4 exclusive to the PS3) in order to gain an advantage over rival "hardware".

The GAME Group support their core products with a range of accessories, some specific too each "hardware", the group expects the new motion

sensor controllers from both Microsoft, “ Kinect”, and Sony, “ PlayStation Move”, to broaden the appeal of video games and expand customer choice. The group hopes to exploit their specialised knowledge of the video game industry by showcasing the launch and providing customers with demonstrations and explanations of the new controllers. (Page24)

Although the group do not sell PC’s, they do sell PC games and for the last three years GAME have provide a digital download service for PC games. Revenues are currently small, less than 1 per cent of turnover but the group believes digital revenues will form a large part of the market over the next five years. (Page31)

Smaller parts of the product line-up include movies/television shows in Universal Media Disc format, specific for the PSP, and video game related merchandise.

Market Profile

The global video games market has seen an unprecedented growth in the 21st century outstripping growth in all other home entertainment sectors. GAME being the leading video games retailer in Europe is well positioned to benefit from this growth, the European market was valued at \$20. 6bn in 2008, and table (...) shows GAME group position in each European market place. ([http://www. gamegroup. com/gmg_plc/about/markets/](http://www.gamegroup.com/gmg_plc/about/markets/))

In the 1990’s over 88% of GAME Group customers were male; in 2009 over 36% of their customers were female. This broadening of appeal in the video game industry means new demands from a wide variety of games must be satisfied. In order to achieve this, the customer is offered a range of

specialise services to fit their needs. Firstly, the option of two distinctly different brands one for the casual gamer (GAME), and one for the hardcore gamer (Gamestation). Secondly, offering the customer outstanding service, with a range of promises that separate GAME group from the competition;

Employees – we recruit and train the best people to give outstanding specialist service.

Product and Range – we have the widest range of products with attractive deals and promotions.

Pre-owned – more choice at temptingly low prices with the advantage of trade-ins as well.

Customer loyalty – the GAME Reward Card offers customers points which equate to a 2.5 per cent discount on all products.

All of these services drive loyalty with our customers and help us understand what they need. The group use this insight to evolve their offer, and stay ahead of the game. ([http://www. gamegroup. com/gmg_plc/about/markets/consumer/](http://www.gamegroup.com/gmg_plc/about/markets/consumer/))

Strategic Analysis

Values and Objectives

The GAME Group plc home page states, “ We’re Europe’s leading pc and video games retailer, with an international chain of more than 1, 300 specialist outlets and popular ecommerce websites. We’ve grown fast in nine European countries and Australia by putting the customer at the heart of every decision we make” ([http://www. gamegroup. plc. uk/gmg_plc/](http://www.gamegroup.plc.uk/gmg_plc/)), this is <https://assignbuster.com/an-analysis-of-game-group-plc/>

the first statement that potential customers and investors will read on their home page, it clearly emphasises on the size of the group and the rate in which the company has grown. The statement “ putting the customer at the heart of every decision” indicates that the company strategy is to with every decision relate back to what the customer would want; this value is displayed in figure (...). The group main focus on meeting the customer’s needs are by delivering the future of the pc, and video games market across three channels, store, online, and digital. The group believe their objectives can be met by first, evolving our customer offer to meet the demands of the multi-channel marketplace, and secondly, supporting that offer with a developed and enhanced infrastructure (Page3).

The GAME Group are a company that are very much aware of their corporate responsibilities, and recognize that the ways they operate as a business has a direct impact on reputation and brand. The group have in place a Corporate Responsibility (CR) committee with representatives from across the business, meeting bi-monthly to review CR policy, monitor progress against objectives and agree new initiatives to enhance CR program ([http://www. gamegroup. plc. uk/gmg_plc/corporate/committee/members/](http://www.gamegroup.plc.uk/gmg_plc/corporate/committee/members/)).

The main social issues that the committee recognizes are the impact the business has on the environment, charity partnerships, protecting customers, health and safety, supporting staff to reach full potential and social auditing work with overseas factories which supply own brand products ([http://www. gamegroup. plc.](http://www. gamegroup. plc. uk/gmg_plc/corporate/committee/horw/)

[uk/gmg_plc/corporate/committee/horw/](http://www. gamegroup. plc. uk/gmg_plc/corporate/committee/horw/)). The committee has identified a number of areas in which the group can meet its environmental aims, firstly,

the group will be launching “ GAME for Life” reusable bag which will be made from recycled biodegradable material, and also the launch of green travel policy demonstrates the group’s commitment to integrating environmental best practice into all business activities. Initiatives such as encouraging employees to cycle to work, and plans for a shuttle bus between offices will help reduce the business carbon footprint ([http://www. gamegroup. plc. uk/gmg_plc/corporate/stakeholders/environment/](http://www.gamegroup.plc.uk/gmg_plc/corporate/stakeholders/environment/)). The charity partnerships that the company holds are with Children’s Hospice UK, where the group donates a portion of the profits from the sale of the new “ GAME for Life” reusable bag, and May Place Hostel, where the group encourage staff volunteering and organize donations for essential items like clothing and cups ([http://www. gamegroup. plc. uk/gmg_plc/corporate/stakeholders/community/](http://www.gamegroup.plc.uk/gmg_plc/corporate/stakeholders/community/)).

Protecting the customers, particularly children from unsuitable content found on some video games is a moral and legal obligation that cannot be ignored. Current measure of age rating on games are performed by Pan European Game Informant (PEGI), and BBFC Ratings, it was announced in June 2009 that PEGI would become the sole video games classification system with a single, clear set of age-rating symbols to help customers make informed decisions about which game to choose ([http://www. game. co. uk/lowdown. aspx? lid= 7562](http://www.game.co.uk/lowdown.aspx?lid=7562)). This decision was taken by the UK Government after findings from Dr Tanya Byron report on how to protect children from mature content in video games and on the internet. GAME Group welcomed the Governments announcement as they believed the new system to bring

additional clarity and support to customers and employees (http://www.gamegroup.plc.uk/gmg_plc/corporate/casestudies/cs4/).

The group have introduced a number of measures to improve the welfare of its employees, these include, holding health and safety weeks in-stores and similar activities in distribution centres, encouraging the uses of confidential employee assistance telephone support line, piloting free onsite eye test, and introducing a 'Cycle to work' scheme (http://www.gamegroup.plc.uk/gmg_plc/corporate/stakeholders/employees/).

Internal Environment

We can use the SWOT analysis technique to understand the strengths and weaknesses of the GAME Group business, and spot opportunities and threats.

Fig. (...) SWAT Analysis

Strengths

GAME Group has successfully created two well-established brands in a fiercely competitive market. The brand is positioned as a specialized video game retailer which can cater for the mass market. How the GAME Group differs from its competitors can be seen in figure (appendix).

Weaknesses

GAME and Gamestation are specialized video game stores; therefore do not have the diversity of stock (i. e. Televisions) to attract potential customers into the video games market. The group also have no access to sell digitally to the home consoles (i. e. PS3, Xbox360, and Wii), which results in publishers cutting them out of sales.

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Opportunities

The growing demand for digital downloads has given the group an opportunity to embrace technological advances and create a competitive advantage. GAME pc download service has grown over the last three years but still accounts to less than a percent of profits, but the digital market is still small and disorted. GAME taking a leading role in its evolution will provide a competitive advantage as more supply partners are developed.

Threats

There is growing threats to game as there are low barriers to entry in the game retailing market, these low barriers to entry means that game needs to develop a positioning strategy to create differential advantage. The gaming is highly penetrated market and competitors range from niche retailers to supermarkets.

External Environment

A situational analysis was undertaken to develop a greater understanding of how an emerging technology may impact on the future position of the organisation using a PESTEL model.

Political

Economic

Social

Technological

Legal

Areas of Change

Call to ban violent video games

Recession

Parents stop buying their children video games

Shift from physical to digital media

Age rating becomes stricter i. e. 18 to 21

Potential Effect on Company

Loss of popular video games damages sales

Dip in profits, may affect investor confidence

Loss of main customer

Retail store become ineffective, new digital infrastructure needed

Loss of teen market on mature video games

Political

Like many forms of media, video games can deal with mature content and graphic violence. The influence politics have on the industry cannot be understated, as discussed previously the UK government had Dr Tanya Byron produce a report on how to protect children from violent video games, but the industry can often be used by politicians to gain media attention, often calling for an outright ban on violent video games (<http://www.bbc.co.uk/news/technology-11056581>). The potential effects a ban on violent video games could have on the group financially could be catastrophic, as many of the most popular video games contain a measure of violence. If we look at the launch of Modern Warfare 2, a first person shooter (FPS) in which your

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main objective is to kill terrorists, it became the biggest entertainment launch in history, taking \$550 million dollars in the UK and USA in the first 24 hours of sale, with global revenues of the game now exceeding \$1 billion (page 38). We can see from table (appendix) that Modern Warfare 2 was GAME group best selling game of 2009, with another two titles on that list, (Assassins Creed 2, and Call of Duty: World at War) also considered violent. This loss in income would result in a downsizing in the business, as the market appeal for video games would have decreased.

Economical

The video game industry was once described as “recession proof”, but as the industry in the UK is down by 9-10% from 2009 this description is clearly false (<http://www.thesixthaxis.com/2010/09/28/game-post-losses-close-stores/>). The trade association representing the UK game market “TIGA” commented on how this confusion may be due to the lack of a Standard Industrial Classifications (SIC) code meaning the government may not recognize the competitive threat facing the UK video game industry. Richard Wilson, CEO of TIGA, said, “Data on traditional manufacturing businesses is abundant, data for traditional financial services is substantial, but data for knowledge based industries like the video games sector is sparse. This is a serious problem. If Ministers and policy makers cannot access reliable data, then they will find it difficult to reach rational policy conclusions.” With access to reliable data measuring the effects of recession unreliable, tax breaks for the industry cancelled (<http://www.telegraph.co.uk/technology/video-games/7846764/Budget-2010-Video-games-tax-credits-scraped.html>), and announcement by the chairman Peter Lewis, that by

Christmas 2013 the group expects the UK store portfolio to be reduced to around 550 stores from 635 (<http://www.thesixthaxis.com/2010/09/28/game-post-losses-close-stores/>), investor confidence may be effected.

Social

Information from the entertainment software association show that the average age of the frequent most frequent game purchaser is 40 years old, and parents who have children under 18 with a gaming console in the home are present when games are purchased or rented 93 percent of the time. (<http://www.theesa.com/facts/index.asp>). We can assume from this information that parents are buying video games for their children; this has become a socially acceptable practice. With pressures from politicians on the violence in video games and news stories such as the US teenager who killed his mother and wounded his father in a revenge attack, after they had taken away his violent video game, pleaded to a judge that the game had made him insane (<http://news.bbc.co.uk/1/hi/world/americas/7826663.stm>). This social practice of parents buying their children video games may begin to change if more concerns are raised on the mental effects video games can have children and young adults.

Technological

A shift from physical to digital distribution is happening in all types of media, from music to movies to video games. Up to now video games have been largely unaffected from this transition due to the large file sizes, and inadequate internet speeds. As these problems are overcome the videogame industry can look at the music industry for an idea of the potential impacts

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digital distribution can have on business. Looking at the demise of “ Zavvi”, which was at the time of liquidation the UK’s largest independent retailer, we can see that room on the High Street for entertainment media may be coming to a end, with intense competition from digital downloads, online gaming and cheap pricing from supermarkets (<http://news.bbc.co.uk/1/hi/business/7798973.stm>). This would cause the GAME Group to leave their traditional retail stores and move into a new digital infrastructure, a process which would be very expensive.

Legal

Like the points raised in the political section of this PESTEL model the issue of violent video games being played by an age group not suitable is a never ending issue. If PEGI, the organisation which classifies games into age rating, were to increase the 18 certificate to 21, GAME would lose the section of the teen market to which it could sell these mature games to. The resulting impact this would have on the company, would be how to market less mature games to this market or risk losing a generation of “ gamers”, as other media may take video games place.

Industrial Environment

Porters five force model is used to indicate the industrial structure of the gaming market. Each of these five forces contains a number of elements that contribute to the strength competition in the market.

Fig.(...) Porters five forces

The Competitive Rivalry within the industry is extremely high if GAME were to raise the prices of video games within their store, they will be quickly

under cut, the intense competition puts strong downward pressure on prices. Rival stores, such as supermarkets, can also under cut the price of other products driving more custom into the store.

New Entrants can raise the level of competition in the industry, the ability for a new entrant onto the retail high street is quite low, but the ability for a new entrant into the on-line marketplace is quite high, as the costs for set up are much smaller. Also as GAME reached record sales last year, the attraction for established businesses entering the market place are quite high.

The bargaining power of buyers in this industry are great as the products are standardised, there is no cost to the buyer to switch from GAME products and services to someone else. Due the readily available information on the internet the buyer has the power to compare pricing.

Substitutes, from figure (appendix) we can see that GAME Group cover all the needs of a video game consumer, therefore consumers may find it difficult to find a suitable replacement. The GAME loyalty card can be a main driver in keeping customers, only generalist and supermarkets offer something similar, but they do not offer the range of games. Relative pricing can allow a retailer to understand the pressures on the industry and the likely effect on the prospects for short- and longer-term success. More specifically, a retailer is able to take into consideration its true competitive position with regard to its opponents and can identify the possible strengths and weaknesses resulting from the current state of rivalry in the industry.

The bargaining power of suppliers is high, as there are many buyers and a limited number of games supplies. Suppliers such as Activision have the

bargaining power to raise video game prices, as previously discussed Modern Warfare 2 was the biggest entertainment launch in history, Activision took this opportunity to raise pricing by £5, which left the retailers fighting out a price war for buyers.

Strategic Choice

Analysing the internal and external environment Porter's generic strategy can be used to utilize the companies' internal strengths and external opportunities to exploit its competitive advantage over its competitors.

Cost Leadership strategy

Differentiation Strategy

Cost focus Strategy

Focus differentiation strategy

Fig. (...) Potter's Generic Strategies

The GAME group have an advantage over its competitors by having two strong brands in the marketplace, which means they can employ two different strategies. The cost leadership strategy calls for being the low cost provider in an industry for a given level of quality. This strategy is in line with retail shop GAME, who has been selling its stock at average industry price, which will allow it to gain higher profits than its rivals but with the internal advantage of specialized trained staff. The group other brand Gamestation follows focus differentiation strategy, concentrating on a narrow segment of the market and with that segment attempt to achieve a differentiation. The differentiation for Gamestation is creating a store look that it more pleasing

to the “hard core” gamer, and offering relevant deals to that customer, such as price match on trade-in prices.

Strategic Evaluation

We have looked at ownership of the company, market products, and market profile, performed a strategic analysis of the group values and objectives, internal, external, and industrial environment, and looked at the strategic choice of the group.

We can split the evaluation of the company into two groups; Customer relationship management, and Infrastructure and support.

When looking at how the group manage customer relationship we see four main areas, employees, product and range, pre-owned, and customer loyalty.

Employees at GAME or Gamestation are expected to bring the highest level of service and have a personal enjoyment for videogames. The group manage this level of service with training to guide consumers to products, deals and choices to suit their needs.

Product range and services are extensive within the group; no other company can provide the same core attributes, allowing for mass market penetration.

The ability for the consumer to trade in games for store credit builds money saving scheme for customers and the sale of pre-owned games at discount give the group additional revenue.

The loyalty card the GAME offers has 13 million members, this strategic advantage allows the group to collect sales trend data to continually improve the business.

The infrastructure and support is critical for GAME to drive the business forward, the key areas are Retail area, eCommerce, business relationships and distribution.

Retail area that the GAME stores are found are in prime high street locations, easily accessible for the mass market. Gamestation stores are typically found in back streets, and smaller towns to create the feeling of a “ club house” form the more serious gamer.

The online store and digital distribution will maximise the market place, continue investment will allow the group not to be left behind in an expanding area.

GAME has the ability to negotiate for exclusive content from its business partners, allowing for their products to stand out from the competition.

The pre-order of a game is extremely important when negotiating with suppliers; consumers will trust that a pre-ordered game will arrive on day of release. Continued customer confidence with distribution will allow the group to negotiate better deals with suppliers.

These core attributes has allowed The GAME Group to develop a strong brand image on the marketplace, through specialized retail, the business has been allowed to grow. The diversity of GAME and Gamestation allow the

group to be best placed to weather economic downturn and prosper faster in an upturn.

Emerging Technology

Looking into the near future the main stumbling block the GAME group has is the lack of access to sell digitally to the home consol market. Sony, Microsoft and Nintendo all have online store, which currently sell smaller scaled games when compared to the blockbuster games found in the GAME store, but a few blockbuster titles are becoming available. If this trend continues the GAME Group may find their business cut out of the market.

This section will identify an emerging technology and how it may impact on the future position of GAME Group. Cloud computing is internet-based computing, whereby shared resources, software, and information are provided to computers and other devices on demand (http://en.wikipedia.org/wiki/Cloud_computing). This technology has the potential to drastically change the way consumer's access video games; therefore it could be of great importance to the GAME Group.

Implementing Technology

The idea of cloud gaming is synonymous with cloud computing. The user will connect to the service through their TV, PC, or mobile device. Instead of the games being downloaded from the service like GAME, they are streamed.

The user's inputs travel from the controller to the server through a broadband internet connection. The server manipulates the game depending on the user's input, renders the resulting actions into video, and sends the images back to the user which is then displayed on their TV or monitor.

There is no need for a hard drive, graphics card, sound card, or anything that a typical gaming PC or console system has; figure (appendix) shows how the system may work. (http://uk.gamespot.com/users/subyman/show_blog_entry.php?login=true&topic_id=m-100-25804336).

Currently there are only two companies with commercial services based around cloud computing, neither have managed to hit mass market appeal.

Impact

The potential impact of cloud gaming hitting mass market are enormous, the current consumer's structure of buying video games would change (i. e. purchase console, purchase games, purchase new console.....). GAME Group could use this new technology to build an infrastructure which cuts out the console makers that New reports suggest that by 2014 cloud gaming could be worth \$400m (<http://www.gamesindustry.biz/articles/2010-10-20-cloud-gaming-revenues-to-top-USD400m-in-2014>)

Conclusions