Game consoles: the business is in the software
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The game console price battle is basically due to two reasons. Firstly, the video-console is the complementary hardware to what the client really values: games. In these situations companies tend to sacrifice the margins of the lasting good in exchange for safeguarding revenue streams from consumables, in this case, videogames. However, in consoles, there is a second reason that boosts a still harder price competition: Microsoft’s interest in finding a place in a market where it has had very little presence up until today.

It’s necessary to understand Microsoft’s movement towards the games sector in the context of computing. Traditionally, hardware makers (such as Compaq, HP or IBM) have lived the commoditization of its products thanks to the fact that the differential value of the PC (ready to use) is not perceived for its hardware but for the installed software, which in practice means Windows and Office. Therefore, while hardware vendors’ margins are negligible, Microsoft appropriates the generated value in the sector through its software, which enjoys wide margins.

On the other hand, at present video-consoles have stopped being standalone devices to become online gaming systems. For that reason, they may be considered a new way of connecting to the Internet, which constitutes a serious threat to the dominant player in the computer arena.

With this outlook, Microsoft’s resolute entrance into this already competitive market doesn’t surprise anyone. Although Sony was the first to make a move, it was Microsoft’s Xbox price cut that has toughened the price war in the games marketplace. For industry vendors, it is an attack strategy planned to propel software sales. For Redmond’s giant, the operation has got clear connotations of defence. Microsoft is trying to occupy an emerging market –that of the videogames- in order to avoid being diluted in a business –software linked to PCs— that could weaken. This price battle is just another one in the great war of Internet revenue streams. The one who controls the access platform will rule over the operating system and the software, and with them, the Net users.