WEEKLY INSIGHT

Microsoft launches Xbox, a game console with Internet capability
The entry of Microsoft into a sector dominated by Sony and Nintendo has produced great expectations. Thousands of US customers anxiously awaited the Xbox launch, so many of the 300,000 consoles distributed this week were sold to customers who had pre-reserved their units. Microsoft, throwing itself into the hardware market for the first time, expects to sell 1.5 million Xboxes before the year’s end. To reach this target, the group has launched the product at a competitive price ($299) and has committed 500 million dollars to its advertising campaign. However, the Xbox is in direct rivalry with Sony’s PlayStation 2 and Nintendo’s GameCube, which debuted in North America three days after the Xbox launch. [Full Story]

Highlights
- To differ from other consoles, Xbox includes 4 USB ports, a DVD reader, an 8 GB hard disk, and an Ethernet port for broadband connections (DSL or wire).
- Microsoft will subsidize part of the console price but it hopes to recover its investment through the sale of games. Experts think that the group will lose a billion dollars by 2004.
- According to IDC, the video game market will be worth $21.1 billion in 2003.
- Gartner Group thinks that Xbox is the beginning of a revolution which brings Internet to households. Online game revenues will grow from $138 million in 2002 to $2,300 million in 2005.

Press Review

From CNET
"Why does Microsoft want to be in gaming? Because as the PC market slowdown continues, it wants desperately to tap new consumers. And, the market for console games is larger and grows faster than the market for PC games, where Microsoft has had some success". [Full Story]

From New York Times
"Console makers generally sell their machines at a loss, relying on game sales to make up the difference. Microsoft, for example, has priced the Xbox at about $300 and expects to lose $125 on each one sold. Nintendo and Sony rank among the top five video game publishers, and with no experience in console games Microsoft will need to use its talent at playing catch up. If it fails, the Xbox could flounder like the Dreamcast, which had great games but never sold well enough to cover Sega’s hardware costs". [Full Story] (A free subscription is required)

From Financial Times
"Microsoft’s Xbox could change the economics of the Dollars 20bn games-console business, warned Kunitake Ando, Sony’s president and chief operating officer. (...) Traditionally, consoles have sold for five-
year product life cycles, allowing the manufacturers time to recoup initial losses on hardware and generate substantial profits through software sales. However, Mr Ando said the Xbox, due to be launched in the US tomorrow, could radically shorten that life cycle.

From The Guardian
"It is not all about technical superiority. The Nintendo 64 was in some respects further advanced than the PlayStation [by Sony] but failed to catch on in any numbers. Sega’s Dreamcast was even more of a disaster. The console, which gave players access to the internet and the ability to play people online on the other side of the world, has ended up in the bargain buckets at Woolies. When you are aiming at teenagers the key is to have the marketing nous and spend to make the product cool and to produce the right range of games.”

From Fortune
"Microsoft is synonymous with office software and operating systems--basically, uncool business stuff. Xbox wants to be the opposite. Xbox wants you to think X-Files for games that involve mystery, suspense, and the bizarre. It wants you to think X Games and the adrenaline rush of radical, alternative sports performed by athletes with multiple piercings.”

The Internet crisis put an end to millionaire salaries
By Ana García Fonseca, e-business Center research assistant.

The difficult situation that Internet companies are going through has meant that the majority have had to stabilize employee salaries with the intention of containing their costs.

Compensación Total en las empresas de Internet
Source: Towers Perrin
Date: November 13, 2001
Abstract: In spite of offering higher salaries than the market's average (between 3 and 7 million pesetas for technicians and professionals, and between 10 and 18 for managers) Internet companies have also a higher staff movement (11.6 %) compared to other sectors (4-6 %). According to the study, Internet companies use long-term incentives to maintain their staff: 60% of them use stock options; more than 50 % offer pension plans; and more than 90 %, life and accident insurance.

Strategic implications of the telecom collapse: Unseen profit opportunities
Source: The Shosteck Group
Date: November 13, 2001
Abstract: The global telecommunications industry is wallowing in despair and sales will begin to climb in
2002, according to The Shosteck Group experts, who think that the long-term effects of September 11 will be to add traffic to both landline and mobile networks. The study points out that despite the excess infrastructure spending of the past two years, the increase in telecommunications subscribers continues, so investments will recover step by step. The telecommunication sector will change and there will be more opportunities for independent companies. However, venture capital investment models will be more strict: longer time frames for return on investment and "milestone based funding". Moreover, big companies will focus R&D toward projects that have high and short term commercial relevance.

[Full Story]

**Online retailing in Latin America 3.0: Breaking constraints**

**Source:** Boston Consulting Group / VISA  
**Date:** November 13, 2001  
**Abstract:** In spite of the terrible problems of some countries, online retailing in Latin America continues to develop. It is expected to reach $1.28 billion by the end of the year—more than double the $540 million in revenue achieved in 2000. Brazil continues to lead growth, followed by Mexico, Argentina and Chile. In contrast to North American online retail trends, the online grocery category is comparatively strong in Latin America, especially in Argentina and Brazil, where many consumers are already accustomed to having groceries delivered to their homes. [Full Story]

**User perception to SMS advertising and SMS services**

**Source:** MyAlert / The ARC Group  
**Date:** October 2001  
**Abstract:** According to this study of 5,000 European mobile services subscribers, 60% of them would like receive SMS advertising focused on their profile, 40% think that the advertising which they receive is interesting, 20% look for more information after receiving an advertisement and 77% would receive advertising to reduce their call expenses. The study shows that SMS advertising has a great impact because users are waiting for information, but it must be sent only when the user accepts it (opt-in). [Full Story]

**B2B Benchmark: The state of electronic exchanges**

**Source:** Booz Allen Hamilton / Strategy+Business  
**Date:** November, 2001  
**Abstract:** Analyzing more than 1,800 world e-marketplaces, Booz Allen Hamilton experts classify them into three groups: independent, industry consortia and private networks. Independent or "pure play" e-Marketplaces, currently representing an overwhelming proportion of the population, risk extinction. Founded in the heady days of Internet mania, most face huge ongoing technology investments, competition-driven price erosion, and limited liquidity resulting from their failure to create a clear value proposition that appeals to either buyers or sellers. The e-Marketplaces formed by consortia, a small proportion of the total today, appear to have the strongest base, but they risk being hobbled by conflicting agendas among their founding companies. If they can survive the machinations of their founders they could fundamentally transform the structures of select industries. Finally, private networks sprouting from the in-house systems of many major companies represent the newest phenomenon - and a threat to both independents and consortium-based e-Marketplaces. The study concludes that the new breed of slower-growing collaborative e-Marketplaces may prove more resilient than the rapidly propagating varieties of procurement-driven e-Marketplaces. [Full Story]

**COMPANIES**
RepsolYPF.com turns over 600 billion pesetas
Repsol YPF's investment in the Internet (more than 3,400 million pesetas in two years) has been fruitful. Repsol YPF's Internet divisions (B2B and B2C) have generated 600,000 million pesetas and have realised great savings for the company. From La Gaceta de los Negocios. [Full Story]

DoubleClick sells its European media unit
American online advertising company announced it was selling its loss-making European media sales business to German rival AdLink Internet Media. AdLink will pay $26.9 million (€30.5 million) which will help DoubleClick to reduce its losses. From Cnet. [Full Story]

GM to fold e-business unit back into company
The world's largest automaker has reduced the role of e-business ventures as part of a move to reverse big losses this year, according to the Wall Street Journal. Mark Hogan, head of the unit known as e-GM, said e-business is still a priority for the company, but that it has to focus on the core auto business. From Reuters. [Full Story]

Yahoo seeks new business model
Yahoo! has announced layoffs of some 400 personnel, or 13% of its workforce, and pared its 44 business units to six. They are: listings, commerce, communications, media, access and enterprise. Thus Yahoo!'s is moving the Internet portal to a more diversified business model that will decrease its overwhelming reliance on advertising revenue. From AdAge. [Full Story]

WE RECOMMEND

A new perspective on the Internet
Business Week analyses Internet booms and busts in the last two years. The articles in this dossier review the role of infrastructure providers, venture capital and companies from different economic areas. The magazine highlights that the Internet focused too much on the consumer, not on the business. Moreover, it emphasizes the success of click and mortar companies, without forgetting successful pure players. From Business Week. [Full Story]

Building trust online
Consumers are very suspicious of their personal data. That is one of the reasons why only 4% of web sites visitors subscribe to online services. McKinsey propose six elements that build a "trust pyramid". There are three core elements at the base of the pyramid: state-of-the-art security, merchant legitimacy, and robust order fulfillment. Over these elements we can find consumer control and tone and ambience. At the highest level, there is consumer collaboration. Taken together, the six elements of trust create the confidence needed to turn browsers and ordinary customers into site loyalists. From McKinsey Quarterly. [Full Story] (A free subscription is required)

Outplacement, better than sacking
The current slowdown induces companies to adopt restructuration plans. But, before sacking its staff, there is a better option for the image of the company: contracting outplacement consulting services. The outplacement market will be worth some 5 billion pesetas in 2001, and will grow 25% in the year 2002. From La Vanguardia. [Full Story]
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