

# An analysis of the company gameloft marketing essay



Game Theory is a branch of economics which helps the decision maker to deals with the strategic situations in various fields. Game theory attempts to capture the behavior of an individual in a strategic decision situation given that everyone involved in the situation acts rational and each of them is trying to anticipate the actions of the other.

The outcome at which each decision maker is doing his best, given the strategies of the other decision makers is called Nash equilibrium. [Besanko 2004, P. 37] The Nash equilibrium doesn't necessarily correspond to the max profit for the decision makers. But it can also determine the outcome to decrease the loss.

Sometimes there could be cases in which two participants may not cooperate even if it is in their best interest to do so. There may be other interests which influence the decision maker to not cooperate with the opponent. This conflict between the collective interests and self-interests called the 'Prisoner's dilemma'. [Besanko 2004, P. 37]

A situation where two parties may work more efficiently by cooperating but they refrain from doing so as one of them has higher bargaining power is called the 'hold-up problem'. In this situation, one of the participants takes advantage over other's disabilities and gain a higher bargaining power.

In this assignment, I attempt to relate the ideas of Game theory to the strategic decision made in Gameloft S. A during the past few years.

## **1. 2 Gameloft S. A**

Gameloft is French based leading publisher and developer of mobile and console games. Since its establishment in 1999, it has emerged as one of the top innovators in its field. Partnership agreements with leading licensors and sports personalities allow Gameloft to form strong relationships with international brands. Through agreements with major telephone wireless carriers, handset manufacturers, specialized distributors and its online shop, Gameloft has a distribution network in over 80 plus countries. The company's core business continues to do quite well despite the worldwide economic slowdown. [Gameloft in brief, Gameloft. com]

Until 2005, Gameloft's share in mobile gaming market was more than 60%. There were no real competitors to capture their market share. The remaining 40% share is occupied by the next level gaming companies like THQ, Glu and Digital Chocolate. During December 2005, world's largest PC game manufacturer Electronic Arts (EA) announced its entry into the mobile gaming market by acquiring Jamdat mobile. Gameloft understands that EA will be a tough competitor during the coming years. So they make several decisions to quickly expanding their operations by increasing their staff. Their primary target is to keep their cost of production low while producing as many games as possible. By the end of 2007 their staff was raised to 4000, 50% more than end of 2006.

## **2. 0 Strategic decisions made by Gameloft S. A**

### **2. 1 Decreasing cost of production by closing down high cost studios**

Gameloft has setup studios at Hyderabad (India), Shanghai (China) and Beijing (China) during the first quarter of 2006. After establishing them, Gameloft decided to shut down 2 of their major studios in Montreal (Canada) and Romania in order to decrease their cost of production. They gradually shifted their operations from Canada and Romania to India and China where the cost of production is considerably very low. This is possible because of the low cost man power and infrastructure in these countries. Due to this decision, they could cut down on their production costs up to 30% during fiscal year 2006-07 [Gameloft financial statement 2007, gameloft. com]

### **2. 2 Reaching the customers with Gameloft Connect**

During middle of 2006, one of the main challenges faced by Gameloft is to increase their customer base over their primary rival EA mobile. They came up with a new idea to launch their own software called GL connect through which customers can buy and install games on their mobiles. Michael Guillemot, CEO of Gameloft says “ Until now, a non-wap configured customer coming to a carrier’s website was not able to download content. Gameloft Connect offers carriers around the world to access an untapped customer base. Carriers can provide their customers with top quality content by linking a customized version of Gameloft Connect on their website.” [Interview with Michelle Guillemot, moconews. net] But this strategy didn’t work for a long time. Number of users using Gameloft Connect is very low that it’s cost of

maintenance doesn't even meet the revenues earned through it. Gameloft connect was discontinued within 1 year of its launch.

### **2.3 Keeping in competition with EA Mobile by increasing their production**

By the end of 2006, EA Mobile and Gameloft are at the edge of equal competition. Gameloft needs to break this situation in order to stop EA mobile from capturing the further market. This is when they made a huge decision of increasing their game production by 200%. This is one reason why they increased their head count by 50% during 2007. Gameloft developed 55 games in 2007, 200% more than they developed in 2006. Releasing a game almost every week kept Gameloft alive in the market and always in the news. On the other hand, EA mobile produced games in synchronous with its sister company EA Games. They released only 13 games in 2007. Although games produced by EA mobile topped the lists, Gameloft continues to top the overall revenue by selling more number of games. This strategy worked well for Gameloft as EA mobile doesn't have such resources (man power or infrastructure) to create so many games per year. This strategy is further discussed in section ' 2.5 Taking over iPhone market'.

### **2.4 Tie ups with leading brands**

Ever since their establishment, one of the Gameloft's major strategies of marketing their games is through tie ups with leading brands. They use their real names and logos in the games in order to increase the expectations on the game. They are licensed with many major movie titles like Mission Impossible, Brothers in Arms, Die Hard, etc. They had tie ups with major

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sports persons and celebrities like Tiger woods, Kevin Petersen, Paris Hilton, etc. But this strategy of tie ups didn't work well always. Although this strategy worked for a few titles like Mission Impossible, there had been occasions where they lost revenue due to their tie ups. For example the Death Race – mobile game (made on basis of the movie – Death race) was done excellent in terms of user experience but since the movie didn't turn out well at the box office, the game also did not yield the expected revenues in gaming market.

## **2. 5 Taking over iPhone market – Implementation of Game theory**

iPhone was first released by Apple in June 2007. Within few months of iPhone's launch, both Gameloft and EA mobile started producing games for iPhone platform. Each of them started selling games for \$10 on the app store. Both had a tough competition but EA mobile started dominating the iPhone games market because of its high profile games manufactured in synchronous with its sister company EA games. Gameloft CEO, Michelle Guillemot then came up with a new idea of selling the games for iPhone market. His idea was to deploy more games for iPhone platform and decrease the prices of every game drastically to \$0. 99. The decision made by Mr. Guillemot can better be explained using the game theory.

## **EA Mobile**

### **Current Revenue\***

### **Revenue after Price drop\***

## **Gameloft**

### **Current revenue\***

GL = € 5, 030, 000

EA = € 4, 650, 000

GL = € 4, 800, 000

EA = € 3, 950, 000

### **Revenue after price drop\***

GL = € 6, 010, 000

EA = € 4, 250, 000

GL = € 5, 700, 000

EA = € 3, 600, 000

\*Revenues mentioned are approximations based on actual revenue reports on Gameloft and EA mobile

## **Table 1: Reflection of Price drop against revenues between Gameloft and EA Mobile in iPhone market**

While Gameloft is starting to deploy more games for iPhone platform, the possible response of EA mobile could also be to do the same. But EA mobile

doesn't have the man power enough to increase their production to that <https://assignbuster.com/an-analysis-of-the-company-gameloft-marketing-essay/>

level. Moreover, they want to stay synchronous with their sister company EA games which produce only a few games per year. So, they cannot increase on their production but can concentrate on creating more compelling games for iPhone. Hence the price drop strategy doesn't work for them. Although they give a price drop and increase on their total sales, they ultimately lose their revenues. Decreasing the price by 90% increased the demand heavily. Contrary to 500, 000 downloads in 2007, there were 6 million iPhone game downloads during 2008. In 2008, EA mobile came up with ' NFS Underground' on iPhone platform which turned out to be a massive hit and stood on top of the charts. At the same time, Gameloft has released 35 games onto the App Store, with 18 of them making the top 10 paid games list. Working out at an average of 171, 429 downloads per game; this figure surpasses Gameloft's mobile sales and makes the iPhone its primary platform. Upon commenting on his strategy with an interview with a popular gaming news website - pocketgamer. biz - Michelle Guillemot said " Our strategy from the onset has been twofold, first we deliver an aggressive line-up of high quality games and then we adapt in real time to consumer needs. With over 6 million paid games sold, it has proven to be quite successful." [Interview with Michelle Guillemot, CEO Gameloft, pocketgamer. biz]

### **3. 0 Barriers to Entry**

" In economics and mostly especially in the theory of competition, barriers to entry are obstacles in the path of a firm that make it difficult to enter a given market." [Sullivan 2003, P. 153 cited by Wikipedia. org]. Barriers to entry are primarily two types - Structural and Strategic.



Structural entry barriers are those in which the incumbent has a natural upper hand over the new comer. It could be because of controlled resources by the incumbent, economies of scale or marketing advantages.

Strategic entry barriers are those in which the incumbent deters the entry of the new comer by various pre plans. Strategic entry barriers can be created by capacity expansion or lowering the prices of their own products in order to make it hard for the new comer to sustain in the market.

### **3. 1 Structural barriers for Gameloft Mini PC**

In 2008, Gameloft CEO Michelle Guillemot announced that they are willing to enter the mini PC market with their new Guillemot PC. Guillemot PC is mainly targeted at portable game station similar to Sony's Play station portable (PSP) and Apple's iTouch. Gameloft dedicated considerable number of their resources to develop their new mini PC. They spent about one year on R&D and the designing of this gaming mini PC. Meanwhile they made attempts to talk with the other gaming companies to create games for their platform by the time the PC comes into market. But they failed in getting required support from the other gaming companies. This strategy couldn't work in the market as Sony's PSP and Apple's iTouch are well established by then. The entry for Gameloft is clearly blockaded and the barriers are very high as Sony and Apple have high brand loyalties in the market. As a result, Gameloft couldn't launch the product into the market and the revenue spent till then for R&D remained as sunk costs.

### **3. 2 Strategic barriers set by Gameloft in iPhone games market**

Before Gameloft came up with 99c games, Apple's online store has many freelancers and small gaming companies releasing their games now and then. However Gameloft with its strategic move to sell games as low as \$0.99 captured the complete market of freelancers and small gaming companies and forced them to move out of the business. Due to its established brand name and wide variety of games, Gameloft has an added advantage of economies of scale. They are able to decrease the price of their games drastically which the freelancers or small gaming companies cannot afford to do so. The customers also tend to buy games from a well-known gaming company for a cheaper price than from a new comer with higher price. This way Gameloft pushed most of the small game manufacturers out of the iPhone games market.