Master of Business Administration

Marketing

Assignment II

Introducing a new product into the market: A marketing plan for web-based renting of computer games

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Essen: 10-Mar-2005

"With careful and detailed planning, one can win;

With careless and less detailed planning, one cannot win.

How much more certain is defeat if one does not plan at all!

From the way planning is done beforehand, we can predict victory or defeat."

Sun Tzu

The Art of War, c. 400 BC

EXECUTIVE SUMMARY

From an online market research we know about the acceptance and practicability of an online game rental service, and how potential customers specify a "perfect" service. The results of the questionnaire define the keys to success: a stable portal with 24/7 availability with a broad range of games being offered and prices that correspond to the value customers perceive.

For a hypothetical company called EVERPLAY, which is number five on the German entertainment games market, a long term strategic vision is defined. From this vision a concrete mission is derived which is underlaid by marketing and financial objectives. EVERPLAY's financial objective is to double the earnings within the next five years. Research on market trends and a growth analysis show that a portal for renting games online is a viable business and has a strong growth potential.

The positioning of the new business unit as well as the advantages of the service that will be offered in the portal will be promoted by target group specific advertising, public relations, direct marketing and sales promotion. As target groups players that already play games, players that today do not buy games and non-players have been identified. Special attention has to be paid to today's competitors of EVERPLAY as they have to be convinced to offer their games in the portal.

The financial aspects are analysed for both the current (purchasing games) and the new online games business model and show that the financial objectives can be met. Finally, a sufficient price is calculated driven from the value-based pricing approach, but also under consideration of costs and competition. A milestones plan shows the actions to be taken to introduce the portal. As a consequence of this marketing strategy, EVERPLAY will see growing revenues and a growing number of customers.

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I. LIST OF ABBREVIATIONS

BCG	Boston Consulting Group
EBIT	Earnings before Interest and Taxes
FC	Fix Costs
FY	Fiscal Year
SBU	Strategic Business Unit
R&D	Research & Development
SG&A	Sales, general & administrative costs
SVC	Steep Variable Costs
VC	Variable Costs

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1 INTRODUCTION

Before introducing a new product into the market, each company has to think about the best way to market the new product. Only with careful and detailed planning about how the product shall be marketed the product and –in the end- the company can be successful.

As we can learn from ancient Chinese strategist Sun Tzu, one can predict victory or defeat from the way planning is done beforehand.

To make sure our new product, the web-based computer games rental service, will be successful in the market, we conducted a survey to find out about the acceptance of such a service, the technological equipment of potential customers, their specification of a "perfect" game rental service and fair pricing models.

The results from the answers to this questionnaire form the basis of our planning for the introduction of the new product and have been analysed in the previous assignment "Designing a Consumer Marketing Research: Buying or Web-based Renting of Computer Games". From the findings we concluded that in principle, a web-based rental service could be operated profitably.

In this assignment, we will design a marketing strategy for our new service, taking into account the findings of the previous assignment. From the very detailed information about the preferences and wishes of the potential customers we try to form a marketing strategy that will implement as many attractive features for the customers as possible.

We are convinced to offer a service that meets the needs and expectations of many customers and as a result creates sufficient revenues for the company. To sum up, the marketing strategy for EVERPLAY's new web-

based rental service should be well-founded so that you, the reader of this assignment, can predict victory for EVERPLAY's new service.

2 ASSUMPTIONS

As this assignment it not based on a real case, assumptions are presented here that have been made regarding EVERPLAY in order to create a marketing strategy: EVERPLAY is a German developer and publisher of PC games, ranked fifth regarding market share in the German PC games market in 2003. This corresponds to a market share of 5% and a turnover of 20 Million Euro as the numbers presented in chapter 3.3 (Competitor Analysis) are taken as a basis.

From research in internet we know that on average costs for development of a game amount to about 25% of the sales price[1]. We assume that all other fix costs such as administration, personnel, and office rents amount to 5% of turnover[2]. About 15% of the sales revenue is spent on average on marketing campaigns[3]. Production costs of 20% are caused by variable manufacturing costs of the CDs (costs are about 1.40€ on average (0.5GBP - 1.5GBP) Games Investor, 2004c) which is equal to about 10% of sales) and another 10% fixed costs. According to table 2.1 the earnings before interest and taxes (EBIT) of EVERPLAY can be calculated to 10 million Euros.

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[1] "Since the developer does not handle the manufacturing or distribution, it receives a percentage royalty on the net wholesale receipts … This royalty rate can vary from around 10% to as high as 40%." (Gamesinvestor, 2004a)

[2] annual reports of main competitors

[3] „Marketing budgets tend to be calculated based on the expected revenues from sales of the product over the life of the marketing push. These tend to range from 10%-20% of gross receipts although most of the larger publishers currently average around 12%-16%." (Gamesinvestor, 2004b)

Table 2.1: EVERPLAY's current revenues and costs

	In %	In €
Market share of EVERPLAY	5%	20,000,000
Production costs	20%	4,000,000
Fix costs (such as administration and personnel)	5%	1,000,000
Costs for development of games	25%	5,000,000
Marketing costs	15%	3,000,000
EBIT		7,000,000

The average gross sales price of a game of EVERPLAY is 25 €. By subtracting value added tax (16%)[4] and the margin of distributors and retailers which is 35%[5] the price received by EVERPLAY can be calculated to 13.65 €.

Table 2.2: Current EBIT per game, all prices in Euro

Gross Sales Price per Game in €	25
- 16% Value Added Tax in €	4
Net Sales Price per Game	21
- Margin of Distributors and Retailers (35%)	7.35
Price received by EVERPLAY	13.65
- Costs (65%)	8.87
EBIT per Game	4.78

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[4] For reasons of simplification, only the German VAT rate is given although other rates apply in other countries

[5] "A rough method of determining retailer margins is to assume that half of the recommended retail price of a software product is retail margin but from that comes VAT…" (Gamesinvestor, 2004b)

By dividing the annual turnover of 20 Million Euro by the price EVERPLAY receives per game - which is 13.65 €- the number of games that are sold can be calculated to 1,465,201 the net profit per game to 4.78 €.

From the questionnaire we know that the people who buy computer games spend on average 110 € a year. As the price for an EVERPLAY game is 25 € this would mean that an EVERPLAY customer could buy up to 4.4 games if he spent all his money on EVERPLAY games. We optimistically assume that the average EVERPLAY customer buys 2.5 games a year. Thus EVERPLAY has 586.080 customers.

Table 2.3 shows the company facts sheet that results from the above considerations and will be the basis for the following chapters.

Table 2.3: Company facts sheet 2003

Company Name	EVERPLAY
Headquarters	Essen, Germany
Turnover	20,000,000 €
Net Profit	7,000,000 €
Sold Games	1,465,000
Customers	586.080
Average Gross Price per Game	25 €
Average Net Profit per Game	4.78 €

Today the business of EVERPLAY is to develop and publish computer games for sale through retailers. However, the research department of EVERPLAY has developed a software framework that allows for the execution of most of today's games on an Internet server. These games can be played on any PC via a browser. The prerequisite is that the user has a broadband connection to the Internet.

3 SITUATION ANALYSIS

3.1 Market Summary

3.1.1 Market Demographics

From the results of our questionnaire we know about the computer games market demographics. We learned that only about 11% of the players are female while the overwhelming majority is male (We have to concede here that from all respondents only 22% were female, which does not represent the actual share of females in the overall population of about 50%). In any case, it can be concluded that most players are male. According to our results, the average player is 28.5 years old. Respondents' age ranged from 12 years to 55 years, while players age was between 12 and 49 years.

Players seem to be very sensitive to spending money, as 66% did not buy games in the last 12 months, even if average time for playing games was calculated at 6 hours per week (this number is probably distorted by two answers of 38 and 50 hours gaming per week; without those answers, the average would be far lower and more realistic in the range of two hours per week). On the other hand, among those who spent money on purchasing games are 36% with expenses of up to 50 Euro and another 28 % with expenses of up to 100 Euro.

From the answers of respondents we could not allocate certain specific needs or preferences to a defined group of customers. Overall, the users seem to be more or less uniform in their expectations regarding the rental service.

3.1.2 Market Needs

As customers tend to be more mobile than before (see below), there is a need for access to online services from different places, with different PCs.

Therefore, the rental service has to emphasize the possibility to be accessed anywhere anytime.

Log-in procedures can be undertaken from every computer with Internet access. There is no need to carry CDs with software from PC to PC and to install games on all computers used. Instead, the customer can conveniently use the full range of games immediately after log-in. He can even continue playing a game he interrupted earlier on another computer.

Another need of today's customers is security in online transactions. Therefore, EVERPLAY will provide secure online payment options. In the questionnaire, we analysed the preferred payment options and found out that bank transfer, direct debit and credit card are the most preferred (and actually used) payment options. Those results and the different possibilities of use of the rental service have an impact on the payment options EVERPLAY will offer. Those are discussed in detail under 2.6

In accordance with the flexibility EVERPLAY will offer its' customers with regards to changing the computer used to access the rental service, it also does not matter which operating system is installed on the computer. From the results of our questionnaire we know that more than 70% of all computers run under the Windows XP operating system and the combined share of Windows 2000/98/XP is even more than 90%. Nevertheless, our company wanted to offer access to the rental service from all operating systems. We expect the market share of the Microsoft operating systems to decrease gradually in the next years, as systems like Linux seem to gain in popularity. With access from all operation systems, EVERPLAY will serve the need for true flexibility, no matter what the operating environment of the customer is or may be in the future.

3.1.3 Market Trends

3.1.3.1 Trends Regarding Internet Usage

There are certain trends that are about to change or influence the market for computer games.

First, more and more people have access to and use the Internet. Use of the internet has grown from 2000 to February 2005 by 124 % in Europe and by 126.4 % in the world (Internet Worlds Statistic, 2005). At the same time, prices for computer hardware are decreasing as there is technological advance and many competitors in this market.

Then there is a rising number of people that subscribe to broadband internet connections. Since 2001, subscriptions for broadband in Germany have been rising by 5% per year (ARD/ ZDF, 2004, p. 368) and the same phenomenon can be observed throughout Europe.

In Germany, though, broadband technology had a late start, due to the market dominance of former state-monopolist Deutsche Telekom which still owns and operates most of Germany's telecommunication structures. Deutsche Telekom's sales force was not able to market and sell broadband connections as demanded by the public. Most independent service providers wanted to enter the promising market of broadband connections without building up a very costly physical infrastructure.

Therefore, they demanded access to Deutsche Telekom's infrastructure and won several law-suits before the ex-monopolist was ordered to open its infrastructure for resellers. Only since June 2004 can resellers market broadband internet connections which are actually based on Deutsche Telekom infrastructure. Deutsche Telekom has a constant backlog of more than one hundred thousand orders to establish broadband connections and waiting times to get a new broadband connection exceed six months on

average (Teltarif, 2005). Several service providers announced to build up their own network for broadband access.

Without backlogs and a better publicity for DSL broadband, the number of new broadband subscribers can be expected to grow faster once those problems are solved. Tendencies that telephone and internet technologies will eventually be fused into one technology might also lead to a further acceleration of the spreading of broadband connection coverage.

Another influencing factor can be seen in the changing habits of people. Today, people are more mobile than before and have to travel a lot. This leads to a situation that many people who have an Internet connection at home and at their office may wish to have other places of access to the Internet.

This demand led to more WLAN hotspots and other Internet connections in e.g. hotel rooms, airport lounges and bars. This trend will persist and create more possibilities to access the Internet from various locations. Therefore, there is a demand for services that are mobile as their users. If users have different PCs they use for Internet access, they prefer instant access to all services from all places of access instead of transferring data from one PC to the other or re-loading data onto every new PC.

In addition, in the last years many countries have seen a liberalisation of telecommunications markets previously dominated by a state-monopoly. As a result of increased competition, internet connection fees and subscription fees for broadband have been decreasing drastically in many countries.

3.1.3.2 Trends Regarding Computer Games

With regards to market trends of PC games, there is a strong tendency to photorealistic images and graphics in games and more complex and sophisticated games. Such sophisticated games make full use of recent

advances in chip capabilities, whether on graphic boards or other technology. As players demand more diversion and change within one game than in earlier games, the games tend to become more varied in their settings and difficulties. Games therefore demand an ever-increasing memory for download or operation. With the rise of the Internet use and the trend towards games-related webzines (magazines only published online), a trend evolved not only to read about new games online and to see short excerpt sequences, but also to play computer games online. This trend is just about to gain momentum as more and more players of computer games search for online games.

In addition, in the last years many countries have seen a liberalisation of telecommunications markets previously dominated by a state-monopoly. As a result of increased competition, internet connection fees and subscription fees for broadband have been decreasing drastically in many countries.

3.1.4 Market Growth

3.1.4.1 Technical Environment

High-speed Internet access is essential for running the sophisticated virtual reality graphics offered by online-games. Broadband Internet access is growing steadily, and is accompanied by growth in online gaming, and the two markets are helping to drive one another. PWC (2003) predicts that the global broadband infrastructure will reach 153.3 million households world wide in 2007, and growing with an annual rate of 29.4%.

From the questionnaire it is known that 58% of the respondents already have DSL Internet access until now. In the next 6 months the number will increase to 65% which corresponds very well with the number PWC gave. This amount of broadband access provides a reasonable basis for the introduction of EVERPLAY's online business.

As for online gaming the data speed via Internet is the bottleneck, the performance of the hardware is not that critical. Though performance of games strongly depends on hardware the consumer uses, this does not seem to be a critical issue, as 65% of all respondents answered that they have a PC that is not older than 2 years which seems sufficient for the games offered.

Nowadays, hardware trends are going in the direction of smarter wireless and mobile equipment, such as cell phones or PDAs. This market development will be well observed by EVERPLAY.

3.1.4.2 Computer Games

The worldwide market for video games and interactive entertainment will grow from $23.2 billion in 2003 to $33.4 billion in 2008 (DFC, 2004a). This corresponds to an increase rate of 7.6% annually. PWC (2003) reports an annually grow of 15% to 25%. For further calculations an average value of these numbers is taken: 13.8%.

DFC Intelligence (2004b) estimates that the online game industry in 2003 was worth $1.9 billion with 10% of the revenue coming from Europe. By 2006 it is forecasted that revenue is growing to $5.2 billion with continued steady growth so that worldwide online game revenue reaches $9.8 billion by 2009. The largest market is forecasted for Asia, but Europe will be the fastest growing with online game revenue of $2.2 billion. From this a yearly growth rate can be calculated to 50% for Europe.

3.1.4.3 Customer Base

The success of the new business model is mainly based on the assumption that the online customer base grow substantially. Assumptions for the forecast are taken from the online survey as well as from independent market research institutes as described before. To take uncertainties into

account a risk factor of 1/2 has been applied to the numbers to estimate the future customer base. Based on the five groups of potential customers in the next 5 years the following calculations were made:

- Players who were already customers of EVERPLAY and bought games in the past. From the online survey it is known that 67% of the players are willing to change from purchasing games to online games. This number, weighted with the risk factor is projected to year 5 from now on and gives a value of 33.5% for potential online player.

- Players which will remain with the purchasing games in five years are than calculated to 66.5% (100% - 33.5%).

- 25% of the players who did not buy games in the past (including a certain percentage of pirates) answered in the questionnaire that they are willing to change to the online business model if this would be available. From the online survey we know that 66% of the players did not buy games in the last 12 months This means that the ratio of software pirates to software purchasers is 194% (66/34=194%). Because of the fact that the number of pirates was 194% compared to the persons who bought games, the absolute number has to be scaled and then weighted. The result is 24.3% (25% x 194% / 2 = 24.3%).

- The questionnaire shows that 8% of the persons which are not playing yet are a potential group for online playing. The relation of non-players compared to players was 0.96 (calculated from 49%/51%). To get absolute values also this group has to be scaled and weighted and gave a number of 3.9% (8% x 96% / 2) in year 5. In other words, additional 3.9% customers relative to the current customer base can be expected to be playing online in the next five years.

- New business is assumed from the general growth of the gaming industry. The 50% online growth rate published by DFC can't be used because it still contains the players which were taken into account in

the four groups above. Therefore, the average forecasts from DFC and PWC as described above were taken: After weighting with the risk factor of ½ the result is a growth rate of 6.9% (13.8% / 2) annually.

For the time between year zero and five a linear correlation is assumed. It can be seen that the number of customers reaches 163% in total in the next five years what corresponds with a total number of 954,000. From this overall number of customers, 390,000 persons will buy games and 564.000 are online players. It is sure that many persons will use both options online and purchasing games but in total it is assumed that the distribution between purchasing and game rental remains stable.

	0	1	2	3	4	5
□ General growth in online business	0.0	6.9	13.8	20.7	27.6	34.5
■ former non-player	0.0	0.8	1.6	2.4	3.2	3.9
□ Players, who did not buy in the past	0.0	4.9	9.7	14.6	19.4	24.3
■ Customers who will change to online games	0.0	6.7	13.4	20.1	26.8	33.5
■ Customers who purchase games	100.0	93.3	86.6	79.9	73.2	66.5

Year
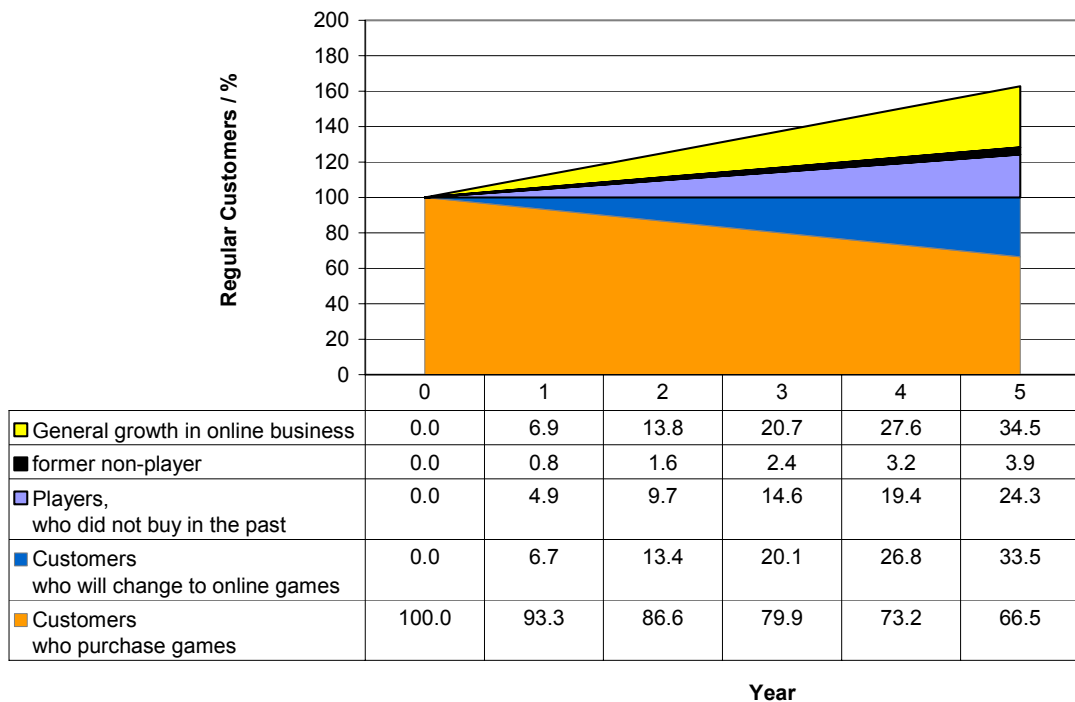
Fig. 3.1: Customer development of EVERPLAY

3.2   SWOT Analysis

It is of paramount importance to develop a suitable and realistic marketing strategy for EVERPLAY. To find out about a company's internal strength and weaknesses and its external opportunities and threats, the SWOT analysis is applied as a strategic development tool. It serves as a formal framework for identifying and framing organizational growth opportunities (Kerin and Peterson, 2001, p.5)

The SWOT analysis is based on the assumption that if managers carefully review such strengths, weaknesses, opportunities and threats, a useful strategy for ensuring organizational success will become evident to them (Certo, 2003, p. 177).

Therefore, a SWOT analysis for EVERPLAY may help to identify points on which the company should focus to stay competitive and from this form the organizational objectives necessary for the marketing strategy.

3.2.1   Strengths

EVERPLAY has several strengths that distinguish the company from other competitors. At the moment, EVERPLAY is a well-known producer and distributor of computer games for purchase. Our company has a proven track record of successful computer games in the industry and with customers.

Therefore, the company has a high reputation for its successful products and the constant realisation of new and innovative games over many years. As the company has thought about starting a rental service for its games for some time now, EVERPLAY's online service has been programmed to ensure online-suitability for every game. This makes EVERPLAY stand apart from competitors who have to develop special online-games or change their

online-service fundamentally to bring games online without re-programming them

Furthermore, our company has additional cost advantages from double marketing as marketing efforts serve both the traditional sales channel and the new web-based rental service. All printed advertising contains information about both ways to obtain our products. The web-based promotional efforts will include references to our successful games for purchase.

While most competitors with online services only market their own games and usually have a very limited range of games on offer, the strategic alliances EVERPLAY wants to establish with other producers of computer games will give customers a unique and broad choice of rental games to choose from. EVERPLAY will convince those strategic partners that it would be a win-win situation for both companies to grant licenses to EVERPLAY if they do not want to invest in an own online rental service.

This way, they will at least earn some extra money by giving some licenses to EVERPLAY. As a result, our company is about to sign very favourable license fee agreements with the strategic partners. Under those agreements those producers of computer games will receive a monthly fee per single user slot even if many different users play under each license within a given month. .

Due to the strong market knowledge and large in-house programming capabilities EVERPLAY is in a position to recognize the latest trends and developments on the gaming market. The company then either develops own new games, mostly within a shorter period of time than competitors could or approaches other producers for license agreements. As EVERPLAY's programmers and developers have excellent contacts throughout the industry, they are at all times well-informed. In case that the purchasing market will decrease some time in the future due to the

increasing online rental of games, EVERPLAY would consider if an exclusive concentration on the rental market might be advisable.

The strong in-house IT-support can ensure comparably low costs for maintaining the web-based online service, because many tasks can be handled without external staff.

The very strong capital base from the existing purchasing games business gives EVERPLAY a competitive advantage over other (start-up) companies who try to enter the market and do not have a strong financial backing.

With the new service, part of the current packaging, retailing, distribution and handling costs are eliminated.

EVERPLAY can offer its web-based service at comparably low prices to the customers, as it has some cost advantages (as described above).

3.2.2 Weaknesses

In addition to the current business structure for the purchasing games, the IT infrastructure has to be expanded for the new web-based service. This increases fix-costs and leads to lower financial flexibility.

At the same time, the establishment of a completely new business unit binds a lot of time of managers and employees who have to adopt to the new circumstances and conditions. Therefore, the current business might suffer from difficulties in setting up the new service.

3.2.3 Opportunities

The new service is a way to attract new customers and retain existing customers by expanding the product range, pricing model and technological possibilities. As the service is Internet-based, there are no geographical boundaries any longer.: The product can be distributed without building up a

complex supply chain in every country and without packaging, pricing and description according to local (tax) standards If the web-based service provides information in the English (and German) language, far more potential customers could be reached compared to the existing business mainly serving the German-speaking countries. If many more customers use this service, business can be scaled without major financial burdens: The marginal costs of "producing" an additional unit are very low to negligible (Sahay 1999, p.74).

As many people are on a tight budget nowadays and therefore refrain from purchasing computer games, the new rental service with its different time-based payment options may be an alternative for many people who do not have the money to purchase a game or who do not wish to play a game that long or often so that purchasing the game is their preferred choice.

An opportunity for EVERPLAY may arise from the possibility to play a rented game on various computers; this might be attractive for those customers working in different locations throughout the week. They could even play the rented game in hotel rooms or at airports and other WLAN hotspots.

Another advantage of the web-based rental service is that this service is available 24/7. This means that customers can access the service whenever they want and from wherever they want. This gives customers additional flexibility to rent a game at the time they want; typical German restrictions caused by opening times of physical shops do not play a role any longer.

EVERPLAY has several cross-selling opportunities: Their customers of purchasing games can be informed about the new web-based service and this may generate spontaneous sales at times when physical shops are closed. Others might want to try out games for some hours they do not yet have or do not know yet.

With our marketing campaign even a certain percentage non-players should be attracted to try this service. The customers of the rental service may want to purchase the physical game (on CD) or merchandise related to games.

The reasonably priced rental service can bring people back into legality after playing pirated games illegally. Furthermore, the online-rental service prevents illegal use of the game software, as the individual user does not receive a copy of the full game which he could spread. It remains to be seen if – sometime in the future – all physical distribution of games will be discontinued to avoid illegal use of computer games.

3.2.4   Threats

As every online service, EVERPLAY's web-based rental service relies on a high technical availability. If the service is not reachable on the Internet, no money can be earned. Therefore, one major threat is technical problems. As EVERPLAY depends on an external Internet provider and its hosting services, it is of major importance to choose a reliable partner providing those services.

Another internet-related threat is the danger that hackers might break into the system and interfere with the service so that users can not access the rental games. Under such circumstances EVERPLAY would loose customers and money.

This would endanger the entire business, as obviously a certain percentage of Internet users would use those free downloads instead of renting the games at EVERPLAY's site. It might even happen that the hacked games might be pressed onto CDs and sold. This would also endanger the current business of purchasing games.

The possibility that strategic partners might decide to withdraw from the partnership and open up their own online service has to be considered as a

threat. This threat will be more apparent if the rental service is very successful. The same threat applies for other producers who discover that to offer a web-based service might be a good way to make some extra money.

3.3 Competitor Analysis

For nowadays marketing, it is not enough only to understand the customer. With global trade and fewer restrictions between countries - like it has been reached in the European Union- lead to larger markets with strong international competition. Companies can only face with this global competition if they have a competitive advantage. Corresponding with the marketing concept, companies do reach a competitive advantage if they offer products which do better fit to the targeted customer expectations and deliver more value than a competitor's products. Therefore it is mandatory to known about competitors, what objectives and strategies they have and where the weak and strong points are to build up a competitive advantage. (cf. Kotler and Armstrong, 2004, p. 566)

3.3.1 Identifying Competitors

At first glance, Identifying competition seems to be very simple: the competitor of BMW might be Mercedes but not absolutely Fiat or Skoda; the competitor is usually defined as another company that offers the same product or service. In fact companies actually face a wider range of competition: the identification of competitors is often broader than it first appears (Brassington and Pettitt, 2003, p.866). Years ago Kodak held a leading position in the photographic film business and Fuji has seen as the major competitor. In reality Canon and Sony raise their market position and established themselves as main competitors by offering digital photography, a product that do not have any similar properties as films except for providing photos. This example shows that sometimes a broader approach to competition will have surprising results. From these examples it can be seen that it is very important to identify the competition from the industry

point of view as well as from the market point of view. (cf. Kotler and Armstrong, 2004, p. 567)

In the industry EVERPLAY faces against competition on three markets: purchasing games and in the future online rental games and the games portals.

The major intention of players to buy a game is not that they necessarily wish to own the game. The main reason is that they would like to have entertainment, fun and diversion. Therefore, in the market EVERPLAY faces competition like video, fun parks, sport events, and so on. These facts have to be borne in mind and were taken into account in the strategy of EVERPLAY strategy, when decided to expand from only purchasing games to also offer online playing.

3.3.2   Competition in the Computer Game Market

EVERPLAY considers itself as part of the entertainment industry. At the most fundamental level, their products compete with other forms of entertainment, such as motion pictures, television and music, for the leisure time and discretionary spending of consumers. EVERPLAY knows that large software companies and media companies are increasing their focus on the interactive entertainment software market and, as a result, stand to become more direct competitors. Several large software and media companies (e.g., Microsoft and Sony) are already established competitors in the software games segment, and other diversified media/entertainment companies (e.g., Time Warner and Disney) have announced their intent to significantly expand their software game publishing efforts in the future (Electronic Arts, 2004, p. 6). Therefore, EVERPLAY believes hat the software games segment is best viewed as a segment of the overall entertainment market.

The software games market is highly competitive. It is characterized by the continuous introduction of new titles and the development of new

technologies. The competitors vary in size by very small companies (e.g. Green Papper) with limited resources to very large, diversified corporations (e.g. Microsoft) with greater financial and marketing resources than EVERPLAY's. The business is more and more driven by hit titles[6] (JoWooD, 2004, p. 18), which requires EVERPLAY to invest significantly in production and in marketing. Therefore, the availability of significant financial resources has become a major competitive factor in the software games segment, primarily as a result of the costs associated with the development and marketing of the game software. Competition in the software games segment is also based on product quality and features, timing of product releases, brand-name recognition, access to distribution channels, effectiveness of marketing and price.

In the purchasing games segment, EVERPLAY competes with Electronics Arts, Vivendi Universal games, UBI-Soft, Take-2, JoWooD or Microsoft (see table 3.1 for summary and appendix A.2 for details).

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[6] In this context, a hit driven market means that a low number of games do achieve a high market share.

Table 3.1: Competitor analysis: PC entertainment (action/adventure) software in Germany 2003

(Sources: JoWooD, 2004, p. 18; annual reports of the different companies)

#	Name	Market share [%]	Sold games [-]	Average price [Euro]	Sales[7] [Euro]
1	EA (Electronic Arts) www.ea.com	19.43 WW: 14.00	2.569.775	35.08	90.142.801
2	Vivendi www.vugames.com	10.96 WW: 5.5	1.449.287	16.95	24.567.275
3	UBI-Soft www.ubi.com	8.31	1.098.562	24.58	27.006.147
4	Take-Two www.take2games.com	6.34	838.725	30.41	25.508.095
5	EVERPLAY www.everplay.com	5.00	1.456.000	13.65	20.000.000
6	JoWooD www.jowood.com	4.22	558.397	27.13	15.151.120
7	Microsoft Corporation www.microsoft.com	3.68	486.137	38.18	18.560.544
8	Atari (100% Infogrames) http://corporate.infogrames.com	3.26	430.912	26.63	11.473.418
9	Pointsoft www.backtogames.de	3.12	412.961	9.75	4.028.023
10	ak tronic www.aktronic.de	2.90	382.902	10.60	4.059.460
11	Infogrames (Holding) www.infogrames.com	2.86	378.488	34.37	13.008.614

For the online market, the market where EVERPLAY wants to expand into, it is difficult to get quantitative data to build up a matrix as it is shown in table 3.1. The competitor analysis above has shown that most of our competitors consider to enter in the online market if they are not active in this market

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[7] Only sales related to this specific field of business are included here

already. This field is new and growing and differently judged by our competition. While Electronic Arts (2004, p. 6), number three in the online market, complains that "To date, we have had limited success in finding ways of generating revenue and profits from online games …" and UBI-Soft (2004, p. 4) states positive that "… and once more attest [us] to the leading role we play and will continue to play in the online gaming segment." DFC Intelligence (2004c) published the industry leaders for online gaming in its monthly briefing. In accordance to this report the descending order by total gross revenue generated from online gaming is as follows:

Table 3.2: Competitor analysis: online games world wide 2003 (cf. DFC, 2004a)

#	Name	Business Facts
1	NC Soft www.ncsoft.net	Sales achieved 980 million Euro in FY 2003. Online gaming with NC Soft requires the purchase of the game. The headquarters of NC Soft in Korea develops online games of different genres and publishes games both inside and outside the country.
2	Sony Online Entertainment www.sonyonline.com	The online gaming division of Sony Entertainment creates, develops and provides online entertainment for the personal computer, console, wireless, and online markets. Online gaming requires the purchase of the game.
3	EA (Electronic Arts) www.ea.com	EA develops, markets, publishes and distributes interactive software games on different platforms. Online gaming requires the purchase of the game.
4	Mythic Entertainment www.mythicentertainment.com	From cutting-edge first person shooters to role playing and strategy games. Founded in 1995, Mythic was been one of the leaders in developing pay-for-play online games
	T-Online www2.onspiele.t-online.de	T-Online offers a wide range of online games on their web-page "Games on Demand". Renting is possible without buying games

The total sales volume of online games in 2003 was estimated by DFC (2004b) to $1,900m worldwide and $190m in Europe.

3.3.3   Growth-Share Analysis

To analyse the current market position of the purchasing games business unit (SBU) and the upcoming market position of the rental service SBU, the Boston Consulting Group (BCG) matrix is used. Hereby, the SBU's of an organization can be evaluated and plotted on a 2x2 matrix to identify which ones offer high potential and which are a drain on organizational resources (cf. Robbins and Coulter 1999, p 252). All products are classified in the growth-share matrix (see figure 3.2) as described below. The market growth rate provides a measure of market attractiveness (vertical axis) and the relative (relative to the strongest competitor) market share can be seen as a measure of the company strength (horizontal axis). Four types of SBUs are defined in the matrix (cf. Kotler and Armstrong, 2004, p. 47):

- Cash cows: Low-growth, high-share businesses or products; established and successful SBUs. They need less investment to hold their market share

- Stars: high-growth, high-share businesses or products; to finance their rapid growth high investments are often necessary.

- Dogs: low-growth, low-share businesses or products; sometimes they generate enough money to maintain themselves but, high earnings are not expected.

- Question marks: high-growth, low share businesses or products; normally they require a lot of cash to keep the market position. Decision has to be made if it could be developed to a star or if it should be phased out.

From previous analysis and explanations the picture shown in figure 3.2 can be drawn up. The estimated development of the two business models are shown in figure 3.2. It is assumed that the growth rate for the new business model will decrease slightly, but the market share is expected to grow. The market growth rate for current business will decline enormous as well as the

market position and therefore online gaming seems to be a star in 5 years from now on.
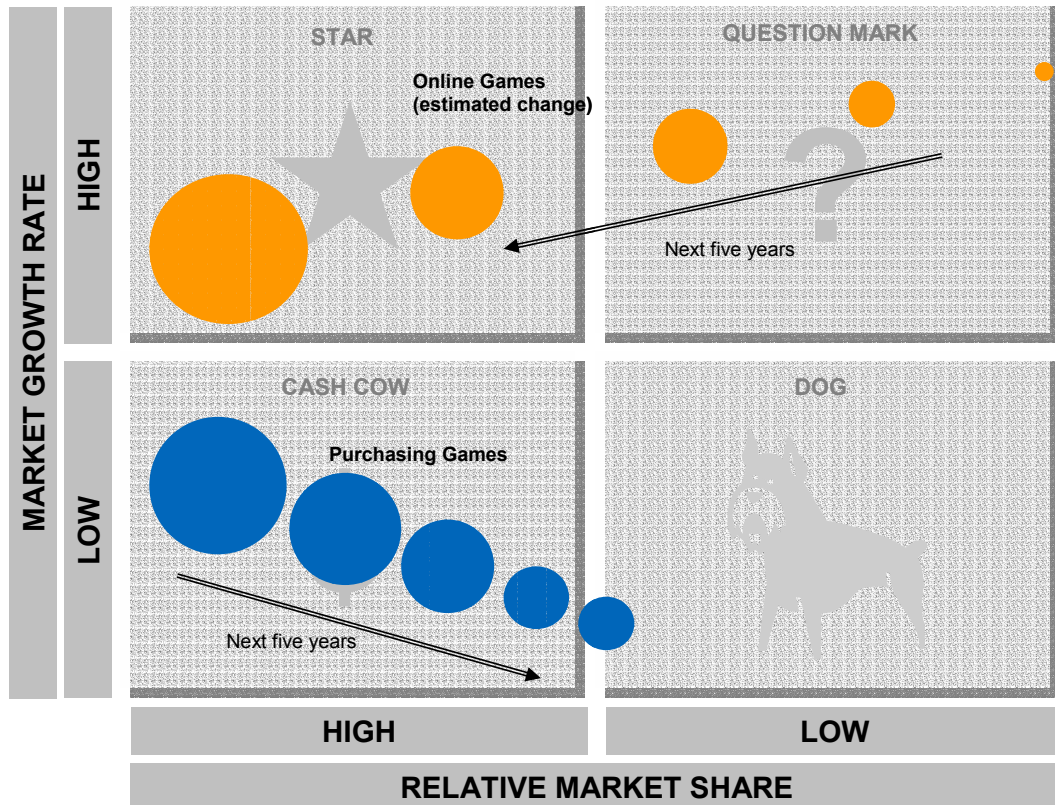
Fig. 3.2: Growth-share matrix of EVERPLAY over the next five years

Finally, the market for EVERPLAY's current and future products is characterized by significant price competition, and they regularly face pricing pressure from their competitors.

3.4 Services

At the moment, EVERPLAY is only offering computer games for purchase. Those computer games are distributed by the company through the traditional distribution channel of retailers. Computer games are offered on CD only. Each CD package comes with a comprehensive booklet and description of the games' features in several languages. The company also offers customer support through a telephone hotline.

3.5 Keys to Success

There are certain success factors which EVERPLAY will have to meet. Among those are some we learned from the responses of our potential renting customers and others that are applicable to all online businesses.

To start with the keys to success for all online businesses, the webpage is very important. First, the webpage should be loading very quickly so that no potential customer is lost due to long waiting times. Then, the website should be well-structured so that users can find all functions intuitively. The website should also be designed functionally so that navigation through subsections is easy and customers can find things quickly on the site.

In this context, it is also very important and therefore a success factor that customers can pay for their gaming fast and conveniently. EVERPLAY therefore will offer a "fast lane payment" for returning customers who can confirm the authorisation like chosen before with a few clicks. In effect, a customer only has to establish his account once with his first rental and can reconfirm this payment method and banking details with some clicks. For customers not wishing to have such data stored with EVERPLAY, there will be another convenient payment form on offer. We will therefore offer payment by telephone and SMS for one-on-one use of the service besides credit card and direct debit payment for larger rental credits.

As one of the advantages of an online service over physical shops is that the web based service is independent from certain legal restrictions like shop opening times, it is important to use that advantage and have the service available at all times. Respondents to our questionnaire clearly expressed that they valued the 24/7 availability and convenience of an online service very much. Therefore, in the future EVERPLAY will establish a structure where the service will be hosted on several servers in several countries. If one of the servers is down, the Internet traffic should be routed to other servers to continue business without interruption and with customers

noticing that some servers are down. Overall, sufficient capacity to handle high data volumes is eminent to maintain a sufficient data throughput at all times. This is a very important factor, as customers tend not to return to an online-service if waiting time has been too long once.

Regarding the games, it is important to offer the right choice of games to be successful. From the answers to our questionnaire we know what types of games are most popular. Accordingly, we will offer a large range of different games so that there is something for everyone, but we will have a strong focus on the two main types of games which are strategic games and action games. Strategic games are preferred by 25% of all respondents, and action games are preferred by 17% of all respondents of our questionnaire. In addition, there will be adventure games, games of skill, sports games and simulations as well as role plays and educational games to supplement the main types of games offered. As a result of our findings from the questionnaire, we do not target children as customer, there won't be specific children games. The reason for this is that the demand for such games is too small.

To use another advantage the Internet offers and to pay attention to the needs of our customers, we will offer the possibility to play with others over the Internet. This is also a key feature that offers additional value compared to purchased games, as it is only possible to play a computer game against people far away through an Internet-based service.

3.6   Critical Issues

As with every business, there are certain issues that can endanger the success of EVERPLAY's business. Such critical success factors often evolve around technology, image, finance, service, quality, distribution, management or the skills of the workforce (Brassington and Pettitt, 2003, p. 869). Therefore, those issues shall be discussed here.

As outlined above, a working technology is very important for the success of any Internet business. Therefore, the accessibility of the online service is a critical issue for EVERPLAY. To minimize risks, EVERPLAY plans to have several providers hosting the service for several international regions. In case of breakdown of one site, it would be possible to transfer all customer traffic to the other sites/servers so that the customer would not notice the company's downtime.

The image of an Internet service company is very important as there is not physical appearance of products which consumers can assess. Usually, the image relies heavily if not exclusively on the website and the service offered on the website. With EVERPLAY, the situation is quite different, as the company is already well-known for the purchasing games it produces and distributes. Therefore, the company has been able to build up a certain image portraying innovativeness, creativity, reliability and competitive pricing. With the start of the online-service, many customers will associate the positive image of the previous purchasing-only business.

Therefore, the online service will benefit from the good quality image the company has build up over the years with its purchasing games business. But also, there is the risk to harm the existing purchasing business if the online-service is not working reliably. To reach new customers, the company has to start a marketing campaign transporting the positive image beyond the group of current customers. As the target groups of the online service do also comprise non-players and players who did not buy games before, it is critical to have a positive image with such potential customers.

The financial situation is always very important for a business. From the existing business, a reliable cash flow is generated so that EVERPLAY does not depend on short term financial successes of the new online business. Nevertheless, on the long run, the online service will only be continued if it generates additional revenues to justify itself.

A main thing to consider with regards to the financial situation is how customers shall pay for the service. From the results of the survey we know that customers would prefer bank transfer, direct debit and credit card, but there are certain disadvantages associated with those forms of payment. In this context we have to remember that one of the main advantages of our service over purchasing games in a physical shop is that the customer can access the service from wherever and instantly play a game of his choice. Therefore, the payment options have to fit: payment can not be deferred as otherwise the customer could not play instantly.

Service is also a critical issue for EVERPLAY's online service. If the service can be accessed easily and all functions on the site work properly, there should not be much need for service. Even if service is not a very critical issue according to the responses of our questionnaire (among players, the feature "hotline support" was considered the least important from a range of given features, while non-players also judged a hotline support as not important, with two other features even less important to them), EVERPLAY will offer excellence in service. As one way to ensure customer satisfaction, we will guarantee 100% accessibility of the service. In the unlikely event that servers are down and the rental service is not reachable, we will reward all registered customers additional playing time to compensate for times without access.

The quality of the online-service is of utmost importance and therefore critical: Content will decide over the success of the service. If there is no broad range of attractive games for rental, customers will have no reason to return to the site and to sign long-term rental contracts. This range of products has to be expanded constantly, as consumers demand for the latest in games. To entertain, EVERPLAY has to offer always something new. As a result, both the range of games and the attractiveness of the games decide over the perceived quality of EVERPLAYs' service.

As no physical distribution is taking place in our online rental service, this does not play a role.

Finally, management and the skills of the workforce are always decisive for the success of a company. Without proper management and a motivated and skilled workforce, the best business model has to fail. As EVERPLAY is active in the computer game industry and has observed the emergence and development of the Internet and online services, the management is very experienced to run the business. Also the workforce is properly skilled and motivated.

4 MARKETING STRATEGY

"Nothing affects the company's ultimate success or failure more fundamentally than how well its management team sets the company's long-term direction, develops competitively effective strategic moves and business approaches, and implements what needs to be done internally to produce good day in, day out strategy execution" (Thompson and Strickland 2003, p. 4).

A "marketing plan operates on two levels strategic and tactical" (Kotler 2003, p. 90). The strategic marketing plan consists of long and medium term goals that should be achieved. A mission statement that is shared between employees, and that should be guided by a vision that strategies and operations aim on, is formulated in order to give all employees a long term direction and a common sense of purpose. Furthermore, "the strategic marketing plan lays out the target markets and the value proposition that will be offered." (Kotler 2003, p. 90)

The tactical market plan focuses on the concrete implementation of the strategy by planning operations such as promotion, merchandizing, pricing, sales channels, and service. The tactical marketing plan may be divided into different business activities or marketing programs that are each planned concretely.

In the first assignment "Designing a Consumer Marketing Research: Buying or Web-Based Renting of Computer Games", an online marketing research was made in order to verify the viability of a new approach of EVERPLAY to generate additional profit. The assumption was that a game rental portal in the internet would increase the customer lifetime value of EVERPLAY's current customers. Furthermore, the services and features would enable EVERPLAY to acquire new customers that today do not buy or do not even

play computer games. The marketing research resulted in the recommendation to implement such a portal. The following chapters describe the strategy that should be chosen.

4.1 Vision

"A strategic vision portrays a company's future business scope ('where we are going'), whereas a company's mission statement describes its present business scope ('who we are and what we do')" (Thompson and Strickland 2003, p. 7).

The results from the marketing research suggest that a renting portal will be a viable and very profitable business. In fact it is a new business "renting of computer software" that has points of contact to the existing business "developing and publishing computer games". At the beginning the portal may be a new business unit of EVERPLAY. However, because of the potential of this business there will be a milestone within strategy planning where an analysis has to be made whether this could be the future core business of EVERPLAY. To come up with this deep impact an own vision for the computer games rental portal is formulated here:

"We want to provide the number one internet service that customers use to play computer games. Our customers do not buy games but rent them through a portal that consists of all top quality games that are available on the market. The portal itself presents itself in top quality with regard to technical stability, easiness to use, and quality of services. By exceeding their expectations, continuing evolution of services and customized offers we make our customers to livelong customers and at the same time the best sales force that can be formed."

4.2 Mission

The first step towards the realization of the vision is to set up an operational platform that contains a certain range of the games that are available on the market today and that attracts enough customers to be a viable business. This way, such a defined scope of operations in product and market terms forms the general, enduring statement of company intent (cf. Pearce and Robinson 2004, p.52): Within some years no publisher of games should be able to afford not to offer their games in the portal. A substantial number of people should perceive the portal as the natural way of playing a game whenever they have the desire to play a computer game. The following mission statement expresses this objection:

"We want to use our present head start in the field of online gaming to set up a reliable game renting portal that within five years will provide a broad range of the best computer games on the market and will be recognized as the first address in the player community regarding the quality of games offered as well as the services and value being provided. By doing so we will double our profit compared to results in 2003 by 2009."

4.3 Marketing Objectives

Today EVERPLAY sells nearly 1.5 million games a year and has about 586.080 customers. The average profit EVERPLAY makes per game is 6.83 €. By providing a totally new service to players of computer games EVERPLAY wants to increase its customer base by 50%. At the same time EVERPLAY wants to increase the profit per year by 100%.

We do not want to achieve this goal by attacking existing competitors of EVERPLAY directly. Through alliances with competitors we want to create a win-win-situation. EVERPLAY wants to extend the market in terms of increasing the number of people that spend money on games and at the same time intensify the commercial transactions per customer. This will

increase EVERPLAYs customer base as well as the turnover turnaround per customer and at the same time the profit of competitors that offer their games through our portal.

A completely new opportunity may result from the fact that customer relations can be improved as the behaviour of customers can be analysed and requirements and wishes of customers can be identified and eventually accomplished. We understand the portal as a learning organism which will be adopt to preferences of our customers.

4.4 Financial Objectives

For the portal a strategy is chosen which consists of two approaches at the same time, the realisation of fix cost degression and the strategy to cooperate with today's competitors of EVERPLAY which is a prerequisite for the fix cost degression strategy.

The fix cost degression strategy depends on a high market potential as well as on a large extend of product standardisation. (Meffert, 1998, p. 270) The portal provides a standardized framework that makes it possible to play any computer game via the Internet. The market potential depends very much on the broadness of the game palette. The more games a customer can choose from the higher the chance that he uses the portal.

A broad game palette can only be offered if games of competitors of EVERPLAY are integrated into the portal. By working together with other publishers of games a higher profit will be generated than by attacking them.

The long running financial objective of EVERPLAY is to at least double the profit it makes today within five years. During the second year the portal should achieve the break even point which is defined by:

- The fix and variable costs the operation of the portal causes.

- Variable costs that depend on the contracts EVERPLAY has with other companies that provide games for the portal. Depending on the contracts that are made these costs consist either of license fees that have to be paid or the publisher's participation in sales which is the preferred variant.
- marketing costs for this new business activity
- losses that may result from the cannibalisation of the existing business activities, the selling computer games

This marketing plan has a five year horizon that bases on the assumption that the new business model is an additional activity to increase profit by "reusing" games that have been programmed for the existing business model. Thus, the costs for programming games are not considered.

This approach will have to be revised after five years or earlier if markets demand this. As the vision that has been developed for EVERPLAY already indicates, it might even come the day when the game rental portal will be the core business of EVERPLAY. In the case that costs for licensing games of other publishers are lower than the costs for programming games this may result in the termination of game production.

4.5 Target Markets

A company needs to identify the market segments it can serve effectively. Segment marketing offers the benefit that "the company can create a more fine-tuned product or service offering and price it appropriately for the target segment" (Kotler 2003, p. 279).

Of the various approaches that may be chosen to segment markets the behavioural approach was chosen. "In behavioural segmentation, buyers are divided into groups on the basis of their knowledge of, attitude toward, use of, or response to a product." (Kotler, 2003, p. 292). One basic result of the questionnaire is that that people are in different buyer-readiness stages.

Three segments that have to be addressed with a specific marketing mix have been identified in the marketing research.

- Players that today buy computer games
- Players of computer games who do not buy them yet
- Non-Players

A fourth segment will be the future customers that use the game renting portal. These can be addressed by special methods such as personalized offers, messages, services and relationship building via the portal. These four segments address the customer group of players. However, according to the research results, besides price the most important key to the success of a game rental portal is the broad range of games that can be played. This requirement will not be met if only the games of EVERPLAY are offered in the portal. Competitors of EVERPLAY have to be convinced to offer their games in the portal.

4.5.1   Players who Currently Buy Computer Games

According to the marketing research 50% of people play computer games. Of these 37% buy games. This group is of special interest. These people do not have to be convinced to pay money for games in order to play them. Marketing has to concentrate on the advantages of renting a game in contrast to buying them. Besides controlling of the efficiency of marketing efforts also the side effects on the existing business of selling computer games have to be monitored. Eventually actions have to be taken in order to counter steer unwished effects – especially a loss in game sales that is not compensated by earnings through renting. Marketing channels that are already used for the sales business may be used to address this group.

4.5.2   Players of Computer Games who do not Buy them yet

This large group already plays games. However they do not pay for them (63% of the players didn't buy games in the last 12 months). Marketing

measures have to be developed to make them rent games. According to the marketing research the following are reasons why people do not buy computer games.

- 52 % say that they do not use computer games often enough to justify buying
- 30 % say that in general computer games are to expensive

The features of the renting portal that address their concerns - i.e. possibility to pay a small amount per use - have to be stressed.

4.5.3   Non-Players

Non-Players have to be addressed in a specific way. To them not only the business model of renting computer games has to be presented. EVERPLAY has to awake the interest in playing games first. For this campaign synergy effects with the existing business unit (selling games) can be used.

4.5.4   Users of the Game Renting Portal

The goal of all activities regarding the first three segments is to acquire new customers. Customers that have been convinced to use the portal have to be addressed specifically. The goal is to keep them using the portal and to increase usage of the portal by providing customer satisfaction, making customized offers, presenting customized features and by establishing measures of customer retention. A further step is to make satisfied customers work as a "sales force" for EVERPLAY; i.e. satisfied customers will tell friends about the portal, offering of rebates or free playing time for every new customer that has been acquired by existing customers.

4.5.5 Publishers of Online Games

Cooperation with other publishers of computer games is essential for the success of a game renting portal. Thus, strong efforts have to be made to convince them that our game portal is a new profitable distribution channel.

4.6 Positioning

"Positioning is the act of designing the company's offering and image to occupy a distinctive place in the mind of the target market" (Kotler 2003, p.308). The result is that in the awareness of customers there is a cogent reason for buying the product.

4.6.1 Positioning Regarding Potential Users of the Portal

Besides price the most important key to the success of a game rental portal regarding players is the broad range of games that can be played. This requirement will not be met if only the games of EVERPLAY are offered in the portal. Therefore the portal should be perceived by customers as the portal that allows them to play most of the games that exist in the market. To draw a comparison to video renting, customers do not go to a video store where they will only get movies from Walt Disney and to another where they will get those from 20th Century Fox.

However, the fact that most of the games are available at the portal is only one aspect that makes up the perception of the portal. In the awareness of all target groups the portal should be a flexible, convenient service that provides 24 hour, seven days a week access to computer games that can be played online and where customers pay a fair price in relation to the value they receive.

By non-players the portal should additionally be perceived as a convenient and low cost way to get to know computer games respectively to be able to

play games only occasionally without having to purchase an expensive game.

4.6.2 Positioning regarding Publishers of PC Games

Regarding today's core business of EVERPLAY competitors are the publishers of computer and video games as well as publishers of games for mobile phones and other devices such as Gameboy or Personal Digital Assistants (PDA).

As it is not sure that competitors of EVERPLAY will cooperate with a direct competitor for different reasons, the portal should not be perceived by them as a business unit that competes to their business. This may be realized in different ways. One way may be to set up an own company that is not perceived as being connected to EVERPLAY. However, there may also be other ways to realize cooperation between companies that compete in a certain field but may each win by setting up such a portal. Eventually EVERPLAY might even enter into a closer co-operation (Joint Venture) with a suitable partner, if strategic alliances do not work out.

4.7 Marketing Mix

The marketing mix consists of the tools that a company uses to actively influence the sales market (Weis 1995, p. 66). According to McCarthy's "Four P of marketing" These tools can be classified into four groups: product, price, place, and promotion (Kotler 2003, p.16)

Marketing Mix

Target market

Product
Variety
Quality
Design
Equipment
Brand name
Packaging
Size of
packaging
Customer
service
Guarantee
Remission

Place
Sales
channel
Market
coverage
Assortment
Transport
Stock on
hand

Price
List price
Discount
Deduction
Aim of
payment
Consumer
credit
Financing

Promotion
Sales
promotion
Advertising
Direct
marketing
Public
relation
Sales

Fig. 4.1: The four P Components of the Marketing Mix (Kotler, 2003, p.16)

Regarding Place and Product the game renting portal is a hybrid. On the one hand it is a new product - which is in fact a service – which is defined by the attributes that are directly connected to the portal itself such as layout of the web pages, ease of use and user-friendliness, stability and availability, and services that are being offered. On the other hand, at its heart, the portal is not the product being offered but a new channel of distribution and a new concept of cashing up – games are not being sold but let for a certain rental time. If there were no computer games there would be no means of existence for the portal. Thus, the portal covers the promotion aspect of the "four Ps".

4.8   Services offered

4.8.1   Features of the Portal

The new online portal will offer the core product (computer game rental) plus a wide range of supporting services to the customer. To make all features easily available, a functional design will ensure that customers can navigate the service very conveniently.

Essential to the online portal will be the game rental area, where all games can be found for playing. Games will be searchable through a search function or by clicking onto different sub-sections relating to the games types. For every game, there will be a comprehensive description in several languages supplemented by several screen shots of different game levels and settings.

A customer can easily start the game after logging into his account (if he is a customer who has signed a contract over a certain period of time) or, if he has no account, after selecting his preferred payment option and concluding the payment transaction.

As mentioned above, EVERPLAY's online rental service offers online customer accounts for returning customers who sign on to subscriptions. Therefore, there is an accounts area where customers can establish an account, change their payment information and see when their subscription will expire. In the same area EVERPLAY will give subscribers information about additional benefits available for especially valued customers (Gold Status). To give incentives to its subscribers EVERPLAY will grant free gaming time for subscribers who successfully invited other people to try out the online gaming service (Tell a friend). Such bonuses can be checked and redeemed in the same accounts area.

All users can activate a special feature "search a buddy" and enter their own nickname. After that they will be able to see which other users are online at the same time. It will be possible to contact other users by clicking on their (nick) names in this list and invite them to play a game together or to exchange messages over a chat tool. In a "community section", players can enlist themselves to certain interest groups and exchange messages within such group. The interest groups will be monitored and moderated by EVERPLAY employees who will initiate discussions and invite players to give their opinion about games, to discuss add-ons, events, merchandising and game-related news.

There will be a multi-player game mode for joining a game played by many gamers at the same time (mainly role plays).

Except for this multi-player game mode it will be possible to interrupt, save, and continue games online at the times convenient for the player. This does not apply for gamers who pay per start of a game.

EVERPLAY will provide merchandising in a special online shop, where players can purchase games on CD, buy add-ons for purchased games, and everything from T-shirts to mugs with some game-related printing on it.

Another feature offered is a weekly newsletter which will include game related news, some information about events like game conventions and parties featuring rental games from EVERPLAY and of course, information about new rental games and additional features and special offers on the game rental portal. The newsletter contains links to a recommendation page where information can be entered for the "tell a friend" programme.

An important feature will be the high score page with the latest high scores for all games on offer. At the end of each year, the company will award a special prize to all holders of high scores, if they are registered users with an account.

For frequent users, high score holders and Gold-status customers, there will be an option to beta-test new games in a pre-release version or to play new games two weeks earlier than normal users of the rental service.

4.8.2 Payment options

As EVERPLAY will offer different rental schemes for playing one game once, playing whatever game one day or a week, or renting the full package of games, not all payment forms do fit all rental schemes.

Credit card payments in general fit the prerequisite of instant payment. But on the one hand, if someone rents just one game, the price he has to pay is very low. As about 4% of the amount transferred is retained by the credit card company as a transaction fee, and usually minimum fees of about 1-2 Euro apply, it is simply not feasible to let customers pay for the rental of one game by credit card. On the other hand, if someone rents the full package of rental games for longer periods, payment by credit card is an option.

As both direct debit and bank transfer do not allow instant payment, but require some time to be closed, those forms of payment are not suitable if customers want to access the site and play immediately. The same applies for all kind of pre-paid rental time. All such forms of delayed payment or payment that requires some planning can only be offered in addition to other forms of payment which allow for immediate transaction. Costs related to those forms of payment are very favourable, therefore EVERPLAY will add both direct debit and bank transfer to its scope of options.

There are other forms of instant payment which have to be considered for paying comparatively small amounts for shorter rental periods. PayPal, Firstgate, IP-payment, and payment via the telephone bill or by SMS are possible. All such forms of payment are immediate and therefore would be suited to serve the customer who decides to play and needs immediate payment.

PayPal and Firstgate require registration and an account with the respective companies and are not very popular according to our survey. EVERPLAY wants to offer immediate access to its services without the need to sign on to additional services with third parties and therefore decided not to offer payment with PayPal and Firstgate.

IP-payment is not considered to be a secure form of payment why EVERPLAY excluded this form of payment.

In the end, payment via the telephone bill and by SMS are further choices for EVERPLAY, because they offer instant payment at low costs. It can be assumed that every customer will have (at least) either a mobile phone or a land-line phone and therefore can use such payment without having to sign additional contracts. As a result, to provide optimal forms of payment which are widely accepted and do not cause high transaction costs is a major concern and a critical issue for the company.

4.9   Promotion

The role of promotion is to create contact on a personal and/or impersonal way between the provider and potential consumers (Weis, 1995, p. 68). Four tools may be used to promote the game renting portal, those being advertising, public relations, direct Marketing, and sales promotions.

The questionnaire asked for the media which people use to inform themselves about computer games. Of the non-players 95% say that they do not actively inform themselves about computer games. Of the players

- 48% say that they are informed by friends and acquaintances
- 45% say that they inform themselves on the Internet
- 27% say that they inform themselves in computer and computer game magazines

These results are in line with the experience that has already been made by the marketing department regarding the sale of computer games: The Internet is a major source of information and friends and acquaintances are very important to convey news about new games. Both types of players – those who buy and those who do not spend money today – will be addressed using these channels. Some non-players will eventually develop interest in the game renting portal through these channels. However, special marketing campaigns will focus mainly on this group.

4.9.1   Advertising

Advertising is any paid form of non-personal presentation and promotion of ideas goods or services by an identified sponsor" (Kotler 2003, p. 590). "Advertising objectives can be classified according to whether their aim is to inform, persuade, remind, or reinforce" (Kotler 2003, p. 591).

Right before the launch of the portal and throughout the first months advertising will aim on creating awareness and knowledge about the portal. Therefore, the first advertising has to be mainly information-focused. Later on, reminder advertising will be undertaken.

As a consequence of the above, main advertising media will be game magazines and computer magazines as well as the Internet.

The advertisements in the magazines will aim on creating awareness and will therefore present the advantages and special features of the game renting portal. The effectiveness of advertising in magazines as well as in the Internet will be increased by realizing synergy effects with the old business model, the selling of computer games. Advertisements that are made by this business unit will contain a hint to the game renting portal such as "This game can also be rented on EVERPLAY.com, the new online game renting portal on the internet."

Advertisements on the Internet will be made in online editions of game magazines as well as on websites which deal with computer gaming. Additionally, advertisements will be made in search engines. These advertisements will be presented to the user when he enters search criteria that EVERPLAY identifies as relevant.

Advertisements on the web can be done in different forms such as small buttons, large advertisements within the content, banners or pop up windows. All forms aim on guiding the user to the own website by creating interest and making them click on the advertisement. Usually advertisements on the web are paid per click. Thus, the price of an advertisement is related to the success of an advertisement if success is defined as number of people that are guided to the own website.

Regarding the selection of websites as well as the form of advertising the experiences of the marketing department with advertising for the current business model will be accessed.

4.9.2   Public Relations

"Public relations involves a variety of programs designed to promote or protect a company's image or its individual products" (Kotler 2003, p. 616). The general purpose of public relations (Weis 1995, p. 440) is

- to communicate information regarding the company or products to the relevant target group
- to create or change the image of a company
- to influence the public in regard to the positioning of the company in the market
- to create contact between the company and relevant target groups such as customers, parties, associations.
- To demonstrate the necessity of a company for the public

Public relations is already established for the existing business unit and will overall not change very much because of the new business unit. The new positioning of the company will have to be considered in everyday work. However, an exception has to be made to this statement as press relations will be very important in the start-up phase of the portal to create awareness for the new business model. Every positive article in magazines and newspapers about the new business model is a very cost-saving way to promote the portal.

4.9.3   Direct Marketing

"Direct marketing is the use of consumer-direct channels to reach and deliver goods and services to customers without marketing middlemen." (Kotler, 2003, p. 620). Examples for direct marketing channels are face-to-face selling, direct mail, telemarketing and kiosks.

The game rental portal itself provides a totally new direct marketing channel. In contrast to the old business model where customers that buy games in shops are anonymous, EVERPLAY has direct contact to the users of the game rental portal. Moreover the way the customer uses the portal can be analysed. This enables EVERPLAY to present individual offers to the customer according to his habits and preferences. Through constant and continuous arousal of new interest the customer can be tied to the portal. To clarify this potential here only a few measures will be listed exemplary:

- After login, games could be presented to a customer that he did not yet play but correspond to his interest according to his previous playing behaviour. These presentations could also contain positive appraisals of other players that have been made in the appraisal section of the portal.
- Free gaming time or rebates could be given to customers who play regularly.

- In case that a customer spends a lot of money for the pay-per-use, pay-per-start or pay-per-day option, the advantages of a monthly rate together with an exemplary calculation of the expenses he has in each model according to his playing behaviour can be presented to him.

All the direct marketing measures that will be implemented in the portal aim on increasing the usage of the portal and keeping customers using the portal.

4.9.4   Sales Promotions

"Sales promotion … consists of a diverse collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services" (Kotler, 2003, p. 609). The objective of the sales promotions presented in this chapter is to attract new customers to the service. However, sales promotions can also be used to cement a long-term relationship. This will be done directly through the portal. The giving of free playing time, as described in the previous chapter, would be an example for such a sales promotion.

Our company will offer free gaming time at various locations where people have access to the Internet and will probably have some time and are likely to be open to new things. People on a holiday trip do likely have the necessary time and are probably in a relaxed mood to try out some new entertainment service if they have some time to wait at airports or are flying for some hours before reaching their holiday destination.

EVERPLAY wants to make use of the positive atmosphere which prevails during most holiday trips and the higher than average attention of potential customers trying out the rental service while they have some hours to kill. The positive holiday associations of the holidaymaker will subconsciously extend to the rental service of EVERPLAY. On the flights, in addition to

holidaymakers, a certain percentage of people on a business trip might also be willing to try out free online games.

Therefore, EVERPLAY will offer free access to the gaming service (including free internet access) at WLAN hotspots at airport waiting areas, lounges and on board of airplanes. As many airlines have just started to introduce internet services on board of their flights, they have to promote this new service. Therefore, our offer to give free access to the web-based gaming service (via the airplanes' IP-numbers) is a very welcome incentive for passengers. The airlines might even be interested to sell our games on board of flights (tax free if going outside the EU).

At other WLAN hotspots like cafes and bars, EVERPLAY will offer the same free gaming service for a certain period of time. The respective businesses should be interested in our free offer, as they have an interest in keeping their customers online as they usually receive a time-based fee from every customer who is online.

EVERPLAY will also approach internet cafes and offer the same free online gaming for customers of those establishments. Again, the owners of such businesses should be pleased to have free additional "content" to offer to their customers.

Under a different approach, EVERPLAY will start a strategic alliance with producers of mobile phones. It is planned to have every new mobile phone equipped with a slightly modified version of a popular (java-based) game. All people purchasing the mobile phones will eventually use the game on their phone. At the end of every game, a sentence like "You can rent this game on EVERPLAY.com...and many others. Free trial period!" or "Try out the full version of this game and many others for free on EVERPLAY.com".

To approach specific age groups, certain web pages should carry banner advertising for free trials of the web-based rental service. This should

include favourite sites of young internet users, as results of our questionnaire show. Those web pages will include popular sites of youth focused TV shows, soaps and online editions of youth magazines.

In addition, EVERPLAY will sponsor prizes (free gaming time and games on CD) on certain TV shows which are viewed by computer-literate potential customers (WDR Computerzeit, TV NRW Interaktive Gameshow, NBC Giga, MTV/VIVA). Furthermore, EVERPLAY will send out vouchers for free gaming to journalists and invite to a product presentation event.

4.9.5 Tell a Friend via the Portal

"Tell a friend" might be regarded as a special form of sales promotion. However, according to the questionnaire, friends and acquaintances are a very important source of information about computer games or even a way to awake initial interest in computer games. To come up with this fact, "tell a friend" will not be used as a short term measure but as a constantly used strategic tool to gain new customers.

Existing customers will have the possibility to invite friends to use the portal. An email containing a promotion code will be send to the friend. In case the friend logs in as a new customer using the promotion code, both the existing and the new customer will receive rebates or free playing time.

4.10 Market Research

EVERPLAY is in a fast-moving industry where trends and development can change very quickly. The life-cycle of computer games is very short and many new games appear on the market. Therefore, EVERPLAY has to observe market trends and developments to stay attractive for customers. Our company will also recalculate how much the online service cannibalises the purchasing SBU and react, if one SBU is not giving the highest possible return. To find out about new trends and developments, EVERPLAY will

regularly check user habits by analysing frequency and duration of the use of the online service, use of the online search function and the requests received by the telephone hotline. Naturally, EVERPLAY will also regularly visit competitors' websites to see what they offer. As innovation is a major source of competitive advantage especially for service-oriented companies (cf. Pahalad 2003, p. 78), EVERPLAY will constantly work on innovations and methods to decrease costs and to increase profits. One approach is to increase modularity in games and inventing high-profile marketing measures like an auction-based pricing for new games during the first days those games are online.

In addition, our company plans to have an annual online questionnaire on its website to find out about changes preferences, wishes and suggestions of the users. Users will be motivated to participate by incentives (free games and free gaming time, merchandising).

5 FINANCIALS

The financial analysis at this point should help to understand if a profitable business with online gaming is possible or not under given costs and revenues and the estimated customer base (chapter 3.1.4). All further calculations are based on the condition that the average amount of money spent for gaming per year and customer remains constant. In addition it is assumed that the average hours that the players are gaming is independent of the renting model, e.g. paying per hour or per month and remains constant. From the survey it is known that the average time spending on games is four hours and the median is two hours per week. For further calculations four hours per week and customer are chosen. The effect of different renting models will be analyzed when the price for the service is calculated.

5.1 Profit-Loss Accounts

Chapter one introduced the cost situation of EVERPLAY in 2003. The percentage distribution of costs is a simplification of the model of PC games publishing that has to be made in order to have a basis for further calculations. The numbers found in the Internet represent the average cost structure of the PC games industry. In fact, the structure of costs changes with the number of games being sold because of the degression of fix costs with rising sales. The income-loss account of the current business model has been shown in chapter two and will be explained more in detail at this point (see table 5.1). In addition to the current business an estimated financial situation is forecasted with the expected number of 957,000 customers in five years. The different positions of the account are described in the next sections.

Turnover: 20 millions Euros of sales were achieved in the last FY with total number of 1,465,000 games purchased by 586,080 customers. The average income per game can be calculated to 13.65 Euro.

The production costs of 20% are costs that are necessary to run the operating business. 10% (2 million Euros) of these costs are fix costs (FC) that means that they are independent from the number of produced games (i.e. machinery, equipment and buildings). According to the principle of fixed-step costs these costs are only fixed up to a certain level of production output. (Kotler and Armstrong, 2004, p. 351) It is assumed that the number of games that are sold to 957.000 customers can be produced with the same fix costs as in 2003. 10% of the production costs are variable costs (VC) caused by manufacturing of the games, the package, manuals and license fees for the use of copyrights. The manufacturing of a CD costs about 1.40€ I on average (0.5 GBP - 1.5 GBP, Games Investor, 2004c) which is equal to 10% of sales.

Sales, general & administrative costs are fix costs which can not be assigned to the operating business directly, e.g. administration, personnel costs or expenses for security services and facility management.

Research & Development costs are costs related to the development of new games as well as research costs. Like marketing costs they do not depend on the number of customers and produced parts.

Marketing costs: These costs are independent from the number of customer and produced parts. It includes things like advertisement, publishing of company brochures, public relation work, consumer research or strategic planning.

Table 5.1: Profit-loss account of the current business model in thousands Euros

Customers			586,080	957,000
Turnover		100%	20,000	32,658
Production costs	VC	10%	(2,000)	(3,266)
Production costs	FC		(2,000)	(2,000)
Sales, general & administrative	FC	5%	(1,000)	(1,000)
Costs for development of games	FC	25%	(5,000)	(5,000)
Marketing costs	FC	15%	(3,000)	(3,000)
EBIT			7,000	18,392

With the assumption that (1) the sales per customer remain constant and (2) that the fix costs do not rise because of additional marketing campaigns or additional development work. From a certain level on it is necessary to adjust these costs to stay competitive (see also section before).

The new business model comes along with a different profit and loss account. In contrast to the old business model a fraction of the fix costs – the IT costs for servers and network bandwidth - are fixed step costs. This fact accounts for the difference of the fix production costs. In table 5.2 the income-loss account for online gaming is shown with again the two different numbers of customers.

Table 5.2: Profit-loss account of the new business model in thousands Euros

customers			586,080	957,000
Turnover		100%	30,769	50,243
Production costs	VC	10%	(3,077)	(5,024)
Production costs	SVC		(7,000)	(10,000)
Sales, general & administrative	FC	5%	(1,000)	(1,000)
Costs for development of games	FC	25%	(5,000)	(5,000)
Marketing costs	FC	10%	(2,000)	(2,000)
EBIT			12,692	27,218

Turnover: With the online game business model EVERPLAY can sell its service direct without retailer or wholesaler. Therefore the price received by EVERPLAY is equal to the net sales price, which is 21 Euro. This means, compared to the 13.65 Euro EVERPLAY received before, a 35% higher revenue amount by a given number of customers compared to the former business model.

Production costs: Online-gaming requires a completely new IT infrastructure. This means that e.g. a server system, additional IT personnel, software licenses, data lines, data management as well as costs for data backups are necessary. IT systems can be usually cascaded for a certain required performance. This will cause steep variable costs (SVC) for a given number of user accesses. Estimations for the costs are shown in table 5.3 as function of the number of customers and a monthly playing time of 48 hours (the survey gave an average time of 6 hours per week and a risk factor of two was added).

Table 5.3: Annually IT costs as function of the number of customers

| Customers | | IT Costs | Turnover | costs percent of turnover | |
min.	max.	T EURO	T EURO	from	to
0	200,000	4000	10500	38%	100%
200,000	400,000	5500	21000	26%	38%
400,000	600,000	7000	31500	22%	26%
600,000	800,000	8500	42000	20%	22%
800,000	1,000,000	10000	52500	19%	20%

In the table above it can be seen that e.g. a customer base of 586,080 requires IT technology costs of seven millions Euros which is equal to 22.8% of sales. In addition 10% variable costs are still necessary for e.g. fees for the billing system, variable IT costs and license fees. License fees for competitors who will put their games into the portal will be neutralized by the received rental fees of these products. This will cause a win-win situation for both EVERPLAY and the competition and will not influence the income-loss account.

Sales, general & administrative costs: These fix costs remain stable in comparison to the traditional business. In long term it is expected that online gaming provides benefits which result in a decrease of SG&A costs.

Research & Development costs: The costs for R&D are independent from the business model and remain constant with an amount of five million Euros.

Marketing costs: It is expected that the marketing costs could be decreased from 15 to 10 percent relative to the sales in FY 2003 because of the use of efficient marketing channels as described in the chapter promotion.

5.2 Break-Even Analysis

The break-even analysis delivers the volume of units at which the revenue curve hits the accumulated expenses curve. This point, the so called break-even point indicates the number of units, e.g. machines, hours, customers, etc. above which profit will be generated. The lower the break-even point is, the better it is. In addition the break-even analysis is a measure of risk. The higher the fixed costs in relation to the total revenues are the higher the risk is.

Due to the assumption that the revenue per customer is constant the unit "customer" was chosen on the abscissa. As it can be seen in figure 5.1 the break even volume for purchasing games is achieved with 360,000 customers. The values of the last business year as well as the example of the 900,000 customers are visible in this graph.

The risk at break even can be calculated to 0.9 (total fixed costs / total revenue).
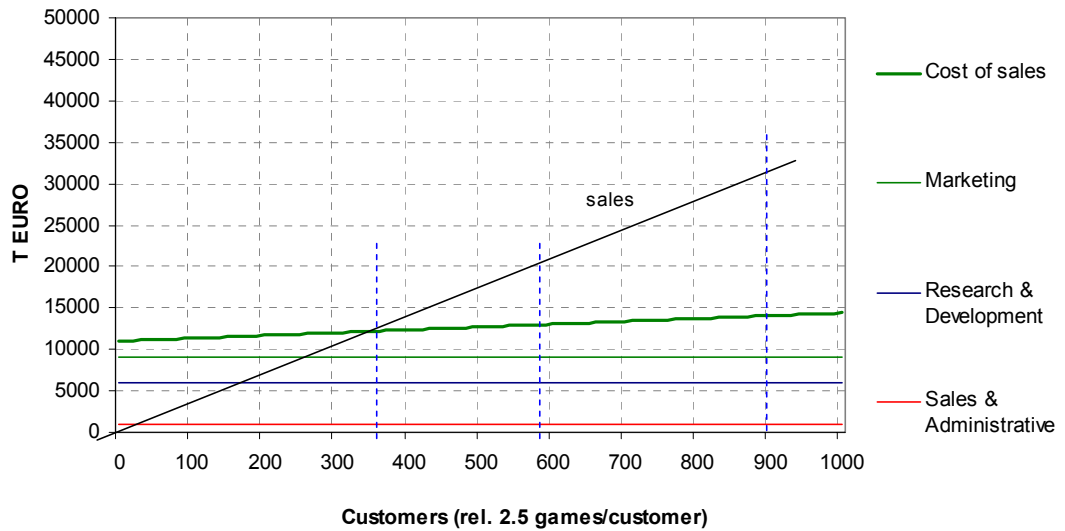
Fig. 5.1: Break-even analysis of the current business model

The new business model, online gaming, differs from the traditional one because a service is offered and not a physical product. To be in a position to make further comparisons the numbers of customers are still used as a reference. Therefore the abscissa is scaled in the same way with the unit "customer" as it was done with the current business model. The graph in figure 5.2 shows the course of revenues and expenses. The larger gradient of the revenue curve is caused by the higher sales per customer because of direct sales. This cause higher profit at the same customer base although the costs are higher. The break-even point moves downwards to 290,000 customers.

The risk at break-even can be calculated to 0.89 (total fixed costs / total revenue) which is slightly better than for the current business.
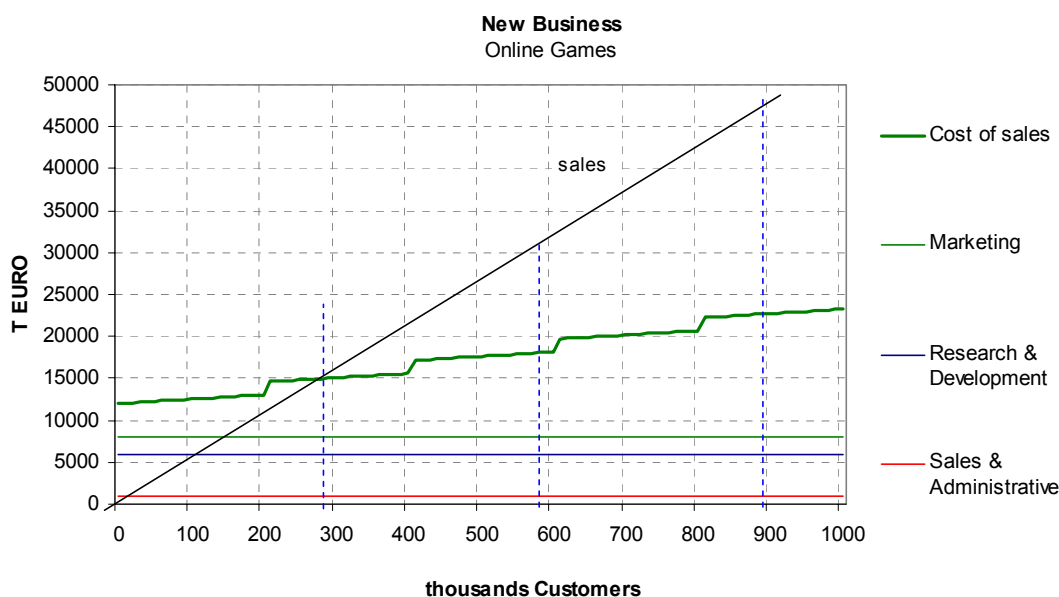
Fig. 5.2: Break-even analysis of the new business model

The break-even analysis's shown above are valid for its specific business model. In reality EVERPLAY will start the new business step by step and therefore a mixed business model is present.

5.3 Five Year Perspective

In table 5.4 the financial situation is shown for the next five years after the launch of the new service. Detailed graphs and tables for further information are attached to the appendix. It is expected that in the first year after introduction approximately 100,000 users are playing online at EVERPLAYS portal. As a result of this fact the current business will be cannibalized by around 50,000 customers (customer growth is described in the chapter about market growth). These ongoing changes in the two businesses will continuously increase the EBIT of the company. Finally after five years total revenues of 43,001,000 Euros are expected.

Table 5.4: Profit-loss account for the next five years

total business		Year				
(all values in thousands)	**0**	**1**	**2**	**3**	**4**	**5**
Sales	20,000	24,600	29,200	34,161	38,401	43,001
Percent	100%	123%	146%	171%	192%	215%
Costs of sales	(4,000)	(9,960)	(10,420)	(12,416)	(14,340)	(16,300)
Sales, general & administrative costs	(1,000)	(1,230)	(1,460)	(1,708)	(1,920)	(2,150)
Research & develpopment	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Marketing	(3,000)	(8,394)	(3,788)	(4,236)	(4,576)	(4,970)
EBIT	7,000	16	8,532	10,801	12,565	14,581
Percent EBIT	100%	0%	122%	154%	179%	208%
Percent EBIT of Sales	35%	0%	29%	32%	33%	34%
Customers	586	660	734	819	882	957
Customer	100%	113%	125%	140%	151%	163%

Some explanations have to be given at this point: In year one additional 1.5 million Euro are included in the costs to start up the online business and additional 5 million Euros for marketing campaigns are planned. Over this period of 5 years revenues are expected to grow by 215% and EBIT by 208%.

Important is the value of the EBIT over the next 5 years. These facts are shown in figure 5.3. The EBIT in the first year will be close to zero, but three years after EVERPLAY will have introduced the online games to the market a considerable growth and amount of EBIT is present.
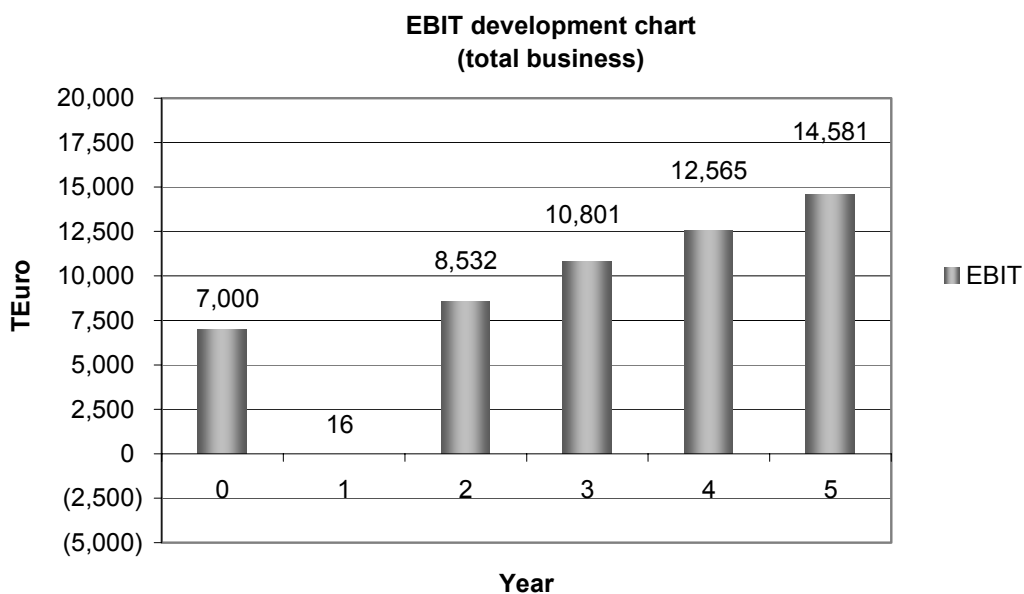

Fig. 5.3: EBIT development over the next 5 years

Therefore the financial goals, to double the profit within 5 years and the break-even point after the second year will be achieved.

5.4 Price

Pricing products and services[8] is very important in any economy. Pricing in many cases determines sales volume, market share, and product profitability. Several issues are related to pricing. The new types of price comparison via Internet are changing the microstructure of consumer markets, the distribution channels, and the bargaining power of buyers and sellers. In a market with highly differentiated and customized products, prices tend to be determined by buyers' willingness to pay rather than by the costs of production. The market force behind this fact is the market power obtained by product differentiation. Thus, pricing is a matter on how valuable a product is to a buyer, not how much it cost to produce it. (Turban, 2002, p. 56)

5.4.1 Factors that Influence Prices

Pricing is influenced by both internal and external factors.

5.4.1.1 Internal Factors

Internal factors are those which ca be influenced by the company. These are e.g. the marketing mix strategy, marketing objectives, organisational structure of the company and the cost structure of the firm (Kotler and Armstrong, 2004, p. 347).

The price is one important tool of the marketing mix. It has to be aligned with the product design, promotion and positioning strategy. The price positioning strategy can be supported by a technique called target costing. Target

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[8] In this chapter only the term product is used for both products and services

costing reverses the bad and often applied process of first designing a product and setting a price before checking if there is a market for this product at the set price. This approach often resulted in huge quantities of unsold products and bankrupt companies. In contrast, target costing first sets the price based on market demand and then ensures that the design of the product meets the targets.

The marketing objectives as survival, profit maximization, market share leadership or product quality leadership are only achievable if the price does fit to these objectives. The marketing objectives of EVERPLAY are described in the chapter above that belongs to these topics.

Costs of company as production, distribution or development costs have to be covered by the price of the product otherwise the company can not stay alive. The costs of the company do define the lower end of the possible price range of the product or service.

The organization has to define who is responsible for price setting. This could be a separate department or the process could be assigned to marketing or top management.

5.4.1.2 External Factors

External factors that influence pricing are e.g. market and demand, competition and others as the economy or the government.

As described before the costs are setting the low end of the price whereas the upper limit of the prices is defined by market and demand. The market in which EVERPLAY operates is a market of monopolistic competition. This means that the market consists of many buyers and sellers who trade over a range of prices rather than a single market price. The range of prices occurs because the suppliers can differentiate their products to customers.

The demand of the market was identified by the questionnaire and the suitable price for the rental service was determined. The list of the different prices is shown in table 5.5.

The competition is affecting the price setting process of the company by its own prices and costs. Products that are placed in price range above the competitor's comparable products will not succeed on the market. A competitor price analysis will be shown later.

5.4.2   Pricing Approaches

After the internal and external factors are determined the price can be fixed considering a chosen pricing approach. Three different approaches are commonly used:

- Cost-Based Approach
- Competition-Based Approach
- Buyer-Based Approach

Cost-based pricing can be done in different ways. Cost-plus pricing is the simplest method by adding a standard mark up to the costs of the product. Another cost base approach is the break-even or target profit pricing. Here the price is determined which is necessary to make or break even a target profit.

Competition-based pricing can have different forms (for more details see Kotler and Armstrong, 2004, p. 361). One form is the going-rate pricing, in which the company based its price mainly on the competitors' prices and less on its own costs.

The Buyer-based approach (also called value-based pricing) is based on the customer's perceptions of the product value rather than on the seller's costs

or competitor prices. This approach is supported by target pricing as described above.

5.4.3 Price Setting

The positioning strategy for EVERPLAY is that the best games with high quality and extended features will be placed in the market as described in the chapter about marketing mix. Therefore it is expected that the customers will pay a price for the online service that is higher than the average price of the competition.

5.4.3.1 The Market Demand

EVERPLAY decided to go with the buyer-based approach and takes the perceived value into account that the customer is willing to pay. The questionnaire delivers the information of the suitable prices (table 5.5). Nevertheless, the costs of the service as well as the price of competitive products have to be considered to ensure profitability and to have a competitive advantage.

Table 5.5: Suitable prices (in Euro) determined from the online survey

	per start	per hour	per day	per month (1 month contract)	per month (3 months contract)	per month (6 months contract)	per month (12 months contract)
player	1.58	0.86	2.79	16.46	12.02	9.71	7.89
non-player	1.35	1.08	3.12	17.09	14.53	11.87	9.73
average				16.78	13.28	10.79	8.81
average	1.47	0.97	2.96	12.41			

The questionnaire provided additional information about the time persons spend on playing per week. From these numbers the average monthly time was calculated and assigned to the possible payment options: paying per start, per hour, per day or per month (table 5.6). The two contract options per hour and per start were put into one pricing option because EVERPLAY wants to offer a simple to understand pricing model.

Table 5.6: Estimated distribution of conclusions of agreements

hours per week	average per month	percentage of players	assumed contract type
0-4	10	60%	per start or hourly rate
4-6	20	11%	daily rate
6-50	112	29%	monthly rate

5.4.3.2 The Costs of the Service

The performance of the IT system was planned under the assumption that every online customer plays 24 hours per month (the questionnaire provides an average value of 6 hours per week per player) and a risk factor of two was added, so that the IT system could handle a maximum of 48 hours per months per customer, calculated on todays customer basis. This means that at 586,080 customers EVERPLAY has today, the IT system is designed to cope with about 28.13 million user hours per month at maximum. From this the pure costs of running the online service (without new installation of hardware) per hour can be calculated as a function of the server usage (figure 5.1). With the current 586,080 customers (equal to 28.13 million hours) an hourly rate of 64 Cents hour and customer can be calculated. At the targeted customer base of 957,000 (equal to 45.94 million hours) in five years, the hour costs 50 Cent per customer. It has to be mentioned at this point that it is very positive that the curve in figure 5.4 has a very flat gradient in its "working point".
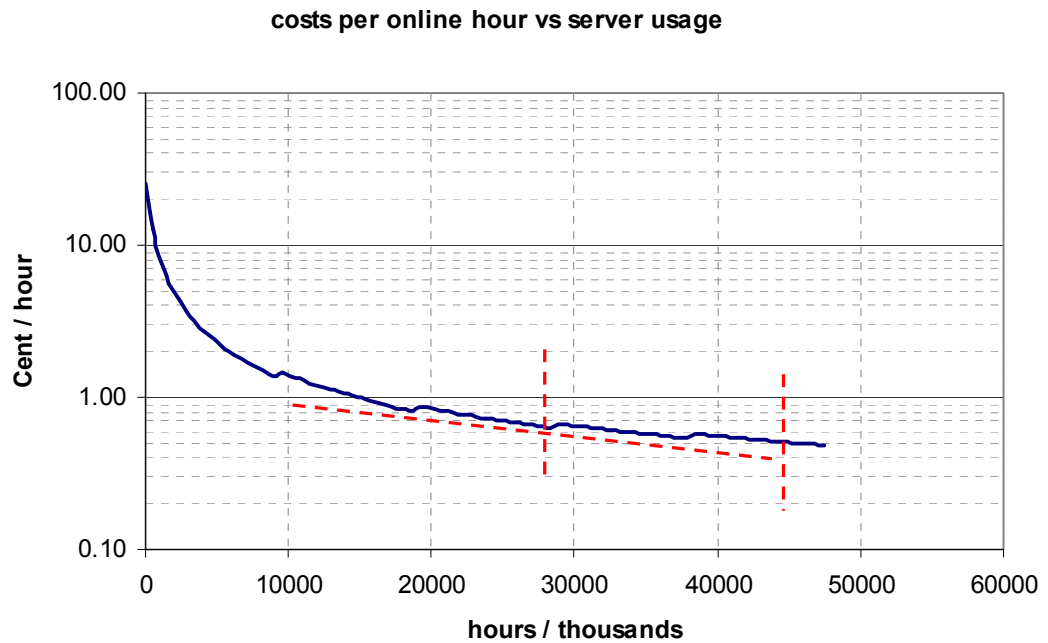
costs per online hour vs server usage

Fig. 5.4: Costs per hour versus playing time

The revenue of EVERPLAY per customer from its online business can be calculated as sum of all products calculated by payment option times number of payment option used:

Revenue/customer = (price/start) x n_{start} + (price/hour) x n_{hour}

+ (price/day) x n_{day} + (price/month) x n_{month}

To simplify the solving process of this equation it is laid down that the price per hour should be the same than the price per start. In addition the price per day should be three times and the price per month ten times of the price per start. In addition this scaling granted a discount for frequent players. With these assumptions an analytical solving of the equation is possible, otherwise iterative or graphical tools must be used. The equation can then be written as follows:

Revenue/customer = (price/start_hour) x n_{start} + 3 x (price/start) x n_{day}

65

+ 10 x (price/start) x n_{month}

With the estimations of table 5.2 it is:

Revenue/customer = (price/start_hour) x 0.6 x n + 3 x (price/start) x 0.11 x n

+ 10 x (price/start) x 0.29 x n

Revenue/customer = 3.83 x n x price/start

One example should explain the result. If the price per start is chosen to 1,-€ then the revenue per customer and month can be calculated to:

Revenue/customer = 3.83 x 1 x 1,-€ = 3.83€   and per year to

Revenue/customer = 3.83 x 12 x 1,-€ = 45.96€

The disadvantage of this method is, that the prices for an hour (1,-€), day (3,-€) and month (10,-€) are also fixed. The advantage is that total revenues can be calculated very easy if the price will be changed or if the distribution of the time players spent on gaming changes. Figure 5.5 shows the results for different basic prices compared to the product costs. The legend shows the price per start.
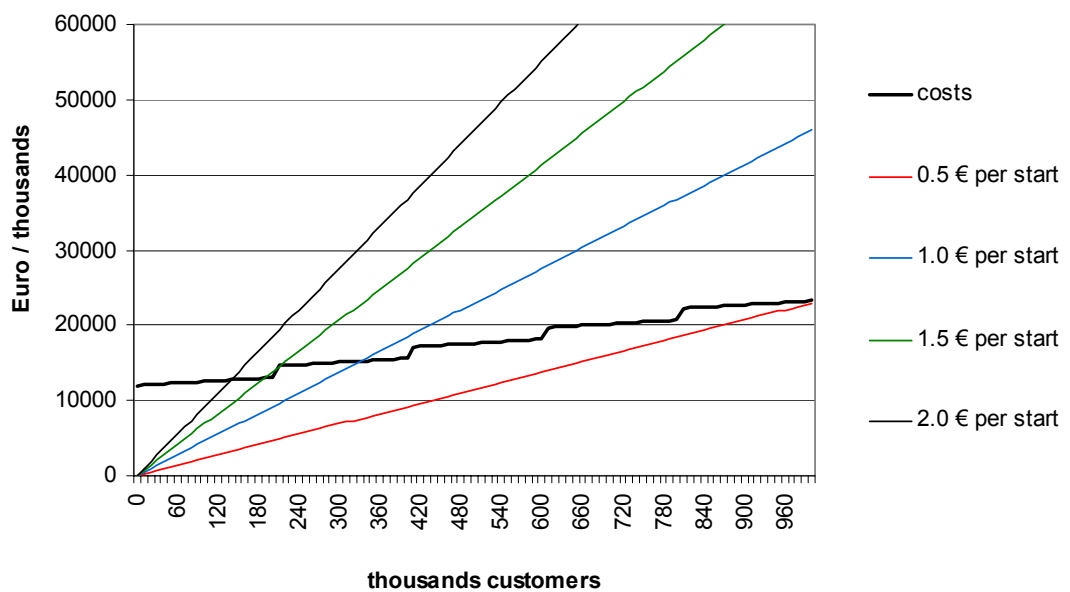
Fig. 5.5: Revenues in dependency of different rental fees

The graph above shows that with a rental fee of 1,-€ per start the break-even is reached with approximately 330,000 customers. The values of the rental options used to create figure 5.2 are shown in table 5.7.

Table 5.7: Rental fees with constant relative proportion

Factor	Price/start	Price/hour	Price/day	Price/month
3.83	0.5 €	0.5 €	1.5 €	5.0 €
3.83	1.0 €	1.0 €	3.0 €	10.0 €
3.83	1.5 €	1.5 €	4.5 €	15.0 €
3.83	2.0 €	2.0 €	6.0 €	20.0 €

As already shown in table 5.4 the respondents of the survey told what they would consider the fair price for the rental service. This information as well as four different price options and a curve that represents the sales per customer in the last fiscal year are taken to create the graph in figure 5.6. The "last year customer sales curve" is calculated by taking into account that the net sales per customer was 52.50€ per year and could serve as an

indicator for the different price options. The following information can be interpreted from this graph: If the curve of a price option is below the "last year customer sales curve" then it means that the customer will pay in total less then they have paid last year. EVERPLAY expects that because of the favourable offer of high quality games, the offered service and the wide range of different games will increase the willingness of the clientele to spend more money than one year before. The results from the survey are also shown in the graph and indicate that the customers' perception of value lies between the different price options. Model four was optimized to meet the survey result and therefore the value-based pricing approach.
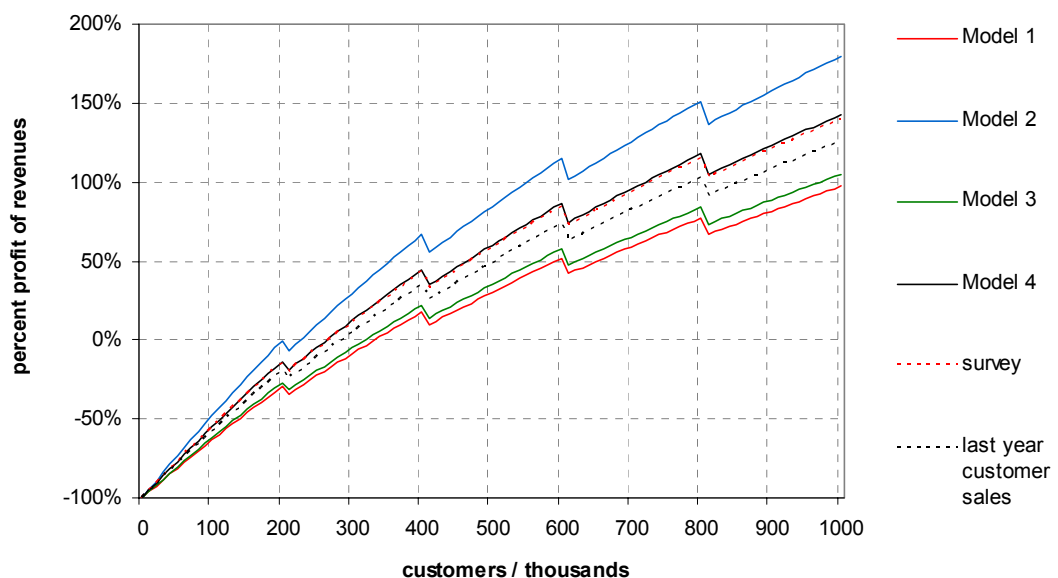
model	1	2	3	4	survey
per start	0.99	1.49	1.99	1.49	1.47
per hour	0.99	0.99	0.49	0.99	0.94
per day	2.99	2.99	2.99	2.99	2.95
per month	9.99	14.99	9.99	12.50	12.41

Fig. 5.6: Profit as function of different rental fee models

5.4.3.3 Competition

Even if EVERPLAYs' approach of value-based pricing seems to be a successful solution it is necessary to compare the fee model with competitors' prices. The values from competition were researched on the Internet and summarized in table 5.8. Number one to four are the four world

wide market leaders in online gaming and T-Online is a market leader in Germany. The average fee can be calculated to 10.81€ per month. It is interesting to see, that NC, Sony and EA require that the game is first bought and then an additional rental fee is necessary to play the game.

Table 5.8: Rental fees for online games of different competitors

		Sales Price	Fee per start	Fee per month	Fee per other units
1	NC Soft www.ncsoft.net	$39.99-$49.99[9]	-	$14.99	
2	Sony Online Entertainment www.sonyonline.com	$4.99-$39.99	$12.95	$14.99 – $21.99	
3	EA (Electronic Arts) www.ea.com	$29.95	-	$9.99	
4	Mythic Entertainment www.mythicentertainment.com	-	-	$9.99 - $14.95	$40.35 / 3 months $71.70 / 6 months $137.40 / 1 year
	T-Online www2.onspiele.t-online.de	-		9.99 €	7,00 € / 7 days 2.90 € / 72 hours
	Average		**10.80 €**	**10.81 €**	

The main competitors do not offer price per hour or day. Only T-Online has a 72 hour (3 days) option. EVERPLAY expects that especially the hourly rate will attract many players who will use the offer to play e.g. during lunch break or "just one hour" between two meetings.

5.4.4   EVERPLAY's Price Model

EVERPLAY decided to go with rental model number four as shown in figure 5.3 because it is

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[9] Includes one month free playing

- Value based and meets customers expectations

- Is cost efficient and drives profit at a low break-even point

- Is competitive to most of EVERPLAY's competitors

We are convinced that this price meets the financial targets and supports the marketing strategy to achieve the corporate objectives.

6 IMPLEMENTATION AND CONTROLS

Before any customers or future partners will be addressed, whether they are publishers of games that we want to ask to use our platform as another distribution channel or potential users of the game, a stable operating prototype of the game renting portal has to be developed. This prototype will be presented to a group of beta testers which is handpicked by our marketing department. A new version of the prototype will consider feedback of beta testers.

As the acceptance in the market will be closely linked to the quality and the range of games first negotiations with other game publishers will be made. The feasibility of the approach will be proven by presenting the revised prototype. As a result about 30% of the games available today should be offered when the portal is launched.

Ongoing negotiations will aim on permanent increase of the range of games that will be offered.

The milestones plan is shown in table 6.1 and has to be reviewed in monthly management meetings at EVERPLAY.

Table 6.1: Milestones

Milestone	Start Date	End Date	Budget In k €	Responsible
Development of a prototype	already started	28.03.05	2.000	Mgr. Product Development
Presentation of the prototype containing games of EVERPLAY to a selected group of players	01.04. 05	31.04.05		Mgr. Marketing
Implementation of adjustments that result from beta test, development of a version that is presentable to other publishers	15.04. 05	30.06.05	200	Mgr. Product Development
Negotiations and contracting with publishers of games	01.05. 05	3010.05		Mgr. Purchasing
Decision whether the program will be continued as planned (No Go or trimmed version)	30.10.05	30.10.05		VP
Implementation of production environment	01.11.05	30.11.05	100	Mgr. Operations
Second negotiation and contracting round with contractors that have not been convinced yet.	01.11.05	01.12.05		Mgr. Sales
Marketing Campaign in Internet, Game Magazines, …	01.11.05	01.03.06	3.000	Mgr. Marketing
Launch of Portal	01.11.05	01.11.05	-	Mgr. Operations
Ongoing addressing of publishers that are not using our portal		Open	-	Mgr. Sales
150.000 Customers (coverage of fix costs)	31.12.06	31.12.06		Mgr. Sales
300.000 Customers (slightly above break even)	31.12.07	31.12.07		Mgr. Sales
600.000 Customers	31.12.08	31.12.08		Mgr. Sales
950.000 Customers	31.12.09	31.12.09		Mgr. Sales

7 RESULT

In designing a marketing strategy for EVERPLAY's web-based renting of computer games it became clear that the results from our survey and the current market situation can be analysed and transformed into an attractive online service which includes many features giving customers added value.

At the same time, we found out that it is feasible to start a marketing campaign which is tailored to the habits and needs of potential customers so that the message will come across to the customer and –at the same time- considers the impact competition can have. Special emphasis is given to a broad range of supplemental services offered.

In the financials and pricing section of this assignment we saw that - even if we calculate very carefully- the business will be profitable under the pricing model chosen and that the number of customers will increase over the years.

8   CONCLUSION AND OUTLOOK

We conclude after much diligent planning which was put into this marketing strategy, that there is not only a vague hope that this new service will give additional value to its customers and generate rising profits for EVERPLAY but that this is highly probable under the circumstances given.

As there is constant change in the gaming industry, EVERPLAY will constantly adapt to changing circumstances and re-assess its planning and strategy accordingly, so that –again and again- victory can be predicted from the way planning is done.

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APPENDIX

A.1: Profit-Loss Accounts

Below the estimated profit-loss accounts are listed for the next five years.

purchasing games	Year					
	0	1	2	3	4	5
Revenues	20,000	18,680	17,360	16,400	14,720	13,400
Percent	100%	93%	87%	82%	74%	67%
Costs of revenues	(4,000)	(3,868)	(3,736)	(3,640)	(3,472)	(3,340)
Sales, general & administrative costs	(1,000)	(934)	(868)	(820)	(736)	(670)
Research & develpopment	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Marketing	(3,000)	(2,802)	(2,604)	(2,460)	(2,208)	(2,010)
EBIT	7,000	6,076	5,152	4,480	3,304	2,380
Percent	100%	87%	74%	64%	47%	34%
Percent EBIT of Sales	35%	33%	30%	27%	22%	18%
Customer T	586	547	509	481	431	393
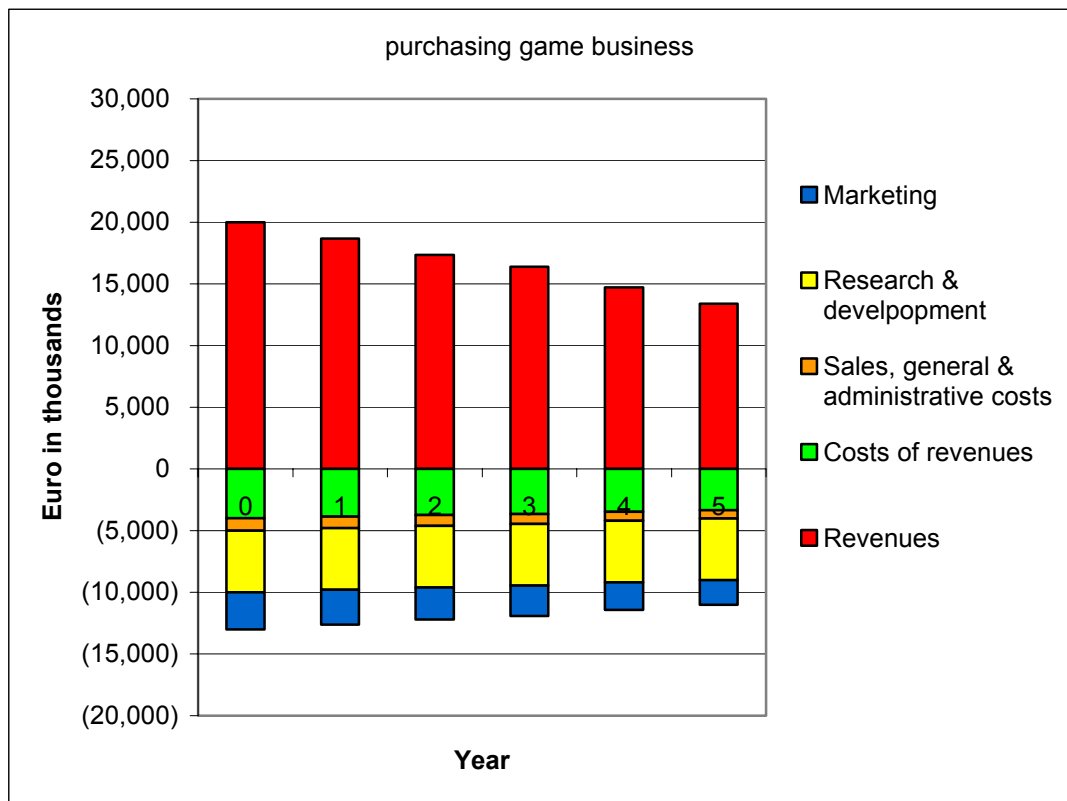
online games		Year				
	0	1	2	3	4	5
Revenues	0	5,920	11,840	17,761	23,681	29,601
Percent	0%	100%	200%	300%	400%	500%
Costs of revenues	0	(6,092)	(6,684)	(8,776)	(10,868)	(12,960)
Sales, general & administrative costs	0	(296)	(592)	(888)	(1,184)	(1,480)
Research & develpopment	0	0	0	0	0	0
Marketing	0	(5,592)	(1,184)	(1,776)	(2,368)	(2,960)
EBIT	0	(6,060)	3,380	6,321	9,261	12,201
Percent EBIT	0%	0%	100%	187%	274%	361%
Percent EBIT of Sales		-102%	29%	36%	39%	41%
Customer T	0	113	226	338	451	564
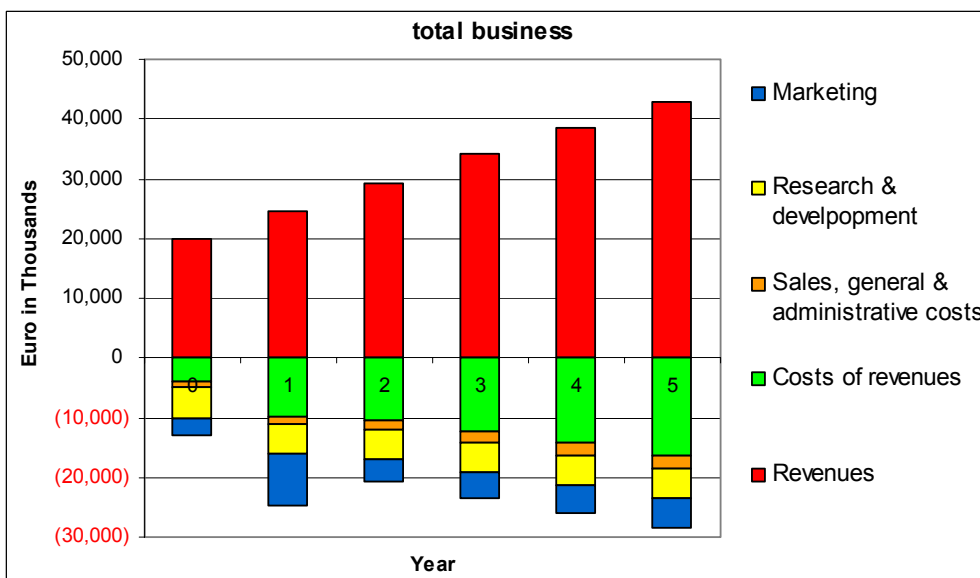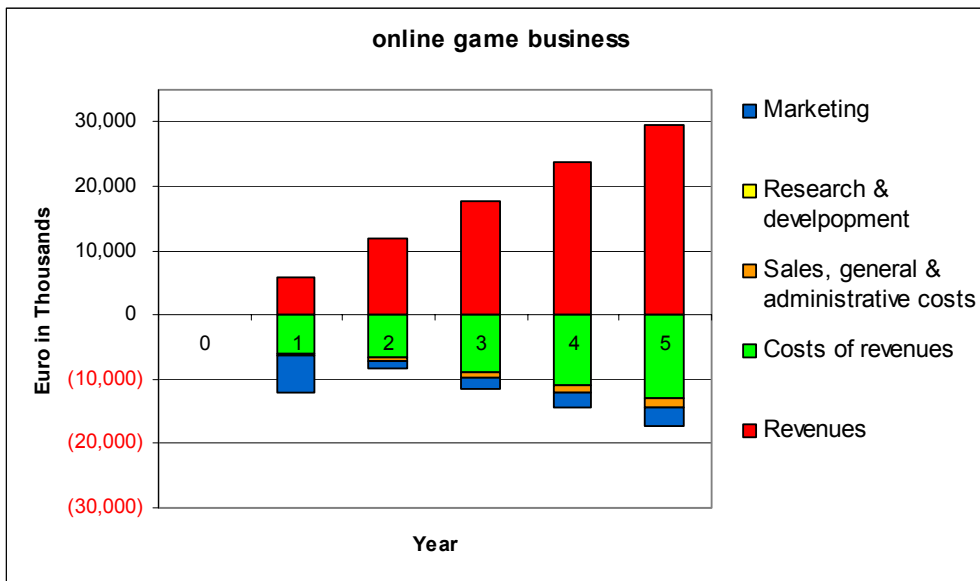
A.2: Competitor Analysis: PC Entertainment (Action/Adventure) Software in Germany 2003 and Company Overview

(Sources: JoWooD, 2004, p. 18; annual reports and web pages of the different companies)

#	Name	Market share [%]	Sold games [-]	Average price [Euro]	Sales[10] [Euro]	Products	Strategy	HQ Located in
1	EA (Electronic Arts) www.ea.com	19.43 world wide: 14.00	2.569.775	35.08	90.142.801	EA develops, markets, publishes and distributes interactive software games on the following platforms: PlayStations, PC, hand-held, **online over the Internet**; high quality software honoured with more than 700 awards.	Mission: Be the greatest entertainment company … ever! Strategic objectives: Be the #1 company on current generation platforms; Be the #1 company for next generation platforms and markets; Be the #1 provider of interactive entertainment online; Be the #1 people company for high performance teams and individuals.	U.S.
2	Vivendi www.vugames.com	10.96 world wide: 5.5	1.449.287	16.95	24.567.275	Vivendi Universal Games provides interactive entertainment. The company develops, publishes and distributes interactive products across all major platforms including PCs, video game consoles and **the Internet.** Products: Warcraft, Half-Life, The Lord of the Rings	In the media sector, Vivendi Universal is carrying out internal management and other restructuring changes designed to strengthen the competitive position and profitability of each of its business units.	France
3	UBI-Soft www.ubi.com	8.31	1.098.562	24.58	27.006.147	International developer, publisher and distributor of interactive entertainment products.	Actively pursing a long-term strategy that favors in-house development and encourages creativity. UBI-Soft's sees its prime strategy in the creativity, energy and ambition of its production teams. This is why the group decided to emphasize in-house development. This strategy has proved too be a winning decision and has led to public and critical acclaim, widespread industry recognition, as well as numerous awards for the creativity and quality of its products.	France
4	Take-Two www.take2games.com	6.34	838.725	30.41	25.508.095	Take-2's diverse business model is centred around interactive entertainment publishing of premium and mid-priced products. Take-Two publishes and develops products through its wholly owned publishing labels e.g. "Rockstar Games" and distributes products	"Creating outstanding products that set – and then exceed – industry standards."	U.S.

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[10] Sales in the entertainment games business

						in North America through its "Jack of All Games" subsidiary.	
5	JoWooD www.jowood.com	4.22	558.397	27.13	15.151.120	High quality (multiple awards) electronic games for hardcore as well the mass market which are played world wide. Core business: developing and publishing.	"The aim is to become one of the most important publishers of electronic games in Europe in mid-term. Strategic main areas to achieve the goal are: (1) Increasing the familiarity of JoWooD; (2) establishing product lines and brands and (3) the aimed use of well known brands under license."	Germany
6	Microsoft www.microsoft.com	3.68	486.137	38.18	18.560.544	Products of the "Home and Entertainment" business unit are: Microsoft Xbox, consumer hardware and software, **online games**, and the TV platform.	Mission: "Enabling people and businesses to realize their full potential." Vision; "Likewise, we believe there is significant opportunity in delivering compelling entertainment experiences in key scenarios such as music, TV, movies, photos and games. Our vision centers on creating new and exciting ways for people to have fun with friends and family with Media Center PCs, devices like Xbox and Portable Media Center, and many of the other applications and services that Microsoft and our partners deliver."	U.S.
7	Atari (100% Infogrames) http://corporate.infogrames.com	3.26	430.912	26.63	11.473.418	Producer, publisher and distributor of interactive games for consoles (Microsoft, Nintendo and Sony), and PC CD-ROMS. Three segments: action games, family entertainment and car racing.	Producing quality interactive entertainment software for all major consumer game platforms and all market segments, while adhering to two ethical guidelines: respect for human dignity, and the rejection of gratuitous violence.	Germany
8	Pointsoft www.backtogames.de	3.12	412.961	9.75	4.028.023	Distributor of entertainment games of different brands.	N/I	Germany
9	ak tronic www.aktronic.de	2.90	382.902	10.60	4.059.460	B2B distributor of entertainment computer games. Exclusive distributor of "Pepper Games" and "Phonomedia Publishing GmbH".	N/I	Germany
10	Infogrames (Holding) www.infogrames.com	2.86	378.488	34.37	13.008.614	Producer, publisher and distributor of interactive games for consoles (Microsoft, Nintendo and Sony), and PC CD-ROMS. Three segments: action games, family entertainment and car racing.	Producing quality interactive entertainment software for all major consumer game platforms and all market segments, while adhering to two ethical guidelines: respect for human dignity, and the rejection of gratuitous violence.	France