

# Xbox 360: Microsoft Gets its Foot in the Door of the Digital Home

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It's no secret that Microsoft loses money on its game consoles. But that, apparently, is a price it is willing to pay to strengthen its presence in the entertainment market. Fees collected from publishers who make games and associated software for the new console will offset the losses. More important is Microsoft's ambition to get its Xbox 360 firmly ensconced in the living room of the digital home.

How else are we to understand why Microsoft, having invested already more than 12 billion dollars in the new Xbox 360, is still willing to lose up to 150 dollars on every unit it sells? This is even more surprising if we consider that the original Xbox, launched in 2001, sold barely 22 million units. Sony, whose PlayStation 2 goes back further, has sold 96 million PS2 consoles to date.

The launch of the first Xbox gave Microsoft a foothold in the game console market, where it holds second place, ahead of Nintendo. That was no mean feat, but obviously, a 17% market share was not going to be enough to satisfy a company the likes of Microsoft. In fact, the first Xbox was a disappointment, both to gamers and to Bill Gates.

The Xbox 360 has arrived just at the right time to take the market by storm. First, it will have the benefit of the Christmas season and almost one year's head start over its rivals, Sony's PlayStation 3 and the Nintendo Revolution. Secondly, the Redmond giant has taken great pains to present consumers with a much more attractively designed product, almost worthy of Apple. It is hoping that this will help attract a young (or not so young) audience very different from the traditional Microsoft customer: the techie who bases all his purchase decisions on the product's technical specifications and who regards design and usability as secondary.

In fact, the launch of the new console should be seen as part of a much larger project. Microsoft has adopted a 360 degree strategy, aiming to persuade consumers not only to buy its console, but also to hand over the "key" to their homes. In effect, it wants to extend its domain from its customers' offices to their living rooms. To do that, a number of requirements will have to be met. Although getting the product to market first is important,



## Highlights

**1** According to data from Japanese analysts KBC Securities, the game console market, which turns over some 21 billion euros per year worldwide, is divided among Sony's PlayStation 2 (68%), Microsoft's Xbox (17%) and the Nintendo Game Cube (13%).

**2** In Europe, the Xbox is being marketed in two versions, a simpler "core" system (299 euros) and a premium edition (349 euros) which, among other gadgets, boasts a 20 GB hard drive.

**3** In Japan, in one week in November, an average of 19,000 Sony PlayStations were sold compared to 150 Xboxes. And yet, a survey reveals that 30% of Japanese consumers plan to buy an Xbox 360.

**4** In this first launch phase, 50,000 units of the new Xbox 360 have reached Spanish stores. Ninety percent of them were already sold via a pre-ordering system.

so is getting the quality right. It is crucial that the console lives up to the hype and that there are no glitches, as is being reported in many gamer forums. Microsoft itself has acknowledged that there have been isolated problems. Most important of all, however, is the availability of attractive games. And in that respect, although the selection of titles will soon increase, launching the new Xbox with just 18 games to choose from would seem to be cutting it fine.

Apart from that, the Xbox 360 demonstrates Microsoft's unequivocal support for online gaming, as the new console blurs the boundaries between console gamers and PC gamers. The 360 has online functionality: not only can players connect to the Xbox Live site, where they can buy games, download demos or interact with other players; they can also receive messages, chat with other users, even listen to music or view DVDs with outstanding audio and video quality. All in all, the Xbox 360 perfectly fits the description of an essential device in the future digital home.

All the same, it remains to be seen how the market reacts, and what strategy is adopted by market leader Sony. Microsoft's Japanese rival is aiming to capitalize on the Christmas season with its PlayStation Portable (PSP), exploiting the fascination with mobile devices and the appeal of popular game titles such as Harry Potter or Sims 2. Anyway, Sony does not want to let the Xbox launch distract it from its own agenda, which includes presenting the new PS3 toward the end of next year.

On top of all this comes the 64,000 dollar question: Are consumers really ready for the digital home? Are they ready to make the most of the enhanced functionality of next-generation game consoles? If they are, then the PS3 may find itself a latecomer, while Microsoft will have a unique opportunity to narrow the distance in the games market and build a strong position for itself in the digital home, with its game console as a key component, integrated with our home PCs. Yet perhaps the digital home exists only in the minds of pioneers, and what really counts is gameplay.

In that case, the success of the Xbox 360 will depend basically on how ready consumers are for next-generation consoles. If they are, Bill Gates' gamble will have paid off and more than justify the losses of 153 dollars per console. After all, there is a much bigger market waiting to be conquered...