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Prospects of a Challenger

- A case study of Microsoft and the Console Industry-

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Abstract

Title: Prospects of a Challenger - A case study of Microsoft and the Console Industry

Subject: Strategic Management

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Key Words: Microsoft, Video Game Industry, Challengers, Business Strategy, Installed base

Purpose: The purpose of this thesis is to give a contribution to the studies of what strategies those are of importance for challengers in consumer technological markets aiming for the market leader position. To be able to investigate this phenomenon we have chosen to study Microsoft's second position in the video game console industry. In addition, we want to illuminate Microsoft's competitive advantages, how Microsoft can take advantage from Sony's setbacks and what strategies those are of importance for Microsoft in the battle of becoming the market leader.

Method: A case study of Microsoft has been conducted. Several of interviews with the board of directors of Microsoft and also a business analyst and a retailer have built the base of the empirical findings together with secondary data which has been gathered mainly from news articles, business magazines and official websites. The theories have been linked together by constructing a theoretical framework that been as guidance in the collection of empirical data and also in the analysis procedure.

Conclusions: For challenger companies in consumer technological industries aiming for the top leader position there are several strategies to be developed in order to become successful. First of all, it is important to actually recognize a window of opportunity when it arises and the challenger must act quickly in order to attract the consumers. Furthermore, it is crucial to identify potential unsatisfied segments within the competitors segment if the market leader would overshoot market demand or embark on a strategy profile that is not in agreement with the market. When targeting the same market segment as the market leader using similar strategy it is important to find a unique selling point in. Furthermore, in consumer technology industries, adaptability and flexibility is crucial. Also, offering the consumers several price and technology levels is a way to attract as many as possible. Finally, promoting new and innovative ways to use a product is a superior strategy in order to achieve a dominant position.

Definitions

Blu ray	One of the competing systems in order to become the new standard format in the next generation optical standard, supported by Sony.
Buyers	Gamers, consumers
Console	The gaming machine, i.e. the box.
Hard Core Gamers	Price insensitive early adopters, mainly men in their 20s and 30s that spends a lot of time playing games. ¹
HD-DVD	High Definition DVD. The main competitor to the Blu-ray format in the struggle to become the next generation optical standard, supported by Microsoft.
Market Share	Global Market share, i.e. the US, Europe and Japan
PS	Playstation 1, Sony
PS2	Playstation 2, Sony
PS3	Playstation 3, Sony
Xbox	The first console, launched by Microsoft in 2001
Xbox 360	The second console, launched by Microsoft in 2005

¹ This is the industry definition of a hard core gamer.

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1. Introduction

In this section we will introduce the reader to the subject and give a background as well as an explanation why it is of interest and value to study the chosen case company and its strategies. This is followed by the purpose of the thesis.

1.1 Background

In recent time, the consumer technological industry is getting more and more intense and firms are facing tougher conditions due to stiff competition for consumers and market shares. The environment has now become high paced, dynamic, and volatile. Firms of today's technological industries are competing in a business environment that is reaching an even higher scale of technological improvements where current technology is facing a risk of being obsolete overnight. Thus, innovation has become a key issue in the battle for the consumers. Consequently, there is no room for complacency; companies of today's markets have to be consistently one step ahead of their competitors and be more responsive to constantly changing market demands and preferences. Being as good as your competitors will not do, it only proves that you are mediocre, thus, one has to create value for the consumers to stand a chance in the competition².

At the same time, the consumers have become more educated and well-informed with higher demands and expectations as a consequence. It is therefore essential for product developers to consider consumer value and extended services such as network capabilities and communities³. Subsequently, firms in the technological industry are facing harder conditions to create value and to gain competitive advantages.

Consequently, consumer technological companies have to widen their competence and look beyond their market borders and current product range. For example, Microsoft is undertaking a transition from PC software to adjacent technological markets such as the portable MP3-player industry and the entrance to the video-game console market in 2001 when they launched their first console Xbox. Similarly, Sony has a history of a broad and diversified product range that include technological gadgets like their Walkman, CDs and DVD players and generations of their Playstation game console.

In the early 1970s the video-game industry immersed and has since then evolved into a multi-billion dollar industry.⁴ The console industry has always been an oligopoly market that has constantly held few participants with typically one leader dominating the market. Atari was the first company to produce a game console and was the initial leader since they actually created the whole market. Their position as a leader was to be replaced by Nintendo in the early 80s. During

² Prahalad & Ramaswamy, "The New Frontier of experience innovation", 2003

³ Zott C et al "Strategies for Value Creation in E-commerce: Best Practice in Europe" 2005

⁴ Erlanderesson A "Striden gäller 250 spelmiljarder" 2006

the whole 80s Nintendo enjoyed more or less a monopoly but has lately seen its share of the market place obliterated by the highly innovative powerhouses of Sony and Microsoft.⁵ Nowadays, the market is split between the three actors, Microsoft, Sony and Nintendo. The companies have divided the market segments where Sony has the widest target group; Nintendo is aimed at younger children and Microsoft has been embraced by the hard-core gamers⁶. Since there are only a few companies in an oligopoly market they are well aware of each others actions and so far there has been a tacit agreement between the three giants to keep within certain limits⁷.

With the release of the seventh generation video consoles Microsoft and its rivals Sony and Nintendo are racing to get their new consoles into the hands of the gamers⁸. Articles in business magazines have started to report about a war taking place, an intensified battle where the competition for consumers and market shares is getting more intense then ever before due to the contemporary releases of the new consoles⁹.

*“Sony, Microsoft and Nintendo have unveiled their latest weapons in their battle to win over the world’s gamers. With a massive market at stake, the companies will plough millions into their marketing”.*¹⁰

The seventh generation video consoles are offering technology performance never seen before in the industry. Initially, the video game consoles were pure gaming machines constructed for playing games only. In recent years the consoles have gone through a transition from gaming machines to multimedia entertainment platforms providing a wide array of different entertainment streams to be utilised via the one system.¹¹

In six years time, the actors have been competing in a relatively harmonious environment with a mutual agreement how to divide the market with each actor having their own piece. However, it has been a treacherous peace, where Microsoft has started to embark on a new strategy aiming for the mass consumer market. The static balance in the industry has started to be disturbed.

“Let the console war begin”¹²”

⁵ M. Schilling “*Technological Leapfrogging: Lessons from the U.S. Video game console industry*” 2003

⁶ The Economist “*Gaming’s next level; Rational Consumer*” 2005

⁷ Erlanderesson A “*Striden gäller 250 spelmiljarder*” 2006

⁸ Broache A “*Microsoft sets Xbox 360 Pricing*” 2005

⁹ Erlanderesson A “*Striden gäller 250 spelmiljarder*”, Attic M, “*Apple to take on Wii, PS3?*”

Eriksson P, “*Xbox 360 får konkurrens – låt konsolspelet börja*”, Ganapati P “*Sony Strikes Back*”

¹⁰ Marketing Week “*Games Consoles: Real fight for virtual victory*” 2005

¹¹ Interview Öjje Holt, Microsoft, 2006-11-20

¹² Eriksson P, “*Xbox 360 får konkurrens – låt konsolspelet börja*” 2006

1.2 Problem Discussion

While most firms have an aspiration of becoming a market leader, it is perhaps even more desirable for the second greatest actor in an oligopoly market to try to replace the current market leader. Thus, the battle over the top position in a market tends to take place between the number one and number two actor. This is a quite common phenomenon in different oligopoly industries like the soda war between the market leader Coca-Cola and the challenger Pepsi. Also, the mobile-phone war between Ericsson and Nokia constitutes a good example of when a market leader has been challenged¹³.

Microsoft is today the second greatest actor in the video game console market aiming for the market leader position. Although having a relatively late entrance to the industry, Microsoft has come in as a new player to the market bringing new technological improvements and ideas to the table that have started to threaten Sony's position as the unchallenged leader. Microsoft state that by combining its new machine with its online gaming initiative, it has every hope of taking over the top spot in the console gaming¹⁴. The seventh generation console war has just begun and the battle is mainly taking place between the market leader Sony and the challenger Microsoft.

“Two giants of the console world are shaping up for a ferocious battle that would be more suited to one of their games. On one side is Sony, the undisputed champion; on the other is Microsoft, the spirited challenger”.¹⁵

Today, Microsoft is in a favourably position and we believe that Microsoft's chances to close the gap are greater than ever. Microsoft's one year head start on its rivals and Sony's delay and production problems together with the highest price on the market is an opening for Microsoft to increase their market share. Furthermore, if one looks at the history in the game console industry first Atari and then Nintendo have been replaced as market leaders.

*“If they [Microsoft] succeed, it wouldn't be the first major turnabout in the history of the gaming business. Sony's PlayStation franchise stole the gaming crown from Nintendo. Before that, Nintendo's Nintendo Entertainment System revived a market that Atari had literally created”*¹⁶.

Therefore, there is reason to believe that there is a possibility that Microsoft can change their market position and alter the industry dynamics. This upcoming warfare situation has awakened our interest to study how the second competitor should act to become the market leader. In this ongoing battle we believe it is truly interesting to investigate the key success factors and strategies necessary for Microsoft to be able to catch up the lead. We also find it valuable to study the video game console industry war since it can give an understanding for similar competition in other industries. The problem discussion has led us to pose the following question:

¹³ Ahrens, Thomas, Växa med framgång – 2an vinner, 2003

¹⁴ Interview Pierre Carlson, Microsoft 2006-11-25

¹⁵ Marketing Week “Games Consoles: Real fight for virtual victory “ 2005

¹⁶ Caulfield B ”PS3- Do or die for Sony” 2006

What are the important strategies for a challenger in consumer technological markets to attain top leader position?

This question is quite extensive and calls for lot of research and also important strategies can vary widely in different industries. Though, we want to embark on filling this knowledge gap and we have therefore conducted an in-depth case study of the video game console industry where Microsoft illustrates a challenger aiming for the market leader position. Since the war has just begun, there is still room for actions and we want to, from their situation, investigate what they can and should do given the industry circumstances. To make the overall question easier to handle and more concrete applicable for our chosen industry, it has been broken down into three sub questions linked to Microsoft's situation:

- *What are Microsoft's competitive advantages?*
- *How can Microsoft take advantage from Sony's setbacks?*
- *How should Microsoft act to become the market leader?*

1.3 Purpose

The purpose of this thesis is to contribute to the studies of what strategies those are of importance for challengers in consumer technological markets aiming for the market leader position. To be able to make this overall question easier to handle, we have chosen to study Microsoft's second position in the video game console industry. In addition, we want to illuminate Microsoft's competitive advantages, how Microsoft can take advantage from Sony's setbacks and what strategies those are of importance for Microsoft in the battle of becoming the market leader.

1.4 Delimitations

In this thesis the focus is on actions and strategise since our purpose is to investigate important strategies for a challenger. Thus, existing conditions and actions of the case company and the competitors is important. Therefore pure technology details will not be described rather functions of the products in general and what features that is used in the competition.

Also, when investigating the console market one easily touches upon other industries as well since both Microsoft and Sony provides other products as well and the console is compatible with other consumer technological products. The hand device market in the console industry will therefore not be taken into closer consideration since we believe this is another fight between the companies where different actions are needed compared to the video game console industry.

1.5 Research within the field

Research in the field of strategic management has periodically been dominated by either internal or external perspectives. Although, lately the field of strategic management has been focusing mostly on internal processes,¹⁷ which is why we chose to have an outside perspective since also the external context and industry structure is of signification for a firm's success. Market conditions continuously change for companies and earlier information can quickly become out of date, which is why we are interested to provide new information to the research on how today's challengers can act in order to become the new market leaders. When it comes to the game console industry there has been research made primarily in the earlier age of the industry with studies on Atari and Nintendo with typical case studies of how Nintendo conquered the world and also how they lost their leading position.¹⁸ However, in recent years when Microsoft has entered the industry, there have been few studies on the game console wars. Furthermore, this is a consumer technological industry where the conditions are changed constantly due to new developments and innovations which is why we find it both interesting and useful to study.

1.6 Target Audience

The target audience for this thesis is predominantly students at The School of Economics at Lund University together with tutors but it may also prove useful for students at other universities. The thesis will hopefully be valuable to Microsoft as well as for other challenger companies in consumer technological industries. Additionally, it might be of interest to people engaged in business strategies in fast moving competitive markets characterized by rapid change and continual technological improvements and innovations.

¹⁷ Ibid

¹⁸ Adam M Brandenburger "Power Play: Nintendo in 8-bit Video Games 1995

1.7 Disposition

1. **Introduction:** Gives an overall introduction and background to the study together with a problem discussion followed by the purpose of the thesis which is concluded with an overview of the content.
2. **Method:** Describes the methodology approach that has been used followed by an argumentation of the preferred methodologies together with a critical view of the chosen methodology's validity and usefulness.
3. **Theoretical Frame:** Provides a theoretical framework and point of departure for the study. Relevant business strategy theories are presented and are argued for.
4. **Empirical Findings:** Outlines the empirical findings and history of the firms and the console market. The empirical data consists of both primary and secondary information.
5. **Analysis:** Comprise an analysis of the empirical findings. The presentation follow the structure in the theoretical model with further findings added.
6. **Conclusion:** Brings together the main points from the analysis to final conclusions and answers to the questions of study.
7. **Final Thoughts:** Includes a final discussion and thoughts of what impact the characteristics an oligopoly market might have on our findings. This will be followed by proposals to future research and concluding reflections over the theoretical framework.

2. Method

In this section we aim to explaining the choice of case company and the choice of practical methods used for the information gathered to the thesis. The chapter will close with a discussion of the quality and validity of the methodologies.

2.1 Choice of Case Company

The choice to study Microsoft is mainly due to their position as the second greatest market player in the console industry. Another advantage with studying Microsoft is that they act in an oligopoly market which makes it even more evident to clearly see how changes in an industry influence the companies. The present discussions in media about Microsoft's upcoming possibility to threaten Sony's position in the near future influenced our choice to have them as a case company. By studying Microsoft's different actions, what they do, what they have not done and what they can do, we want to use them as a tool in order to get a deeper understanding to the overall question; *what are the important strategies for a challenger in consumer technological markets to attain top leader position?* This has lead us into an exemplification of our study since the objective is to understand different actions that either can be good or bad¹⁹ which will be demonstrated by what Microsoft already do but also what they can do given to the context.

Though, to get a good overview of Microsoft's competences, capabilities and what potential they have to challenge the leader, one needs to put them in the industry context. We therefore believe there would be of little support for our analysis and findings without having some information about the industry competition and the overall market. Since the game console industry is an oligopoly market with only three firms this means that actions from one company can have a great impact on the others. Therefore we believe studying Microsoft in a vacuum without their two competitors would not give the entire picture. According to Microsoft, they consider Sony to be their main competitor and Nintendo to be a minor one, not mainly because Nintendo have a smaller market share, but because they are targeting a different segment²⁰. Sony and to some degree Nintendo, will therefore be taken in to account and discussed around due to their important presence in the market and their influences on Microsoft's position, although, our main focus will be on Microsoft.

¹⁹ Lundahl U, Skärvard PH "Utredningsmetodik för samhällsvetare och ekonomer" 1999

²⁰ Interview, Öjje Holt, Microsoft, 2006-11-20

2.2 Research Design

With the intention of getting a deeper understanding to the subject, a *qualitative approach* has been used²¹. In addition, a knowledge depth of the case company has been considered essential in order to understand the company's possibilities and restraints, consequently, interviews with Microsoft employees have been of significant importance. We determined to do a case study on Microsoft although, as mentioned previously, the research has inevitable lead to a comparison with Sony and Nintendo to get a better understanding of the current industry situation. A case study should deal with a phenomenon in the real context and a given situation where several of sources need to be used in order to understand the connection with these.²² Consequently, a holistic approach has been conducted which emphasize that a phenomenon needs to be understood as a complex interplay with its context which support our decision to study Microsoft in their industry context²³.

Furthermore we have departure from a theoretical framework to get an overview and an understanding of how to focus on our research question. The theoretical framework was constructed in an early phase of the research process and used during the whole study. The model has been used as a guide when collecting the empirical data and in the analysis procedure of the information although we also included additional information in the empirical chapter that was analysed. Thus, we have been using a theoretical approach as well as an empirical. The theories have been adjusted and refined during the study and as a result, since we have moved back and forth between theory and practice, an *abductive approach* has been conducted²⁴. By conducting an abductive approach we have also been able to refine and improve the model during the study. This approach has further enabled us to explore a phenomenon in a context, both with open minds and at the same time searching for patterns within certain frames.

2.2.1 External Perspective

When conducting a qualitative case study there is a range of different options how to examine a phenomenon and depending on the purpose, perspective and available data, the description language can take variously shapes²⁵. In this thesis, an external perspective has been applied and Microsoft has been put into the industry context and viewed from the outside due to the fact that our objective has been to investigate how Microsoft, in relation to the present industry context, can challenge the market leader for the top position. As a result this has called for an external perspective in order to get an overall picture of the market situation. In addition the game console industry is an oligopoly market and can therefore hold other conditions than markets with full competition. Consequently, the industry context becomes even more relevant to study and if focusing only on one part of the context, one risk to miss important factors that can have an influence of the

²¹ Anderssen I, "Den uppenbara verkligheten" 1998 p.31

²² Lundahl U, Skärvard PH "Utredningsmetodik för samhällsvetare och ekonomer" 1999

²³ Jacobsen D I "Vad, Hur och Varför?" 2002

²⁴ Holme M & Solvang B Forskningsmetodik, "Om kvalitativa och kvantitativa metoder" 1997

²⁵ Lundahl U, Skärvard PH "Utredningsmetodik för samhällsvetare och ekonomer" 1999

competition and the outcome. Also the available secondary information has been of such character that it has further facilitated us to carry out this perspective. As stated above, to be able to fully understand the reality and the entire problem it should be viewed from several angles²⁶.

2.2.2 Theoretical Frame

With a departure from an external industry perspective, a theoretical frame was constructed where different theories of relevance for the study has been gathered into one coherent model. The chosen theories deals with different subjects so the purpose of the model was to present the theories in an illustrative way but also to be used as a foundation to the study's theoretical frame and mode of procedure. Since the theories brings up different aspects, our framework was divided into three sub categories; technological factors, social factors and strategic factors and included a range of different theories regarding the diverse areas in order to analyse the situation within the entirely industry context.

Additionally, we have chosen to further make use of the theories by creating a model that guided us in the collection of the empirical data, thus, the gathering of data was connected to our framework. However, since we wanted to avoid being limited by the framework and the theories, we assembled all relevant data with an open mind and therefore collected information outside the framework's boundaries that could not be put into a certain theory or subcategory but that we still felt were of importance in accordance with the purpose of the thesis. Theories are also only simplifications of reality and it is therefore easy to miss out important facts that can have an influence on the outcome and results. The information that followed the theories was to be organized in the empirical chapter together with the additional findings. Since the empirical data consists of data that is coherent with the model and also data that lies beyond, we had the model in mind when we presented the data although other headings have been used that better describe the content of each section and the empirical chapter is therefore not strictly structured after the model. The structure in the empirical chapter proved useful and valuable when analysing the empirical information since it facilitated the analysis procedure. The structure of the analysis chapter is in accordance with the model with some extra headings added. In other words, the model has been used practically during the whole study.

2.2.3 Choice of theory

The theories in our model have been chosen in regards to their connection to our purpose and study of a consumer technological industry but also in consideration to our external perception. Our framework is built upon four different authors and their research, Schillings theories; how to create a Dominant Design and Network externality effects, Kim and Mauborgne's Blue Ocean Strategy and Strategy Canvas along with Christensen's theory of Disruptive Technologies. Shilling and Christensen was used since they have made significant contribution to the studies of companies in technological industries, which is why felt their theories was relevant in our study since we are studying a consumer technological industry.

²⁶ Lundahl U, Skärvard PH "Utredningsmetodik för samhällsvetare och ekonomer" 1999

Kim and Maurborgne were used since they have developed theories of how to create a unique and sustainable strategy. Since we are studying a challenger we felt these theories was useful in order to identify what actions a challenger must take. We believe that focusing on diverse researchers will contribute to a more holistic view of the study subject. At the same time, the selection have been delimited in order to get deeper within the chosen theories and a balance of number of theories to include have been made during the study. Since the different theories have been divided into three subcategories they have been able to complement each other with the intention of giving as much information and knowledge as possible in the different areas. This has given us both wide and depth in the framework and in the study. By adding and deleting theories during the research process to attain an ideal model, we believe we have acquired the most suitable ones for our study.

2.3 Information Gathering

2.3.1 Primary and Secondary Data

To gather information, both primary and secondary data have been collected. For attaining the most accurate and updated secondary information, mainly the Internet have been used with sources such as; digital articles from business magazines, official websites, newspapers and the article database ELIN. A lot of these articles contain information from business research analytical firms which have been used since they are assumed to be well familiar with the game industry and thus would contribute with useful information to our thesis. In order to get as accurate picture of the situation as possible and to highlight different opinions and predictions both statements, supporting as well as contradicting, have been included. Secondary sources can also be good to use for obtaining a wider and more balanced view of a phenomenon²⁷. We started out with gathering business articles to get an outline of Microsoft's position and the current situation of the industry. The information gathering of articles has been of significant importance to our study and has come to constitute a great part of our work in order to highlight third part opinions of Microsoft's situation.

In addition, primary data have been gathered through interviews to get a more accurate and deeper understanding to the problem²⁸. To get as correct and exact information as possible, interviews was taken place with four executives from the managerial group within Microsoft that possess superior experience and knowledge in the area. In order to complement the information from Microsoft and to obtain a neutral view of the video game industry and Microsoft's position, interviews with independent sources have also been conducted. These interviews have been accomplished with a video game retailer and a business research analyst who both are well-familiar with the industry and assumable with an objective standpoint.

²⁷ Jacobsen D I "Vad, Hur och Varför?", 2002

²⁸ Andersen I, "Den uppenbara verkligheten", 1998

The interviews with Microsoft were taken place in an early phase of the study. This, since we first wanted to gather information from Microsoft itself because we believed that their answers would be the most valuable ones and that it thereafter would be easier to fill in the gaps and compare their statements with outside sources. It also gave them a possibility to explain their view and how they reason within the firm which would not have been possible to attain from other sources. The information attained from the managers at Microsoft was therefore of great importance and has had enormous signification to our study, also since this is information that we would be unable to find elsewhere. By having a corresponding contact with Microsoft from the beginning we could send them further questions as they arose during our study when our knowledge about the subject increased.

2.3.2 Interview Method

The primary data have been conducted through a number of interviews with the executive group of Microsoft Sweden. The interviews have been managed through both telephone and e-mail. The questions for the interviews were open and *semi-structured* in order to achieve deeper knowledge about the subject²⁹. To make it less problematic for the interviewees and to make them better prepared, we sent the questions in advance. However, during the interview, attendant questions were conducted when necessary. The telephone interviews were also recorded in order to obtain an opportunity to listen to them again and in that way reduce errors and misunderstandings. Additionally, with recorded interviews one does not risk to miss important parts which are more likely to happen when writing notes³⁰. The interviews were written down while listening to the recordings and were thereafter sent back to the interviewee for a confirmation of the content. One disadvantage with recorded interviews is that the interviewee can be uncomfortable and becomes inhibited and not answer the questions completely³¹. However, since all the managers that were interviewed either work with public relations or are responsible for the Xbox market, they are familiar with making statements in media and thus they were unaffected of a recording.

A problem with telephone interviews is that it only builds upon verbal communications, for example, there is no opportunity to analyse the interviewees face and body language³². We tried to get as nuanced answers as possible, which is why we chose to interview several people with different positions that had profound knowledge within the area. When a respondent chose to answer through e-mail, there was a disadvantage since such interviews does not enable explanations to questions if there are any misunderstandings³³. We tried to evade the problem by sending them follow-up questions and the interviewees were contacted again if there were any uncertainties about their answers or for further clarification.

²⁹ Lundahl U, Skärvard PH "Utredningsmetodik för samhällsvetare och ekonomer" 1992

³⁰ Andersen I, "Den uppenbara verkligheten", 1998

³¹ Jacobsen D I "Vad, Hur och Varför?" 2002

³² Ibid

³³ Ibid

Finally, one interview was done in personal in a retailer's office. The appointment for the interview was scheduled in advance and the interviewee could therefore select a suitable time and avoid busy periods in the store which lowered the risk for interruptions and time constraints. One advantage with conducting a personal interview is that it is easier to make contact and also to gain trust from the interviewee³⁴. Since the retailer had extensive knowledge within the entire industry, it was important to clarify the purpose with the thesis so he could provide us with the right information. This we believed was easier to achieve with a personal interview where we could explain our questions further.

Our interviewees have been:

- Christoffer Björkvall, Public Relations Manager, Microsoft Sweden; telephone interview, 2006-11-17
- Öjje Holt, Country Manager Sweden - Entertainment & Devices Retail Division Microsoft Sweden; telephone interview 2006-11-20
- Pierre Carlson Marketing Manager Home Entertainment Microsoft Sweden; e-mail interview 2006-11-25
- Mattias Edlund, Product Marketing Manager Xbox Microsoft Sweden, e-mail interview 2006-12-14
- Jason Anderson, Director of Research, International Development Group, IDG Consulting, United States, e-mail interview 2006-12-19
- Björn Beck, South Sweden District Manager, EB Games, Interview 2006-12-13, e-mail interview 2006-01-13

2.3.3 Selection of interviewees

In total, four interviews were conducted with people of high station from Microsoft's head office in Sweden. These were selected due to their positions in the executive group and due to their working area with Xbox. Thus, they had extensive knowledge of Microsoft and Xbox and were engaged in the future plans for Xbox 360. Interviewing managers from a Swedish head office is something we do not believe influence their answers and trustworthiness since they represent Microsoft as an international corporation and their national background should therefore be of none importance. However, since they have a naturally standpoint to the subject, two more interviews was carried out with individuals having a more objective connection to the topic. The analyst was chosen due to the fact that he works as an analysts of the console industry and therefore has extensive knowledge about the gaming industry. The retailer was chosen since he has a close connection to the consumers and can hold a view to the industry from a more customer perspective. He is also in contact with all the three console companies and is therefore a more neutral source. We believe that this combination of opinions and views of the matter are of great importance to our

³⁴ Ibid

findings in order to attain objective information and thereby objective conclusions.

2.4 Analysing empirical findings

2.4.1 Objectivity of data

When conducting the empirical chapter we tried to overcome the risk of subjectivity and have therefore given room to both a retailer and an analyst's view of the subject since they are more likely to be neutral in their statements. Additionally, we have also included information from a range of different articles to further illuminate the context and to illustrate the reality. By using also secondary data one can find further support for the primary information.³⁵ Although, when collecting secondary data it is important to also include other standpoints that can be the opposite to a certain author's.

Therefore, one problem with the use of secondary data is that it can have been collected for another purpose than ours, thus, the information could have biases³⁶ and it has been of great complexity during the study to find objective data. Since the console war has just begun it is of current interest in media. Therefore information regarding the video console war occurred with high frequencies and it was consequently no difficulty in finding secondary data. Although, much of these were of biased and subjective nature since great deal of the authors are partial in the upcoming console war. This was something we were well aware of and it has been a challenge to get an objective view of the information, hence, the empirical data. However, bearing this in mind we have tried to contain a critical view and gathered information from all different angles and sources and compared it with each other. Also the most reliable sources have been picked out from well-reputed and known analytical firms and industry sites. The chosen secondary data has therefore come to be mainly from those firms to increase the objectivity of statements as much as possible.

We have also cross-checked the gathered information, secondary with primary, which made it possible to compare what the company claim to do and what it actually does to give the reader a possibility to create their own opinion. Since our thesis has been quite dependent on these sources, we have tried to find the most accurate data and used it as objectively as possible.

Another important aspect to consider is that since Microsoft is the case company the majority of the information is regarding them which would only give one part of the situation. However, we have tried to gather large amount of facts about Sony and Nintendo as well to be able to get a correct view of the industry. Although, all this information has not been included in the text in the thesis but has provided us with good background knowledge of the context and therefore influenced our objectivity in a good manner.

³⁵ Jacobsen D I "Vad, Hur och Varför?" 2002

³⁶ Andersen I, "Den uppenbara verkligheten", 1998

2.4.2 Objectivity to the Case Company

Many case studies are often made by researcher who have connections with the company or who directly do research on the directions from the firm. Since we are not conducting this thesis for a client or having any relations to the case company we are unmoved whether Microsoft will win the war or not. Thus they are solely used as a tool for a closer examination what possibilities and patterns one can find from the case. Consequently, we are not constrained by obligations or likely to influence the thesis in one direction or another and the information and findings is told with the most possible truthfulness.

2.4.3 Analysis of the Data

The analysis of the collected data for our investigation was mainly done by following the theoretical framework in order to get a structured analysis. As discussed above, when conducting the analysis we were well aware for the risk of subjectivity in the information, from both Microsoft but also from secondary sources. Naturally, the information assembled from interviews with the managerial group of Microsoft was to some extent subjective. We tried to have this in mind when we organized and sorted the findings in the empirical chapter and also in the analysis procedure we tried to have a critical standpoint. Though, we have used the secondary sources as a tool to illuminate the context from other views than solely from Microsoft and in that way overcome the problem with subjective interviews.

2.4.4 Generalization of the conclusions

When doing a qualitative case study, the results can not be used to make statistical generalizations and to draw conclusion suitable for a total industry.³⁷ We are therefore not able to fill the entirely knowledge gap in the strategic field in how a challenger should act, although, it is still possible to make general conclusions and reveal patterns from the material and analytical generalisation is therefore achievable³⁸. Consequently, in the conclusions of the thesis, a discussion will be made with the intention of putting the findings in a broader perspective and to give a contribution to the overall question.

³⁷ Lundahl U, Skärvard PH "Utredningsmetodik för samhällsvetare och ekonomer" 1999

³⁸ Ibid

2.5 Report Quality

To conduct a good report quality of the thesis, reliability and validity are important to take into consideration.

2.5.1 Reliability

Reliability implies that an investigation is performed in a correct manner and that it would get the same results if it were done once again.³⁹ When conducting a case study however it can be more difficult to achieve the exact same results again compared to a quantitative study. To obtain reliability to our study we have carried out several interviews with Microsoft Sweden managers which are representatives for Microsoft's console division. The interviewees are key persons that possess great knowledge and competence within the area. Moreover, we have had no reason to believe that the interviewees answered untruthfully, although, we understood that they would not tell us about classified information that could be harmful to the competition.

Nevertheless, the interviewees have not refused to answer any of our questions and told us willingly about the present situation and their competitors. Although, to overcome the risk that they hold back information or told us subjective truths we have interviewed people with diverse positions in the company which enabled us to compare their statements. Furthermore, we have cross-checked Microsoft's answers with interviews from third parties having a neutral standpoint. Also articles and other secondary information from well established sources and analyst firms have been helpful in order to cross-check information from all sources secondary as well as primary. What can also have influenced our findings is that the interviews were taken place right before Christmas and that Microsoft stated they were in a hectic period with limited time. This could have had an impact on the answers that might have resulted in narrow and incorrect answers, however we believe it had minor impact since they did take time to do interviews.

One important aspect to consider is that compared to Microsoft that had no problems answering our questions, Sony did not want to answer any questions at all. Reasons for their standpoint have been hard to find out but one could reflect that it could either have to do with their overall business policy and organizational culture or the fact that the delay of Sony's Playstation 3 has been a delicate subject which might have had an impact on the willingness to answer questions.

Another factor which could have had an impact on our results is that the war has just started and is far from over which means that there is a constant flow of new articles, press releases and published material. However, since the study had to come to an end, information and news published after the turn of the year has not been included.

³⁹ Lundahl U, Skärvard PH "Utredningsmetodik för samhällsvetare och ekonomer" 1992

2.5.2 Validity

To obtain *validity* to the study, one needs to be sure that the thesis investigates what it aims to and that there is absence of error in measurement⁴⁰. By studying an actual challenger we believe that findings have arisen that are typical for them. We decided to analyse the data from a strategic perspective which of course is one way to investigate the problem. Although, it is not said that other focus areas are irrelevant. Moreover, we have chosen three different factors to centre the thesis around which could have constituted a risk to underestimate other factors that could have been of importance. Although, we believe that we have included the most relevant factors and by using our model in a flexible way, adding and reducing theories we believe that we have lowered the risk. Finally, we have conducted a strategy canvas depicting Microsoft's strategy profile, which in reality are quite difficult and requires a lot of time and research. The purpose with drawing the canvas was to get an overview of the industry and also to highlight important similarities and differences between Microsoft and the competitors and therefore exact numbers were not essential.

⁴⁰ Lundahl U, Skärvard PH "Utredningsmetodik för samhällsvetare och ekonomer" 1992

3. Theory

The purpose of this chapter is to describe and plead for the chosen theories which constitute the theoretical framework. An explanation of the theoretical model formation will be given and will be followed by a presentation of chosen theories.

3.1 Theory in Focus

There are plenty of theories concerning high competition in consumer technology industries. Our choice of theories has been built mainly around Schillings articles “*Winning the standards race*” and “*Technology leap frogging*” but also other conceptions that are of relevance for our subject are highlighted. Schillings articles have been of great importance in our thesis due to the connection to consumer technology markets and our problem question but also to different factors and strategies that are important to become a market leader. Furthermore, we believe Disruptive Technologies, Strategy Canvas and Blue Ocean Strategy are great concepts that fit well with the competition in the technology industry that Microsoft is present in. In order to become market leader, we have identified three factors that we consider to be of main importance, these are; technology factors, social factors and strategic factors. The chapter will start with an explanation and illustration of how the theories are relevant for our thesis and how they will be used in the following sections.

3.2 Theoretical Framework

The chosen theories are of great relevance for the thesis since they concern technology industries but also contain a strategic point of view. To use the theories in a practical manner, we have created a model that connects the different theories into a theoretical framework. The purpose of the model is to have a framework to departure from that links together different parts into a coherent picture and to get a better overview of the theories.

The different factors have been chosen after extensive research and interviews. We are aware that all these factors could be placed under the strategic factor, although, we have decided to divide them in to three subgroups for a better overview. We believe that the technology factors have an impact on consumers’ choice of game console depending on their wants and needs. The social factors are chosen due to the fact that Microsoft themselves state this to be an important factor they take in consideration when competing in the market, while the strategic factors include pure business strategies.

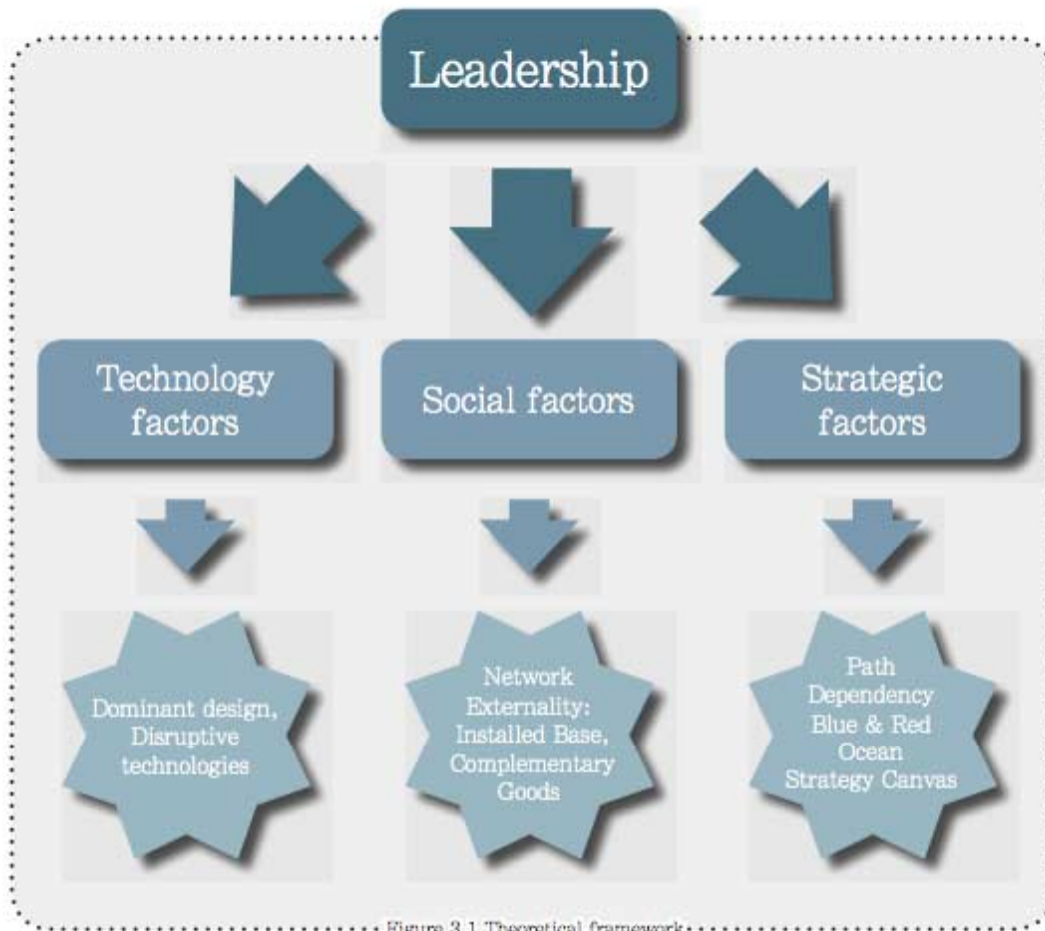


Figure 3.1 Theoretical framework

Technological factors include the competition over the dominant design on the market and the risk that a company can be replaced by another innovative firm that has discovered an unsatisfied segment. Due to intense competition in many markets, one has to be one step ahead of the competitors. This is even more prevalent in technological industries since the pace of development continuously increase, superior technology today can be obsolete in just a few years time. Although, having superior technology won't take you far unless you know how to manage it and how to communicate with the consumers and therefore social and strategic factors becomes relevant.

Social factors are directed to the consumers from a network perspective. The social factors include the user base and its network effects, as well as the signalling effects since the mere assumption of a big sized installed base can be enough to give signals about quality.

Strategic factors include a company's intentions and actions directed at a certain path. The strategy canvas serves as an illustration of the firms strategies compared to those of their competitors. The strategic factors are therefore actions that are well planned, analysed and organized by the firm with a deliberate purpose. However, there is one random element, Path Dependency, where small and unpredictable events can have a profound influence on the outcome.

Business strategy research contains a wide range of interesting theories of how to build a sustainable, long lasting and competitive strategy. The essence of modern business strategy theories is to focus on one's customers rather than imitating or focusing on competitor's actions, even though of course, keeping an eye of the competitors is still important. Another important issue is to always be a step ahead which is why innovations and improvements are vital. In technological industries innovations and technical improvements are crucial for survival to avoid becoming a producer of obsolete technology. The theories we have chosen covers phenomenon that are typical in consumer technological industries and forms a fundamental base in our thesis. The following sections in the chapter, where the theories will be explained, are coherent with the structure in our theoretical framework and will begin with a presentation of the underlying theories to the technological factors.

3.3 Technology Factors

3.3.1 Development of a Dominant Design

In certain markets there are forces that encourage a selection of a single technology standard and an adoption of a dominant design.⁴¹ This phenomenon is of frequent occurrence in technological industries where the video-tape format war in the late 70s and early 80s between VHS and Sony's Betamax constitutes a good example where VHS finally won the war and set the standard. Similarly, there is an ongoing war in the game console market between two optical standards for the next generation DVD- format, HD-DVD and Blu-ray. Presence of a dominant design will force firms with different technological design to adapt to the standard. If a firm is unable to adapt to the technology standard they risk finding themselves locked out from the market. Thus, this naturally leads to an elimination of companies whose products are not compatible with the dominant technology. Furthermore, firms with the chosen technology standard has a powerful and profitable position and may earn "monopoly benefits" since they are likely to influence the shape of the evolution in the industry and what the future generations of products will look like.⁴²

According to Schilling, when the market is still in the process of selecting a dominant design, many alternative technologies may be on offer and the firms are competing with different technology platforms. In this phase, companies have a chance to influence the outcome and there are mainly two factors the firm should focus on; the installed base and the availability or supply of complementary products. The tenet in Schilling's theory is a self-reinforcing mechanism; the more a technology is used and adopted, the greater is the likeliness that it will become the market standard.⁴³ The reason is that when there are new competing technologies on the market there are uncertainties of which design will become the dominant one. Thus, supporting one design is risky to both producers of complementary goods but also to consumers investing money in purchasing the

⁴¹ Schilling M, "Winning the Standards Race", 1999

⁴² Ibid

⁴³ Ibid

product⁴⁴. Therefore, people will buy the product that initially has most users whether the technology is superior or not. The implication of the self-reinforcing phenomenon is that it the supply of complementary goods and the quantity of users tends to increase the adoption of a technology design which then becomes the standard, even if the technology initially perhaps was not the superior one among the options on the market.⁴⁵

3.3.2 Disruptive Technology

When competing for a market leader position in an industry, one can not only focus the attention to the present leader, also threats from new entrants should be considered.

In a high paced environment with intense competition, it is important for the companies to question themselves, where future profits will be.⁴⁶ The answer to that question should hopefully be in the same direction as the company's current strategy. However, there are constant threats from competitors that find new ways to do the same as you but better, cheaper and simpler. In high technology industries, companies can easily become blind while developing their product, missing what the consumers really want. In that case, a new, cheaper technology can break through on the market and replace the present actors, called a disruptive technology.⁴⁷

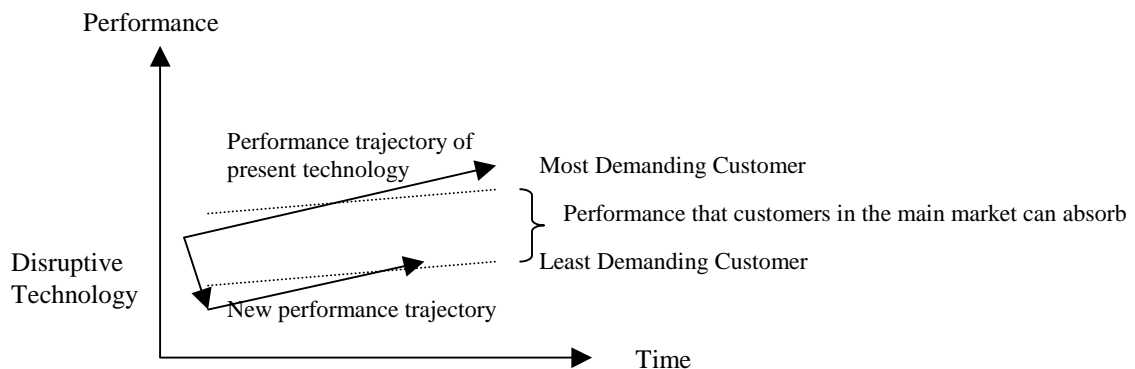


Figure 3.2 Disruptive technologies Model⁴⁸

When companies develop products above mass consumers' demand to meet the high-end consumers, they need to keep the flexibility to meet the market demands and adjust the products to different segments and niches. They have to give the consumer the opportunity to choose what capacity they feel necessary. One way to do this is to offer different technology levels and prices and therefore attract more segments and a wider range of customers, a method to increase the consumer base and not exclusively focus on early adapters.⁴⁹

⁴⁴ Schilling, M "Technological Leapfrogging", 2003

⁴⁵ Schilling M, "Winning the Standards Race", 1999

⁴⁶ Christensen C et al, "Skate to where the money will be", 2001

⁴⁷ Ibid

⁴⁸ Christensen C et al, "Skate to where the money will be", 2001

⁴⁹ Ibid

3.4 Social Factors

3.4.1 Network Externality Effects

Schilling uses the term *Network Externality Effects* to demonstrate how a company can create and increase consumer value. The main assumption of network externality effects is that a user's benefits increases with the number of users, where a classical example is railroads or telecommunications.⁵⁰ Network externality effects are also of essence when complementary goods are vital for the product's functionality⁵¹. Hence, the more complementary goods available, the greater probability that consumers will choose to buy that particular product. Thus a virtuous cycle is ensued.

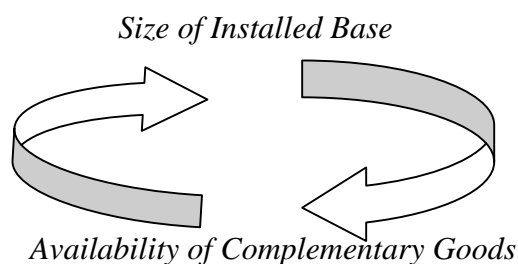


Figure 3.3 *The virtuous cycle* ⁵²

The size of the installed base will also serve as a signal about high quality to other consumers⁵³. Consumer's choice is based on assumptions that since many other users have bought the product it must be of high quality, and they assume that the initial consumers have evaluated its performance to advantage over other options. In addition, it is not necessarily the actual size of the installed base that is of decisive significance but the mere assumption of a big installed based might have the same effects, thus a perceived big sized installed base can lead to a development of a large user base.⁵⁴ Furthermore, a company's reputation in other industries or markets can also have an impact on the consumer's expectations⁵⁵. The signalling effects of the installed based is also present for complementors who sees a prospect to future profit in the product since a large sized installed base will generate a high demand for complementary goods.⁵⁶ Signalling indicate that the design will be the dominating one and therefore increase incitements for complementors such as game producers to develop successful games to the company.

⁵⁰ Schilling M "Winning the standards race" 1999

⁵¹ Schilling M "Technological Leapfrogging", 2003

⁵² Schilling M, "Winning the Standards Race" 1999

⁵³ Ibid

⁵⁴ Schilling M "Technological Lockout" 1998

⁵⁵ Schilling M "Technological Leapfrogging" 2003

⁵⁶ Schilling M "Technological Lockout" 1998

3.4.2 Increasing installed base and complementary goods

According to Schilling, there are strategies that can help a firm to increase the installed base and supply of complementary goods in order to attract consumers, these are; *alliances and licence policies, aggressive discounting and reducing resistance*⁵⁷.

Alliances and licence policies

The firm can accelerate the spread of their technology design through exclusive contracts such as licenses with other firms that produce complementary products, this to ensure the availability⁵⁸. The company can then negotiate joint promotion that benefit both parts and therefore increase market presence. Another strategy can be to enter alliances with distributors offering them part of the future profits and in that way increase their incitement to promote the technology more aggressively.⁵⁹

Aggressive Discounting

According to Schilling, in network externality industries penetration pricing is not unusual in order to make consumers adopt a new technology design. The company sells a product greatly discounted and below production costs and to an initial loss, in order to increase the adoption speed and thereafter gain profit from future sales of the core product and from complementary goods.⁶⁰

Reducing Resistance

When a new technology is introduced to the market it is surrounded by great uncertainties and consumers bear a risk when purchasing a good since if the technology will not be a standard it might be incompatible with other products. Consumers will then face high switching costs if no complementary goods are developed to the technology.⁶¹ Also when there is a large supply of complementary goods available to the products on the market, *switching costs* for the consumers raise and prevent the consumer from buying another product design. Backwards compatible technology does also ties the consumer to the product and therefore makes it harder for others to attract them. A strategy to reduce the resistance can be to guarantee the consumers the money back or certain quantities of complementary goods. Thus, a company that wants to attract the competitor's consumers must lower the switching costs by offering a great supply of complementary goods and offer a product that is compatible with the present technology standard.⁶²

⁵⁷ Schilling M "Techological Leapfrogging" 2003

⁵⁸ Schilling M, "Technology Leapfrogging" 2003

⁵⁹ Ibid

⁶⁰ Ibid

⁶¹ Ibid

⁶² Ibid

3.5 Strategic Factors

3.5.1 Path Dependency

The phenomenon of Path Dependency is common in technology markets.⁶³ According to the theory, small, random events can have a profound effect on the final outcome⁶⁴. Although, company's strategies also have an impact on the outcome and it is therefore, to some extent, possible for the company to control this factor by planning their timing of product releases. As mentioned earlier, the most superior technology does not always come out as the winner, a technology lock-out can happen over a matter of weeks or months and being too late can force a company to withdrawal from the market.⁶⁵ A factor such as timing can be important to the market selection and a firm entrance to a market can be determined by several factors which can be random and unpredictable as well as deliberate and controllable. According to the author, timing is crucial since once there is a technology that has been widely adopted it can be nearly impossible for another technology to conquer the market even with superior quality, which is why an initially small lead can end up in a great gap.

3.5.2 Strategy Canvas

Several theories and articles have been written in order to help companies develop a competitive strategy to become a market leader; one of them is the Strategy Canvas. According to Kim and Mauborgne, this is a great tool to communicate and understand the companies strategies compared to the industry, within the firm.⁶⁶ A strategy canvas is unique due to the three things it does; first of all, it shows the strategic profile of an industry and what factors those are of importance in the battle of success. Second, it demonstrate the current and future competitors profiles and what features they focus on and finally, it illustrate the companies own strategic profile and what factors they should focus on and how they should invest in the future⁶⁷.

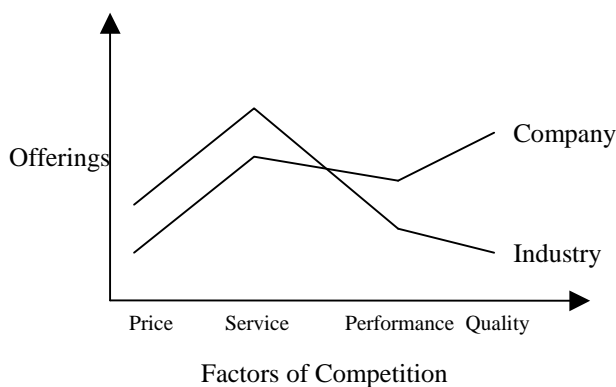


Figure 3.4 Strategy Canvas⁶⁸

⁶³ Schilling M, "Technology lockout" 1998

⁶⁴ Ibid

⁶⁵ Ibid

⁶⁶ Mauborgne, R. Kim, W.C "Charting Your Company's Future", 2002

⁶⁷ Ibid

⁶⁸ Mauborgne, R. Kim, W.C "Charting Your Company's Future", 2002

With help from the chart it is possible to demonstrate an overall perspective of the firm instead of focusing too much on details. The horizontal axis shows the factors of competition while the vertical axis shows how the companies and their competitors invest in the different factors. The graph builds together the strategic profile of the company and compares it with the industry and what possibilities there are to differentiate the strategy. This is valuable for the company since they can use the graph for better communication, understanding, creativity and engagement in the organization. It also gives a better overview of the current strength and weaknesses and possible need to change the profile.⁶⁹ In addition, how to take advantage of the results from the Strategy Canvas, leads us into the Blue Ocean Strategy.

3.5.3 Blue Ocean Strategy

In markets with intense competition price wars take place and companies face shrinking profit margins. At the same time, companies get more similar and differentiation becomes harder to achieve.⁷⁰ According to Kim & Mauborgne the companies are caught in a Red Ocean where growth and profit are declining. In the Red ocean, the companies constantly focus on the competition and are fighting for existing market demand trying to make the most of the value. Companies are playing inside the dominant borders of the industry and uses benchmarks against the rivalry as a strategic instrument.⁷¹ The companies have to think outside the current industry boundaries and needs to create a Blue Ocean Strategy to an uncontested market place.

Blue Ocean is a market or industry with no or few actors where rules are nonexistent since it is an unknown market space with no competition. The Blue Ocean strategy refers to how a company should act to create a market environment where competition becomes irrelevant. To do something different and not to benchmark the company against the current industry is of great importance⁷². First of all the company needs to shift focus from the existing rules and competition to create new alternatives. Furthermore, they need to centre the attention to non-consumers and how to attract them rather than concentrate on the existing ones. In the same time, they need to find a balance between differentiation and cost to be able to deliver value to customers with a lower price.

Other advantages with entering a Blue Ocean are that it is hard for imitators to follow. Since Blue Ocean creators often attract large volume of customers, scale of economics increases rapidly and consequently gives imitators cost disadvantages. Additionally, when being first on a market one can generate network effects that are difficult to reproduce. Kim & Mauborgne further state that companies do not compete with technology innovation. To be able to create a Blue Ocean the technology are seldom the underlying factor, it often already exist. Instead, it is more important to connect the technology to what customers' value.⁷³

⁶⁹ Mauborgne, R. Kim, W.C "Charting Your Company's Future", 2002

⁷⁰ Mauborgne, R. Kim, W.C, " Blue Ocean Strategy " 2004

⁷¹ Ibid

⁷² Mauborgne, R. Kim, W.C, "Blue Ocean Strategy" 2005, p.13

⁷³ Mauborgne, R. Kim, W.C, " Blue Ocean Strategy " 2004

Red Ocean versus Blue Ocean Strategy

<i>Red Ocean Strategy</i>	<i>Blue Ocean Strategy</i>
- Compete in existing market space	- Create uncontested market space
- Beat the competition	- Make the competition irrelevant
- Exploit existing demand	- Create and capture new demand
- Make the value/cost trade-off	- Break the value/cost trade-off

*Figure 3.5*⁷⁴

The Four Actions Framework

As discussed earlier, the authors state that a firm should graph a strategy canvas when setting the actions of the future strategy. To create value for the customers, there is a four actions framework that are based on four questions the firm should ask themselves when challenging the present standards on the market and aiming to develop a Blue ocean strategy.⁷⁵ These are:

- Which of the factors that the industry takes for granted should be *eliminated*?
- Which factors should be *reduced well below* the industry's standard?
- Which factors should be *raised well above* the industry's standard?
- Which factors should be *created* that the industry has never offered?

⁷⁴ Mauborgne, R. Kim, W.C, "Blue Ocean Strategy" 2005, p.18

⁷⁵ Mauborgne, R. Kim, W.C, "Blue Ocean Strategy" 2005, p.29

4. Empirical Findings

This chapter aim to outline the empirical findings. A short introduction of the history of the video-game industry will be given which will be followed by a presentation of our findings from both the primary and secondary information.

4.1 History of the Game Console Industry

1972 *First Generation (1972-1977) and Second Generation (1977-1983)*

The video game industry began in 1972 with the founding of Atari Corporation and their success game “Pong”.⁷⁶ In the same year, they launched the first commercial video game console that could be played at home.⁷⁷ During the 70's and up to the mid 80's, Atari was the recognized leader in all areas of videogames⁷⁸. The industry took off in the beginning of the 80s, however between 1980 and 1983, Atari was facing problems due to internal conflicts and competition from other companies such as Nintendo with their release of the success game Donkey Kong 1981.⁷⁹

1980

Third Generation (1985-1989)

In 1985 Nintendo released the Nintendo Entertainment System (NES) on the American market and the success was a fact⁸⁰. NES came to dominate the game console market until the rise of next generation consoles in the early 1990s. In 1987 Nintendo had 70 percent market share and by the end of 1989 they had 80 percent.⁸¹ In 1986 SEGA entered the market with their Sega Master System which was followed by Sega Mega Drive in 1988. Nintendo experienced a decline in their market share and the market was divided between SEGA and Nintendo, who acted as direct competitors although Nintendo was still the market leader.

1990 *Fourth Generation (1989-1994)*

1992 Compared to the 1980s that was a boom, the industry was maturing during the 1990s. In 1992 Nintendo's market share had declined to 52 percent and to the favour of SEGA which had captured 38 percent. Nintendo maintained its position as a market leader although they experienced a shrinking trend. In 1994 Sony's Playstation was launched and in the same year Atari left the console market.⁸² In the mid 90s the market was dominated by three consoles, the Super Nintendo Entertainment System (1990), Sony's Playstation (1994) and Sega Saturn (1995).

1995

1996 *Fifth Generation (1994-1999)*

Sony's debut with Playstation was an immediate success. In addition, the competitors were struggling with production and sales problems. SEGA Saturn

1999

⁷⁶Schilling M, “Technology Leapfrogging” 2003

⁷⁷ Bellis M “Computer and Video Game History”

⁷⁸ Atarimuseum.com “Don't watch TV tonigh.. Play it”

⁷⁹ Atari-explorer “Atari history” www.atari-explorer.com

⁸⁰ Schilling M, “Technology Leapfrogging” 2003

⁸¹ Ibid

⁸² Atarimuseum.com “Don't watch TV tonigh.. Play it”

was an expensive console and saw decreasing sales numbers while Nintendo was late with their launch of “*Nintendo 64*”.⁸³ In 1999 SEGA released *Dreamcast* which came to be their last console.

Sixth Generation (1998-2004)

2000 In 2000 Sony released their sequent console Playstation 2, which was the first console with better graphic capabilities than a PC and was able to use DVD technology.⁸⁴ Nintendo released Gamecube in 2001, the same year as Microsoft entered the market with their first console Xbox. This was also the year when Sega left the video game hardware business.

Seventh Generation (2004-present)

2005 In November 2005 Microsoft released their second console Xbox 360. Sony’s Playstation 3 was released one year later in November 2006 in Japan and in North America. However the European market is still waiting for the launch in March 2007. Also the third player Nintendo released their new console Wii in December 2006. And so the seventh generation console war has begun.

4.1.1 Microsoft’s Entrance

Microsoft was first established in 1975 by Bill Gates and Paul Allen and is today the industry leader in software business. Their biggest successes are Microsoft Windows operation system and Microsoft Office, both compatible in the desktop computer market.

The beginning of Microsoft’s entrance in the gaming industry started when Microsoft worked with development of PC games and were involved in the MSX gaming computers⁸⁵. The company gained competences in a wide range of areas and after the success in the PC gaming market, Microsoft decided to enter the console industry since they felt they could use their knowledge to make a contribution to the existing market and offer the consumers’ new gaming experiences and attractive games that was not on the market already⁸⁶. Microsoft developed the console in an alliance with Intel and NVidia⁸⁷. In 2001 they entered the consol market where Sony dominated with its Playstation 2, and launched the first consol called Xbox. The new game consol took up the fight and became the first console that enabled online broadband games. In November 2002, Microsoft introduced the first online community, Xbox Live to the market which enabled the users to download games to the hard drive with help from a broadband.

⁸³ Schilling M, “*Technology Leapfrogging*” 2003

⁸⁴ Pbs.org “*History of Gaming*”

⁸⁵ Planetxbox “*Introduction*”

⁸⁶ Interview Öjje Holt, Microsoft, 2006-11-20

⁸⁷ Activewin “*Frequently asked questions*”

4.2 Industry Structure

4.2.1 Sales numbers of the first Xbox Console

Microsoft's first video game console Xbox was a gaming machine with an inbuilt DVD-player. With the Xbox, Microsoft was aiming "hard core gamers", young men aged 15-30 that spends a lot of time playing video games⁸⁸. The hard core gamers are also very often early adopters and the least price sensitive segment, consistently buying what is new on the market.⁸⁹ Microsoft launched Xbox in November 2001, at that time Sony's PS2 had been out on the market for more than one year and a half. The first version of Xbox had in the second quarter 2006 sold 24 million consoles, compared to Sony's PS2 with 111 millions and Nintendo's Gamecube with 21 millions.

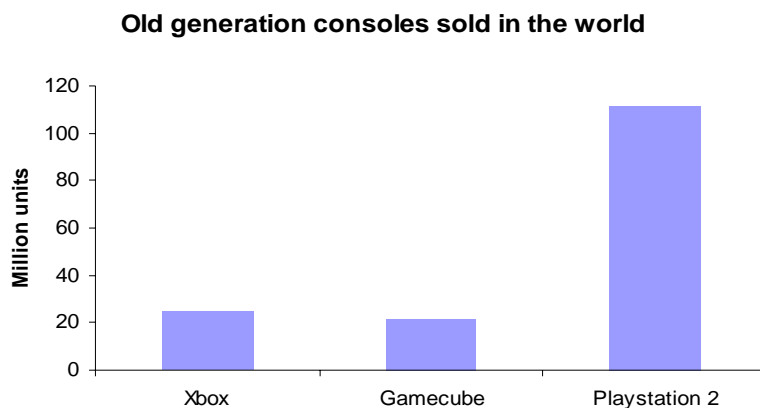


Figure 4.1

4.2.2 Global Market Shares

Up to now, Sony has been the market leader of the console industry. At present, the market is roughly divided as the following; Sony has 55 percent global market share, Microsoft 30 percent and Nintendo 15 percent⁹⁰.

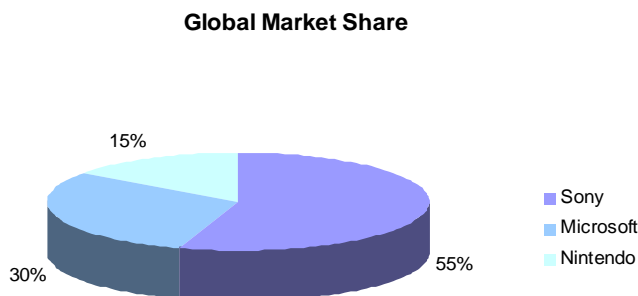


Figure 4.2 Current market structure

⁸⁸ Interview Öjje Holt, Microsoft, 2006-11-20

⁸⁹ Interview Pierre Carlson, Microsoft, 2006-12-15

⁹⁰ Gibson E "Sony will win next-gen war, says top analyst" 2005

It is also possible to divide the global market into the three main regions based on the sale of the previous generation consoles. Jason Anderson IDG Consulting divides it as following:⁹¹

	Xbox	Playstation	GameCube
North America	22%	58%	20%
Europe	14%	75%	11%
Japan	1%	90%	9%

However, business analysts argue that Sony will not be able to sustain their market dominance in the years to come.⁹² They are not sure exactly how much Sony will lose and how the market will be divided, but Sony is expected to cede market shares to both Microsoft and Nintendo. According to the Economist, Microsoft is expected to reduce but not eliminate Sony's lead, where Sony will have approximately 45 percent of the global market share, Microsoft 40 percent and Nintendo 15 percent⁹³. Also Jason Anderson, Director of Research IDG Consulting, believes this will change in the near future:

“This is all going to change dramatically with the next generation of consoles, in each of the three regions. While Japan will still be mostly a Sony/Nintendo market, it will be more evenly balanced. In North America and Europe, it could be a three-way tie or Sony could even end up in last place, depending on how things go.”

However, there are other business analysts arguing that Sony will not lose any market shares and will continue to be the market leader⁹⁴. Analysts at the analytical firm IDC⁹⁵ believe that Sony will retain their market leader position.⁹⁶ There are also business analysts who do not want to speculate who the winner will be, rather only confirm that the industry is changing and that the actors are shaking up the industry with new business models. According to the business analyst firm, DFC Intelligence,⁹⁷ any of the three systems could be the market leader⁹⁸.

4.2.3 Sales numbers of the Xbox 360

In November 2005, Microsoft released an updated version of their console the Xbox 360. Even if the sales numbers of the first Xbox was not even near to the units sold of PS2, Jason Anderson, IDG Consulting states that it was still “successful” for Microsoft since it positioned them well to launch Xbox 360⁹⁹. Almost one year later, in September 2006, 6 million consoles were sold and by the end of 2006, 10 million units are expected to have been sold.¹⁰⁰ Since Sony's PS3 was released in November it was estimated to sell 4 million units by the end

⁹¹ Interview Jason Anderson, IDG Consulting, 2006-12-19

⁹² The Economist “Gaming’s next level; Rational Consumer” 2005

⁹³ Ibid

⁹⁴ Fahey R “Xbox 360 is outgunned and outclassed by Sony’s PS3” 2005

⁹⁵ IDC provide global expertise on technology and industry opportunities and trends.

⁹⁶ Gibson E “Sony will win next-gen war, says top analyst” 2005

⁹⁷ DFC Intelligence is a market research firm focused on video-, PC- and online games

⁹⁸ Cole D, “DFC Intelligence Forecasts Video Game Market to reach \$44 Billion by 2011” 2006

⁹⁹ Interview Jason Anderson, IDG Consulting, 2006-12-19

¹⁰⁰ Loughrey P “Sony returns fire in Microsoft’s war of words” 2006

of the year. Due to their production problems and shortages of consoles the numbers were revised to 1-2 million units¹⁰¹. Nintendo's console Wii, which was launched in December, was expected to sell about 4 million units by the end of the year.

**New Generation consoles sold in the world
by the end of 2006**

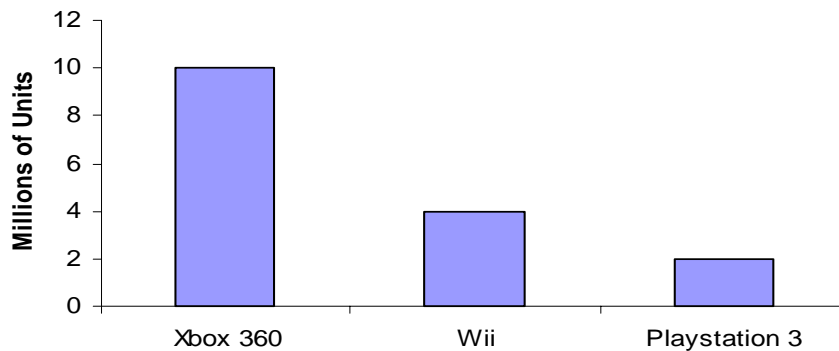


Figure 4.3

At present, PS2 is still on the market; however, once PS3 is available in all regions with a full supply, retailers expect PS2 to be entirely out of the market in a year's time¹⁰². According to EB Games, Microsoft started to hint to retailers about a next generation console just when PS3 was released on the Japanese and US market. *EB Games* says it will probably take about a year before the rumours are spread to consumers and then it will probably take another 2-3 years before a new console will be released.¹⁰³ However, this is something that Öjje Holt at Microsoft Sweden denies; he states that it will take a long time to the next release of a new generation console¹⁰⁴.

4.3 Product Features

4.3.1 Performance and Capabilities

The three competitors, Microsoft, Sony and Nintendo each use different weapons in the battle for the consumers and the consoles do have distinct competitive features. Microsoft and Sony offer multimedia entertainment possibilities and new technology. In addition Microsoft is focusing on online communities while Sony goes for raw technological power. Nintendo has chosen another path with a more standard gaming machine with simpler overall technology but with an innovative hand control which can detect motion and rotation in three dimensions. Furthermore, business analyst has started to highlight the possibility that

¹⁰¹ Interview Björn Beck, EB Games 2006-12-13

¹⁰² Interview Björn Beck, EB Games 2006-12-13

¹⁰³ Ibid

¹⁰⁴ Interview Öjje Holt, Microsoft, 2006-11-20

Microsoft will develop a voice technique to the console in the future¹⁰⁵.

Today, the seventh generation consoles offer the consumers outstanding quality with real-life game experience together with multimedia capabilities. According to Microsoft, Xbox 360 launches the next generation in home entertainment and they state that consumers do no longer have to purchase multiple electronic components to enjoy various forms of entertainment¹⁰⁶. The first Xbox was a pure game console with built-in DVD drive. By means of quality improvements, new design (see appendix I) functionalities and capabilities, the Xbox 360 have become an entire entertainment platform.¹⁰⁷

“Interactive entertainment is no longer just for the kids, it is now for the teenagers and increasingly the parents. This means more households have several users. It also means that the system targeted the broadest demographic may be the most attractive to the growing number of households with multi-players”¹⁰⁸

The Xbox 360 offers a wide range of multimedia capabilities where consumers can watch DVD movies, video and pictures and also listen to music. The consumer can enjoy pictures and by connecting a digital camera one can create photo albums and share pictures on one's TV, Pierre Carlson Microsoft explains¹⁰⁹. When it comes to music the consumer can copy music from CDs to the console, stream music from a MP3 player, create and enjoy music play lists and soundtrack and listen to music while playing.¹¹⁰ Another distinct factor is the high audio quality and fidelity, surround sound and exceptional graphics. Further more, the console allows for game and profile saves so the gamer can bring cleared levels and player information to friend's places¹¹¹. Lately, articles reports that Microsoft and HP have also introduced a cooperation to develop a product called “Windows Home Server”. The purpose with the new media box is to store all digital media in one place and to be able to connect the PC, the MP3 player Zune and the Xbox 360¹¹².

Comparably, PS3 has been reported to be an “engineer masterpiece”.¹¹³ There are two different versions of PS3, one with 20GB hard disk and another with slightly more functions and a 60GB hard disk. Like Xbox 360, PS3 offers a wide range of multimedia entertainment and possibilities. Thus the differences between PS3 and Xbox 360 lie in technological quality such as graphics and screen size where PS3 has 1080p (progressive picture resolution) and Xbox 360 720p which means that PS3 can have a bigger monitor without risking a poorer picture quality.

¹⁰⁵ Ilijason R ”Microsoft utvecklar egen processor” 2006

¹⁰⁶ Microsoft “Why Xbox 360”

¹⁰⁷ Interview Mattias Edlund, Microsoft, 2006-12-14

¹⁰⁸ Interview Jason Anderson IDG Consulting 2006-12-19

¹⁰⁹ Interview Pierre Carlson, Microsoft, 2006-11-25

¹¹⁰ Microsoft “Why Xbox 360”

¹¹¹ Interview Öjje Holt, Microsoft, 2006-11-20

¹¹² Markander M ”Microsoft och HP samlar all media på ett och samma ställe” 2007

¹¹³ Melin J “Superdator under skalet på Tevespel- fullt av dyrbara komponenter i Playstaion 3” 2006

4.3.2 Blu-ray versus HD-DVD Format

At the moment, there are also an ongoing competition of becoming the next generation optical standard in DVD, between the HD-DVD and the Blu-ray format. While Microsoft supports the HD-DVD format, Sony has included the Blu-ray format in the PS3. This war is similar to the battle between VHS and Betamax of becoming the videotape format in the 1980s.¹¹⁴ Since this war can have an impact of the ongoing battle in the console industry, we have decided to report background information about both formats.

Blu-ray obtained the name from the blue violet laser that reads and writes the disc. The new format makes it possible to store data more compact and therefore takes less space. Compared to the current DVD format, the Blu-ray format can hold five times more data and are capable to store 9h of high definition video or 23h of a standard definition. Furthermore, the new format enables better quality and interactivity. A single Blu-ray disc can hold 25GB and a dual disc carries 50GB. The Blu-ray format was first developed by BDA, Blu Ray Disc Association. Behind BDA are some of the world's leading companies in the consumer electronics, personal computer goods and media manufactures and have today approximately 170 supporting companies. Some of them are: *Sony*, Apple, Buena Vista Home Entertainment, Walt Disney, Samsung, Philips, LG, Dell, Sharp, Warner Bros, Fox and HP.¹¹⁵

HD-DVD is the competing format that has a wide range of different supporters, such as *Microsoft*, Toshiba, NEC and Universal Studios, in sum approximately 133 members.¹¹⁶ At present, Blu-ray has more supporters than the HD-DVD format however the big film studios are at currently producing movies in both formats¹¹⁷. Similarly, HD-DVD builds upon the blue laser technology to extend the present capacity and is designed to be a successor of the current DVD. A HD-DVD disc can today carry 8h of high definition video. A single disc can hold 15 GB while a dual disc can hold 30GB.

Although, Microsoft declares that the manufacturing of Blu-ray discs are today only in the 25GB format and not the 50GB as first planned, which means that 30GB is the highest capacity that can be produced¹¹⁸. Furthermore a Blu-ray disc is easier to damage compared to a HD-DVD and Microsoft further state that the extra copy protection in the Blu-ray seems unnecessary. The Blu-ray will also be more expensive than the HD-DVD format.¹¹⁹

However, one of UKs biggest consumer Electronic stores, Dixons, declares that there is a possibility for both formats to co-exist on the market.¹²⁰ So far according to reports from US, which holds both format, HD-DVD have outsold

¹¹⁴ D.Dudley "Blu-ray: third time lucky for Sony", 2006

¹¹⁵ Blu-raydisc.com "Blu-ray Disc Key Characteristics" 2004

¹¹⁶ Bennet H "The Authoritative HD DVD FAQ: IX, Indutry Support, Prices and Availability" 2006

¹¹⁷ Interview Björn Beck, EB Games 2006-12-13

¹¹⁸ Ryan Treit "Why HD-DVD?" 2006

¹¹⁹ Ibid

¹²⁰ Dudley D "Blu-ray: third time lucky for Sony", 2006

Blu-ray, probably due to HD-DVD's two months head start¹²¹. However, Microsoft has announced that if the Blu-ray format would be the standard, they will adjust their Xbox after the new format.¹²²

Since Microsoft is one of the main supporters to the HD-DVD format, an extra HD-DVD device will be possible to purchase to the Xbox 360. With help from the drive, users can utilize the console to watch movies on a television with a high definition quality.¹²³ Microsoft declares the importance of giving consumers a choice whether to buy the device or not.

"If gamers over time choice to go to HD-DVD we are going to give them the choice to do that, but we are not going to force them to buy that day one" Neil Thompson, head of Xbox in UK.¹²⁴

In contrast to Microsoft, Sony has decided to include the Blu-ray format into the console in as a strategy to win the optical battle¹²⁵. Though, Sony has had problems with delays of the PS3 to the market due to complications with delivering the Blu-ray device.¹²⁶ Jason Anderson, IDG Consulting, believes this can have little or no impact on the Xbox 360 since it is not tied to the format war, however it will affect PS3 negatively.

*"The initial hope was that PS3 would help propel the installed base of Blu-ray players faster than HD-DVD, which would make the format more likely to dominate, but the inverse risk is also true: if the PS3 does not sell quickly enough, it could find itself dependent on an unpopular proprietary format."*¹²⁷

4.3.3 Xbox Live

One of Microsoft's main focus area and what they believe is their strong competitive advantage is their live community where it is possible for users to connect to an online server, called Xbox Live. Microsoft's PR manager Christoffer Björkvall states that their biggest advantage is therefore not the hardware; it is the value the community creates for its users.¹²⁸

At Xbox Live, users can play with other gamers from all over the world, discuss and grade games and share tips with each other. Through the live community, a social experience is created and is, due to Christoffer Björkvall, what consumers demand today and will ask for even more in the future. This statement is further supported by Jason Anderson, IDG Consulting, who also believes that online gaming will become a key market in the future¹²⁹.

¹²¹ Dudley D "Blu-ray: third time lucky for Sony", 2006

¹²² Interview Björn Beck, EB games, 2006-12-13

¹²³ Minkley J "Microsoft execs slam Sony Blu-Ray strategy" 2006

¹²⁴ Minkley J "Microsoft execs slam Sony Blu-Ray strategy" 2006

¹²⁵ The Times "Who leads the gaming revolution" 2006

¹²⁶ Björk C "Japanerna köade för PS3" 2006

¹²⁷ Interview, Jason Anderson, IDG consulting, 2006-12-19

¹²⁸ Interview Christoffer Björkvall, Microsoft, 2006-11-17

¹²⁹ Interview, Jason Anderson, IDG consulting, 2006-12-19

Xbox Live does also has other services available, such as download of music videos, rent movies, video chat, send voice mails, watch trailers, download game demos or test and buy new games released on the market.¹³⁰ The community was launched in November 2002 and Xbox Live has today 3 millions of members which are expected to increase in the near future.¹³¹ The supply of games and services available at the network is increasing and Microsoft focus is to further develop this service.

“Microsoft is already leaps and bounds ahead of Nintendo and Sony in online support, thanks to the success with its Xbox Live network service... Nintendo and Sony have built similar online services, but are brand-new and will likely be overshadowed by the sixth version of Xbox Live”¹³².

Recently, Microsoft also launched their “XNA Games Studio Express” where the users get the possibility to create their own games. This is a simplification of the program the game creators use when developing new products and games to the Xbox 360. The games are created on the Xbox Live where the users can share their game with others. So far, the amateur games will only be available on Internet but during next year, Microsoft is expected to launch an updated version where the games can be tested on the market¹³³. The games will work on both Xbox 360 and Windows.

4.3.4 Games and Accessories

Although digital entertainment is important, having exclusive game titles and many games available is still crucial. The main reason people buy video game consoles is to buy games that are only available for that console i.e. people buy consoles to play particular titles, not because they are impressed by their technical specifications.¹³⁴ When Microsoft launched Xbox 360 in 2005 they had about 25-40 games available on the market, a number that impressed the analysts and which was more than anyone has ever had before at a release.¹³⁵

The Xbox 360 is backward compatible with the first Xbox which makes it possible to play games designed for the first console. After a year on the market there are 160 games to Xbox 360 and the total number of games available for Xbox 360 is over 300.¹³⁶ At the same time, PS3 and Wii have fewer games available. Sony had only 21 software titles available for PlayStation 3 by the end of the year while Nintendo had 62 titles available for Wii.¹³⁷ However since both of them have backwards compatibility with games to the previous consoles they still offer many games. Recently, Microsoft has started to widen their game supply, developing more family and children games. In time for the holiday season they launched Viva Piñata, a game aiming for young children, which is

¹³⁰ Interview Christoffer Björkvall, Microsoft, 2006-11-17

¹³¹ Microsoft “Watch Movies and TV On Your Xbox”

¹³² Olson R, “Game on: Advantage Microsoft Xbox 360” 2006

¹³³ Ilijason R “Microsoft öppnar upp Xbox 360 för amatörkodare”

¹³⁴ Interview Björn Beck EB Games, 2006-12-13

¹³⁵ Ibid

¹³⁶ Interview Öjje Holt, Microsoft, 2006-11-20

¹³⁷ Fackler M “Sony bets its kingdom on a ‘champion’” 2006

their first big release in this area. Earlier successes have been hits such as “Gears of War” and “Halo” (see appendix II).¹³⁸

4.4 External Relationships

Microsoft have different levels of partnership programs where retailers, depending on how much they sell and how interested they are in Microsoft’s products, get benefits such as marketing support, educations and excess to sell-support.¹³⁹ *“The more they train the employees about our products and the better they become to meet the customers demand, the more they get back from us.”* Christoffer Björkvall, Public Relations Manager at Microsoft explains.

The development of games and components to the consoles are not just only completed inside Microsoft, also external partners are significant when creating new and innovative ideas. Therefore, Microsoft also tries to have good communication with third-party developers, where one way to attract game developers has been to finance focus research groups for games¹⁴⁰. Also, different supporting companies create diverse parts in the product development and are therefore an integrated part of the company.

Microsoft has an in-house development of new games at Microsoft Game Studio but do also buy games from external game developers such as Atari and Electronic Arts¹⁴¹. The external developers are independent and sell games, not only to Microsoft but also to Sony and Nintendo; consequently there is a competition for the exclusive game titles i.e. games that are assumed to be the success games of the year. In order to get the rights to the exclusive titles Microsoft keep a close dialogue with the game developers in an early stage to be able to evaluate the games and their likeliness to come out as successes.¹⁴²

Furthermore, they have also become partners with Burger King. During December 2006, games were sold when buying meals at Burger King restaurants in the US. The video games were about the chain’s mascot and Burger King was calculated to have sold 7 millions of games during this period.¹⁴³

Promotion is also important in stores where shelve space and advertising in retail stores is important for the sales. How the products are promoted in the stores depends on the relationship with the retailers head office.

Today, Xbox 360 have less than half the shelve space in an EB Game store compared to PS2. This is due to the fact that PS2 have more games available. However, Xbox 360 is promoted in the front of the store, close to the entrance and *“This is due to the fact that they have paid well to be there”*¹⁴⁴.

¹³⁸ Interview Björn Beck EB Games 2006-12-13

¹³⁹ Interview Christoffer Björkvall, Microsoft, 2006-11-17

¹⁴⁰ Interview Pierre Carlson, Microsoft 2006-12-15

¹⁴¹ Interview Öjje Holt, Microsoft, 2006-11-20

¹⁴² Interview Öjje Holt Microsoft, 2006-11-20

¹⁴³ Stanley T L, MacArthur K, *“Burger King, Xbox blow up the rule book”* 2006

¹⁴⁴ Interview Björn Beck, EB Games, 2006-12-13

4.5 Price

Price is an important strategy to attract consumers. According to newspapers, business magazines and business analysts, the game console companies sell new generation consoles under production costs recouping on game licenses and accessories to the console¹⁴⁵. In the introduction of the launch of Xbox 360, journalists claim that Microsoft had a financial loss on each sold console but since they have been selling the console for over a year, the costs have declined and the consoles are today sold to a profit.¹⁴⁶ This is also supported by analytical firm Isuppli.¹⁴⁷

According to Christoffer Björkvall, Public Relations Manager Sweden, Microsoft set the price on the console after competitors and current market price level but also accordingly with the demand of the products. The purpose is to find the perfect price level for consumers to make the console attractive. However, Microsoft disagree that the consoles are sold to a loss since the production costs come first, *“It is not possible to sell something cheaper than what it costs to produce”* Björkvall explains. Instead, Microsoft implies that the margins are small and that they focus to obtain revenues from games and extras. *“If the console has a great price, this will also increase the incitement to game developers to make games.”*^{148,}

To attract different segments and consumers, the company has launched different versions of the console. It is possible to buy a console, Xbox 360 Core System, without extra components, only one controller and an audiovisual cable which consequently have resulted in a cheaper product. However, the premium console, sold for 1000 SEK more, will also contain a headset, a remote, membership to Xbox live, a 20GB hard drive to store games, music and other downloads and also a wireless controller¹⁴⁹. Other optional parts, such as memory units, battery and so on, can be purchased separately.

Comparably, Sony’s console PS3 will approximately have a price of 6700 SEK which is almost twice as much as the price of Xbox 360. Also Sony is expected to have an initial loss of 2000 SEK on each sold console among analysts¹⁵⁰ and the business analyst firm, Isuppli, states that the production costs of PS3 are 40 percent over the retail price in the US.¹⁵¹

Even though PS3 is not out on the market in Europe to compete with Xbox 360 they still have their PS2 with a market price on 1800 SEK which is reported to be the most sold console during the Christmas holiday. This, since families with children are the biggest consumer group during this period and they are interested

¹⁴⁵ Erlandersson A “Striden gäller 250 spelmiljarder” 2006, Lövgren M ”Superdatorkraft till PC-pris i kostsam PS3:a” 2006

¹⁴⁶ Erlandersson A “Striden gäller 250 spelmiljarder” 2006 & Wilcek M “Sony förlorar 2000 kr per såld Playstation 3” 2006

¹⁴⁷ Isuppli analyses consumer electronic markets and provides market analysis reports.

¹⁴⁸ Interview Öjje Holt, Microsoft, 2006-11-20

¹⁴⁹ Ibid

¹⁵⁰ Wilcek M “Sony förlorar 2000 kr per såld Playstation 3” 2006

¹⁵¹ Melin J “Superdator under skalet på tevespel – fullt av dyrbara komponenter i PS3” 2006

in a less expensive console with a big supply of entertainment and children games which PS2 provides.¹⁵²

“I always recommend a children family a Playstation 2” Björn Beck at *EB Games* state. Nintendo’s Wii on the other hand is not focusing on the technological factors and is as the result cheapest console¹⁵³.

Console prices on the market

Console	Price
Xbox 360 Core system	2500 SEK
Xbox 360	3500 SEK
Playstation 3, 20GB	5700 SEK
Playstation 3, 60GB	6700 SEK
Playstation 2	1800 SEK
Wii	2700 SEK

*Figure 4.4*¹⁵⁴

4.6 The Delay of PS3

Microsoft’s Xbox 360 was the first seventh generation console out on the market and hit the shelves in November 2005, the same time as Sony’s console PS3 was initially planned to be released. However, manufacturing problems with the Blu-ray format forced Sony to postpone the release a whole year. What the consequences will be have been widely discussed in the industry and according to Jason Anderson, IDG Consulting, the delay will affect the US market hardest:

“For the US market, 12 months is a very long time and it has allowed the Xbox 360 to gain a big installed base head start. It could prove to be the difference being number 1 in market share and being number 2”

Sony will not be able to release PS3 in Europe until March 2007 which means Sony missed another Christmas sale on the European market. Although, this is a clear benefit to Microsoft, they state that even though they have great respect for their competitors, they try not to focus too much on what others do and they are not thoroughly concerned about when PS3 will come to Europe.¹⁵⁵

“We feel comfortable with what we offer the market irrespective of our competitors; our plans were made over a year ago, Sony’s delay is not a disadvantage, but we are not

¹⁵² Interview Björn Beck, EB games, 2006-12-13

¹⁵³ Erlandersson A “*Striden gäller 250 spelmiljarder*” 2006

¹⁵⁴ Erlandersson A “*Striden gäller 250 spelmiljarder*” 2006 and Interview Björn Beck, EB games, 2006

¹⁵⁵ Interview Öjje Holt Microsoft, 2006-11-20

*afraid, the competitors can come whenever they want.*¹⁵⁶ Öjje Holt Country Manager Sweden - Entertainment & Devices Retail Division.

Comparably when Microsoft released their first Xbox in 2001 Sony had a 20 month head start with the PS2 and at the time Microsoft sold its first 1.4 million Xboxes Sony had sold more than 20 million PS2¹⁵⁷. With a one year head start, the Xbox 360 was in plentiful supply to the Christmas sale while the supply of PS3 and Wii was not nearly enough. Sony's continuing manufacturing delays pushed the number of PS3 consoles at launch to just 400 000 in the US and 100 000 in Japan which is far below consumer demand.¹⁵⁸ This means that consumers will either have to wait for the PS3 to be available or decide whether to buy a competing console.

According to analysts a lot of gamers will not wait and consumers might walk into a store for a Wii or PS3 and walk out with an Xbox 360.¹⁵⁹ On the other hand, there are also supporters to the opposite scenario, that gamers who really want one particular console are willing to wait and that it does not matter when PS3 will be available.

¹⁵⁶ Interview Öjje Holt, Microsoft, 2006-11-20

¹⁵⁷ Takahashi D "*Learing from failure*" 2006

¹⁵⁸ Snyder Bulik B "*PS3, Wii get all the buzz, but Xbox could have the happiest holidays*" 2006

¹⁵⁹ Ibid

5. Analysis

This chapter aims at comprising an analysis of the empirical findings and identifies critical factors and strategies for Microsoft to succeed. The chapter begins with an overall analysis of the video console industry and the firms positions. The remaining parts of the analysis are structured according to the theoretical framework.

5.1 Structure of the Analysis

When studying business strategy theory from an industry perspective, we distinguished important strategies necessary in the battle for the consumers in consumer technological industries. These strategies were linked together in a theoretical framework and divided into subcategories. In order to present a structured analysis, the empirical findings are analysed according to the theoretical framework. Further findings that do not fit into a certain theoretical subdivision will be presented with own headings. However, small terms that are used in the theory such as *aggressive discounting* and *reducing resistance* will be included in the overall analysis. We believe that the theoretical framework formation will enable a structured analysis that will facilitate conclusions and give us guidance to give contribution to the question;

What are the important strategies for a challenger in consumer technological markets to attain top leader position?

As mention earlier, to be able to give a contribution to this knowledge gap and to make this question easier to handle it has been broken down into three sub questions applicable on Microsoft:

- *What are Microsoft's competitive advantages?*
- *How can Microsoft take advantage from Sony's setbacks?*
- *How should Microsoft act to become the market leader?*

Today, Microsoft's Xbox 360 has been the only seventh generation console out on the market for a year's time and the competing consoles have just been released. Therefore, it is not possible to claim that what Microsoft is doing, is right or wrong since the war has just begun. Although, we will in the following chapter discuss what actions can be important and essential seen from the present situation in the industry. It is also hard to discuss the upcoming war without mentioning the competitor's predecessors that has been competing with Xbox 360. Since both Nintendo and Sony have had problems with getting their consoles to the market on time, Microsoft has had a possibility to utilize the situation. Before we can analyse Microsoft, we must look at the industry environment in which Microsoft is competing. Therefore, the chapter will set off with an analysis of the industry structure and dynamics.

5.2 Industry Structure

5.2.1 Industry dynamic and balance

The video console industry has always been an oligopoly market with no more than three actors in the market at the same time, due to high entrance barriers in form of high investment costs. These three actors were during the 80s Atari, Nintendo and Sega, and have from the 90s been Nintendo, Sony and Microsoft. World market leaders such as Atari and Nintendo have seen their great power diminish as new entrants have wiped the floor with a rapid market growth and success. In the early beginning of the industry era the console gaming was driven by Atari who literally created the whole industry. They were later replaced by Nintendo who rapidly built up world dominance. Nintendo entered the industry in the early 80s with their immensely popular hit games which outsold Atari in just a few years time conquering the gaming world. This dominance was to last until Sony entered the industry in the mid 90s with their immediate success console the Playstation.

In other words, history in the console industry reveals that although being an oligopoly market, the console industry is a dynamic and changing market place where even a long time market leader can be completely replaced and later eliminated from the market by a fast growing competitors sweeping the floor and shaking the industry balance. In this seventh generation console war Microsoft and Sony are competing about the world dominance. At present Sony is the market leader, however the great majority of business analytics and business newspapers predicts that Sony's dominance will decline in the years to come.

If Sony's power is to subside, this would be an opportunity for Microsoft to exploit the situation by means of competitive strategies to attain the top position. In other words, nothing is written in stone and today's winner can come out as a loser tomorrow. Therefore, we believe that Microsoft's chances are particularly good in this war since there are many ongoing innovations together with nearly contemporary product releases which might ultimately change the industry and disturb the rooted division of the market segments. Also, there has only been one giant actor at a time and when the sales of the leader has started to decline, they have been replaced by the next upcoming market leader. In the seventh generation console war Sony's market share is expected to decline while Microsoft is aiming for the top position.

In oligopoly markets it is quite common with one company acting as a monopolist while the others divide the remaining parts of the market. Similarly, this phenomenon is to be seen in the game console industry where the current three companies each have their own positioning. Since there are few actors they are well aware of each others actions and decisions of one firm influence the others, strategic planning therefore always takes into account the likely responses of the other participants. So far the companies have been acting in a mutual understanding with a tacit agreement to keep within certain boundaries, targeting different segments.

However, with Xbox 360 Microsoft aim at embracing the mass consumers in this ongoing war taking up the fight about the mass market with Sony. By breaking out from their initial segment Microsoft is likely to change the industry dynamics.

5.2.2 The present war compared to the war in the 21st century

To be able to analyse Microsoft's current position one need to compare the present console war with the one taking place in the beginning of the 21st century. Back then, Microsoft launched its first video game console Xbox that took up the fight with industry leader Sony and the long time leader Nintendo. For a clarification of what they must do to become a winner one can analyse what they did correct and also study if they did anything wrong.

There are several explanations to why the first Xbox sold few consoles compared to the market leader PS2. *First*; PS2 had been out on the market for quite a while which mean that their sales numbers include over one year's additional sale. *Second*; Playstation as a brand was already established on the market compared to Xbox that had no proven record in the console industry. *Third*; PS2 was cheaper than Xbox, although, Microsoft lowered the price quite fast after the release, however since Playstation 2 already had been out on the market for a while, they could put price pressure on Microsoft. *Fourth*; PS2 had more games on hand since the console was backwards compatible with its predecessor. *Finally*; PS2 was aiming at the mass market offering a wider range of games whereas Xbox only had games for the hard core segment.¹⁶⁰

By looking back to the history one can learn several lessons and also understand what is different this time and how to utilize new conditions. Microsoft is today facing the opposite situation where Xbox 360 has been launched before PS3. The Xbox 360 has now been out on the market over one year ahead of its competitors and Microsoft has therefore had time to develop games and extend the consumer base. Today, Microsoft has also become an established brand on the video game console market and does not need to convince customers they are a worthy actor. Furthermore, this time, Microsoft has a bigger chance to reverse the situation and put price pressure on Sony and again, the contrary scenario is now to Microsoft's advantage.

5.3 Technology factors

5.3.1 Development of a Dominant design

According to Schilling's theory about adoption of a dominant design, when the market still has not chosen a standard, it is important to have a product that is compatible with other complementary goods. In the game console industry it includes not only compatibility with games but also with DVD-movies due to the development from pure gaming machines to digital entertainment platforms. The consoles are today compatible with DVD movies and can be used both as a game-console but also as a DVD player. Therefore, one factor that can be of importance

¹⁶⁰ Interview Björn Beck, EB Games, 2006-12-13

when competing to become the leading company in the industry is the battle over the new optical standard, Blu-ray versus HD-DVD. This battle is another battle that is taking place at the same time as the console war and we believe it is something that definitely will have impact on the result; both wars will probably have mutual influence on each other.

Today, consumers who buy a game console invest a lot of money when choosing which console to buy. Consequently, consumers buying a console that has a format that do not become the dominant one on the market will face high switching costs and a great risk that no complementary goods will be available in the future. The implication is that many consumers will prefer to wait and see which format will win the standards race and since Microsoft has chosen to support the HD-DVD format while Sony are supporting the Blue-ray format, this war has become highly relevant to our analysis.

On one side is the Blu-ray format, with superior technology and 170 supporting companies. HD-DVD on the other hand has support by other multinational brands although around 40 companies less than the other format. Support by well known companies can have a great influence on the outcome since it might form consumer's expectations for the formats likeliness to become a standard. In this case, since both formats have great support other factors are more likely to affect the outcome.

HD-DVD does not have the same capabilities and technology as the Blu-ray, although, since it has less complexity, it is easier to produce and put out on market and is a much cheaper option to the consumers. Again, this can be compared to the war between VHS and Betamax in the 80s; it was not the superior technology that sat the standard, instead, the winner was VHS which had a small initial lead. This can be connected to the theory of Path Dependency, where small steps in the history can have a huge impact of the outcome. Thus it can be due to such small factors like the fact that the HD-DVD format came out on the market before Blu-ray that can be decisive. Furthermore, it has a cheaper price, attractive to the mass consumers.

Sony has built in the device in the console since they have an overall interest to set the format standard on the console market, as well as on the DVD market. The reason is that Sony is a great producer of consumer electronics and therefore has interest in other consumer markets too. As an alternative, Microsoft has chosen to go for the HD-DVD format that is not built in and thus gives the consumers an option to choose. Since Microsoft is not in the consumer technology business in general, the console market is not their main market and therefore not decisive for the whole company's profits. However, Sony has put in huge financial investments for developing the format and they definitely need to win the war. Their delay of PS3 because of the problems with the Blue-ray device can also cost them many buyers. For Sony to keep their market leader position, the Blue-ray format must be a success and as Jason Anderson states:

“If Blu-Ray loses, however, Sony has several strategic problems. The PS3 is permanently tied to the BluRay format, so they will not be able to reduce manufacturing costs on the hardware because manufacturing economies of scale will never fully ramp up”¹⁶¹

Because of Microsoft’s lack of dedication to a special format, except their money invested in the HD-DVD, they have chosen the safe road, to take the cheaper, less advanced technology, already out on the market, however still better than the present DVD format. In line with Schillings reasoning how to accelerate the virtuous cycle, Microsoft has *reduced consumers’ resistance* by lowering the switching costs. Microsoft has chosen to have the HD-DVD as an extra device for the consumers wanting this item. The consumers that are not interested in paying a high price for a format no one yet know if it will win can choose to not buy it but still have the console at a reasonable price. Microsoft declares that if Blu-ray will become the standard they are going to adjust the consoles and switch to the other format. A brilliant strategy since it eliminates consumers’ risk to buy the console. On the contrary, Sony will be stuck with the Blu-ray format in their consoles even if HD-DVD wins. Comparably, consumers purchasing a PS3 face high risks and switching costs if the Blu-ray does not win. So far, there are no incitements for consumers to purchase a Blu-ray reader and it can therefore be hard for Sony to convince the consumers that the price is adequate for something that they do not really need yet.

If Blu-ray is the winning standard, PS3 will be seen as a barging since the price of the Blu-ray players on the market are almost the double. Then, PS3 will get a big lead over Xbox 360. Although, once again, Microsoft will not have such a big shortcoming as long as they are willing to switch standard. Though, it will be both time consuming and require more financial investments since they have developed games and put money on the wrong format. However, one can argue that Microsoft has a disadvantage when not including a HD-DVD device since it is more fuss for the consumers actually wanting the device and therefore has to buy it as extras and extend the designed console with additional functions.

As the theory of a dominant design implies, availability of complementary goods is crucial in order to be successful when introducing a new format on the market. By choosing the less advanced technology Microsoft has had fewer problems with developing games compared to Sony. Sony is expected to get trouble to get a lot of games since the technology are too advanced for the game developers to use. Since games will take longer time to develop, Sony is expected to bypass profits. Furthermore, complementary goods such as HD-DVD movies are cheaper to produce and therefore have a better price level.

In the standard format war Microsoft’s competitive strategies are; a) supporting the cheaper format which is easier to produce resulting in a low price to consumers, b) lower consumer switching costs due to flexibility and c) reduced risk since the device is not built-in and therefore replaceable.

However, the discussion of the formats could be irrelevant if the format standards would co-exist on the market. Although, business analysts argue that the co-existence will only take place in the initial stage in the selection of a dominant

¹⁶¹ Interview, Jason Anderson, IDG consulting, 2006-12-19

design. At present, many of the big movie industry companies have chosen the safe way and are producing movies in both formats but this will eventually change in the future. By choosing to have the HD DVD as an extra device Microsoft has a great competitive advantage in this format war no matter the outcome.

5.3.2 Disruptive Technologies

Referring to the Disruptive technology theory, focusing too much on technology functionality can result in an overshooting of mass market demand. In the present console war Microsoft could come up as a disruptive technology. At present, Sony is focusing very much on raw power and extra functionalities, which can be highly risky since they might overshoot the wants and needs of the majority of their consumers. While PS3 can be attracting to hard core gamers, it may prove too complex and expensive for the remaining buyers.

This can turn out to be a great advantage to Microsoft. If Sony is overshooting the mass market demand, Microsoft has a chance to capture the unsatisfied segments such as children families and increase their market share in that area. To do this, Microsoft must act fast and further develop entertainment and children games. As the theory implies, becoming a disruptive technology is not about offering an inferior product, rather it is about satisfying consumer demand. In order to become a disruptive technology one has to discover the unsatisfied consumers and identify what these consumers value.

At present, PS3 has the highest technology level on the market, however there is a risk of including too many attributes that mass consumers do not ask for. Even if there are some high-end consumers that are interested in the most developed technology, it will probably not be in the same place as where the biggest share of the market will be. The question is whether gamers really have a need for all those functions on a video game console. Although, PS3 is giving Microsoft an opportunity to attract former Sony gamers, also Microsoft must be attentive not to open a window of opportunity for new disruptive technologies and should therefore have a close contact with consumers and listen to consumer demands.

At present, the one company with a different targeting is Nintendo, who is focusing on children gamers only with a user-friendly console and simple technology. Furthermore, they have invented a completely new way to play games where the players have to do actual physical movements. Thus, Nintendo could come up as a disruptive technology. Threats from disruptive technologies are an important aspect to have in mind while developing consoles in the game industry. While the new consoles get improved functionalities also Microsoft must pay attention to what the demands of the consumers are.

If Sony is overshooting mass market demand Microsoft has a great opportunity to come out as a disruptive technology. However in order to do this they must a), identify potential unsatisfied consumers of Sony such as children b), identify what these consumers value and try to win them over through more games available, c) provide the consumers with a reasonable price level and d) be alert to potential emerging competitors.

5.4 Social factors

5.4.1 Online Installed Base

Referring to Schilling, regarding the ability to increase the network externality effects, a company should focus to extend the consumer installed base. The more people that are using a certain technology, the greater the utility becomes for the users. A great example of this is Microsoft's online community, Xbox Live. In line with Schilling's reasoning of signalling effects as a tool to increase the network externality effects, the community is an excellent way to signal that they can provide something special and valuable. The more users and members the community has got or is believed to have, the stronger becomes the signal to potential members that this is something unique. By studying Microsoft it has also become clear that their online community Xbox Live is an extraordinary competitive advantage and they have today a great lead over the competitors in this area.

Microsoft was first to start an online community for the gamers and since the establishment of the Xbox Live community it has grown to include 3 million members. However, with approximately 35 million units sold there are plenty of gamers left to attract. With the community Microsoft has a big promising potential and should therefore focus also on the gamers that is not using the community. Since they have already attracted them to buy the console there shouldn't be any great problems in attracting them also to the online network.

After statements from both Jason Anderson at IDG Consulting and also from Microsoft themselves about the success and importance with the community concept, we believe online gaming has a great potential to become even bigger in the future and therefore needs further focus in order to be improved and expanded. Today, they have a unique resource where relationships with and between consumers are created. The gamers are a part of creating the experience and value of the community that will consequently result into a greater brand loyalty. They have a place where they can meet, discuss games, play together and share experiences with other gamers sharing the same interest.

Microsoft's success with their online community has inspired Sony to create a similar website which was launched in 2006. Even if it is difficult to imitate and copy intangible value and loyalty from consumers, Microsoft's differentiation against their competitors has therefore started to decrease. Due to this, they have to develop something extra to show the consumers that they are the one setting the standards and that Sony is a follower. As Jason Anderson, IDG Consulting, states, online gaming are expected to become a key market which is a great opportunity for Microsoft to further exploit this area since they already have the "online-platform" ready to be developed and even more utilized. This is something Microsoft is well aware about and they have recently released the "XNA Game Studio Express" programme, where the gamers can create their own games online to the console. This is a new and innovative way to integrate the consumers and to link them to the console.

As a result from the discussion above, Microsoft has today several great advantages with their community such as a) a big installed base which signals quality to both established and potential consumers, b) they have been alone in this area on the market and has therefore gained a large head start and experience, c) loyalty and intangible value that can be hard to imitate for competitors.

5.4.2 Complementary goods

The theory of the Virtuous Cycle further explains the importance of complementary goods in consumer technological industries where a great supply often influences the consumers' choice of purchase. Similarly, in the game console market the more complementary goods that are available, the higher are the incitements to buy that particular console, and hence the installed base increase. In the console industry complementary goods are in particular games, although with development of multimedia functions, DVD movies and CDs can be considered as complementary goods too. In other words, when consumers are purchasing a console the game supply is the decisive factor and one can argue that the more games a console has, the greater becomes the utility for the users.

According to Microsoft they are now aiming at the broader mass consumer market, widening their target segment from hard core gamers to children and families. However, the supply of games is still dominated by games for the hard core segment and if heading for these new segments, they must develop much more games in this area. Recently, Microsoft launched a potential hit game targeting children, Viva Piñata which is a good start to attract also younger gamers.

However, the development of those games needs to be faster and more focused if they should be able to attract the mass market and win over segments from Sony. The manager for EB Games explained that PS2 has twice as much shelf space in the store as Xbox 360 due to the fact that Xbox 360 does not have the same quantity of games. This means that many children families during the holiday season has preferred to buy PS2 instead of Xbox 360. The lack of games for the wider audience is a clear disadvantage to Microsoft since there is no obvious reason for children families to buy an Xbox 360 as long as PS2 is still out on the market offering loads of entertainment and children's games to a cheaper price. Furthermore, there is also the third actor Nintendo offering such games. Therefore, in order to *reduce* potential buyer's *resistance* to purchase an Xbox 360, Microsoft has to develop a wider and broader range of games in a faster pace than what they currently are doing to be able to fill this gap and to satisfy a larger group of customers.

However, once PS3 is available in all regions, PS2 is expected to be out of the market in a year's time. Since PS3 has a significantly higher price than PS2 there might be many consumers that do not upgrade to PS3. If Microsoft by then has a plentiful supply of children and family games they should have great possibilities to attract these consumers. In sum, crucial aspects for Microsoft to consider are therefore to a) develop more family and entertainments games in a faster pace than what they currently are doing and b) develop more exclusive game titles in order to provide "hit-games".

5.4.3 Alliances

According to the theory of accelerating the virtuous cycle in network externalities, alliances and relationship with complementors and other interest groups are critical. One way to prevent Sony to win the DVD standard war that can give the PS3 advantages if Blu-ray wins, is to focus on creating relationships with game developers but also with movie makers and other important complementors. Consequently, relationships and alliances are of great importance for the company when heading for the leading position since the more supporters one has, the easier it is to create value for the consumers. As discussed earlier, it is also vital for Microsoft to have a wide range of “Hit”-games, which complementors can provide. Therefore good deals and contracts are important to attract successful game developers and Microsoft need to further increase their incitements to sell the property rights to Xbox 360 instead of PS3. In other words, to be able to offer as many exclusive game titles as possible, having good relationships with game developers is crucial.

Good relationship with retailers are also important since they are the last impression the consumers have before they buy a console and what they say can influence the choice of purchase. Especially for consumers that are less familiar with the different console options on the market, a retailer’s recommendations and advice is important. One example is Björn Beck at EB Games who does not think that PS3 will be on the European market in March, which is also something he says to the consumers. Consequently this can lead to that some consumers prefer to buy another console instead of waiting. In other words, it is important to increase the retailer’s incitement to promote Xbox 360 which can be done by having good agreements and sales margins. Today, Microsoft has contracts that are profitable for both parts, where retailers who are good at promoting Xbox 360 are provided with marketing support and other benefits. This is a good strategy to increase the retailer’s incitement to sell their product, although, they should try to develop a two-way communication and cherish the relation even more. Another option for Microsoft is to hire or buy famous game developers through acquisitions and in that way secure them to their brand.

In accordance with the theory, Microsoft has cooperated with external companies such as Burger King, a relationship that helps and benefits both Microsoft and Burger King. In such relationships, there is no threat that the one of them will become a potential competitor. Instead, they are using each others well known brands on the market to strengthen their own. Through Burger King, Microsoft reaches consumers in another way. In that way they build a greater awareness of their brand through new channels and raise the knowledge about their product subconsciously at potential gamers.

After this discussion we can see that Microsoft is building relationships through alliances but also with other companies. To gain further competitive advantages which can have an influence in the battle for the top leader position they can: a) focus even more on having close relationships and exclusive contracts with game developers to get the rights to the hit games, b) develop extra profitable agreements for retailers and c) cooperate with companies in other industries that are not likely to be competitors in order to strengthen the brand image.

5.5 Strategic Factors

5.5.1 Path Dependency

Sony's long-delayed PS3 has given Microsoft several months of first mover advantage and the delay has come as a boost to Microsoft in the battle. The delay has given Microsoft a favourable position and a possibility to take market share and reduce the lead. According to the theory of Path Dependency, small random events such as a small initial lead can have a great impact on the outcome. History in the console business shows that a first mover advantage with a new generation console or at least a substantial lead is a clear advantage. In the last generation console war, Sony had one and a half year lead over Xbox and sold incredible 111 million units compared to Microsoft's sale of 25 million units. In the last war, Microsoft was a newcomer on the market with their console released quite a while after the competitors. In the seventh generation console war however, the conditions have changed to Microsoft's advantage and learning from the history, they have now a big chance to change the present market situation.

One important question we ask ourselves is; what significations does Sony's delay have on Microsoft's sales? One implication of this is that Microsoft has got another lucrative Christmas holiday season sale in Europe without PS3. Sony believes that the Europeans are willing to wait and therefore PS3 has been released in Japan and the US first. However, Europe is a huge market and if people are not willing to wait, Sony will definitely lose many potential buyers in Europe as well as their existing gamers switching to another brand. Furthermore, Sony has given several release dates for the PS3 during the last year with many broken promises. Therefore it is not sure whether neither retailers nor consumers in Europe actually believe that PS3 will be out in March 2007. If it is not, it could lead to a great gap in the market demand which Microsoft should focus on to fill.

With a one year head start, Microsoft has also had the time to refine the product and offer more complementary goods such as exclusive game titles. This means that Microsoft has loads of fresh game titles while PS3 and Wii only have a handful of new games available. The dearth of new games might discourage people from buying PS3 and Wii. For gamers who want to be able to enjoy their new console fully, the Xbox 360 therefore appears as a better option since they have more new titles. However, one can argue that Microsoft did not clearly see the window of opportunity since they have had a whole year to develop family games and has only come out with a few such games by the end of the year.

According to many business analysts, the market shares are expected to equalise in the future with a decrease of Sony's shares. They forecast that Microsoft will reduce Sony's lead and capture 40 percent of the market reducing Sony's market share to 45 percent. Even if these numbers are only estimations, Sony's delay has been a golden opportunity for Microsoft to attract new buyers and increase their market share. At present both PS3 and Wii has now been released in Japan and the US, although they both have problems with shortages of consoles, the same problem that Microsoft was struggling with during their release with Xbox 360 a year ago. After a year on the market, the production speed of Xbox 360 is now coherent with market demand and there has been plentiful of Xbox 360 consoles

to the Christmas holiday. This means that although the other consoles have now been released, shortages of them force people who are not willing to wait to buy what's available, which will either be Xbox 360 or an old generation console.

However, although many business analysts agree that Microsoft will increase their market share at the expense of Sony, winning over consumers is not an easy task, since it requires much effort to convince people to switch brand. This is because the consumers on the market have high switching costs; most people do not buy more than one console and gamers that are satisfied with PS2 are more likely to be willing to wait for the sequel. They do also already have a lot of games from the old predecessors that will be compatible with PS3 that will be useless if they change brand.

However, due to the high price of the PS3, devoted hard core gamers are the ones most likely willing to wait. Therefore, it should be easier to win over the consumers in the mass market. This is also coherent with Microsoft's new strategy profile where they aim at targeting also mainstream consumers. There is also the new generation gamers that has not bought any console yet to target. Microsoft are today using the slogan, "Jump in" trying to convince the gamers to jump in to the next generation console today instead of waiting for the PS3. A signal to the consumers that the next generation gaming experience is now and that there is no need to wait.

Also, another strategy for Microsoft to consider is that once PS3 is available in all markets they could start hinting about their next generation console, creating a buzz on gaming sites to make potential buyers to wait for the next Xbox instead of buying PS3, a strategy to put the market "on-hold". This might be an effective strategy since there tend to be a "wait and see" attitude among consumers in the market who prefer to wait for prices to drop and product features to rise.

In sum, the benefits for Microsoft from the delay of PS3 has been a) a lucrative holiday season in the second biggest market Europe, without PS3 b) they have no shortages of consoles and can satisfy the demand, c) they have more new game titles to Xbox 360 compared to PS3 and Wii and d) they can capture consumers who are not willing to wait e) they have had the time to attract new generation gamers, f) they can hint about a new console and creating a buzz and g) they have an initial lead of 10 million sold units. Although, they have some disadvantages they need to focus on a) Sony's gamers are loyal and willing to wait, b) the lack of family games to Xbox 360 might make people buy PS2 instead.

5.5.2 Price

At present, Microsoft has chosen a price strategy in the middle of the two competitors; they are not the most expensive one, but not the cheapest console either. Consequently, the high price of PS3 comparably makes the price for the Xbox 360 to seem decent and affordable. With a position in the middle and with a relatively slightly higher price than Wii, Xbox 360 should be affordable for children families. At the same time, they do not provide the most developed technique or the simplest. According to Microsoft, they set the price after the production cost and expect to get the revenues from the games.

In accordance with Christensen, to prevent a threat from disruptive technologies, having different price options to the consumers is one method to overcome the problem. Since Microsoft provides different levels of price and technology they can satisfy a wide range of consumers. Microsoft has today two different kinds of consoles and the consumers can also choose with extras they want to have, and as Microsoft state, they do not force the consumers to pay for anything they do not want. However, even if the price initially is lower than the PS3, if one includes all the extras that the consumers can buy to the Xbox 360 that is included in the PS3 price, actually, the Xbox 360 is 30 percent more expensive. But, still, not all the consumers demand all the extra accessories to the console and the disruptive technology theory are therefore in line with Microsoft actions.

In line with Schillings theory how to accelerate the Virtuous cycle, companies in consumer technology industries often sell their products greatly discounted and instead focus to gain profit from complementary goods and future sales. This strategy is apparent in the console market where the consoles are *aggressively discounted* and sold to an initial loss. Although, how much they are discounted is not clear and Microsoft themselves disagrees that they are sold at a loss, although they have stated that the margins are small.

One great advantage Microsoft has with Xbox 360 in the competition with Sony's PS3 is that they already have had time to pass the problem with sales to a loss or with very low margins, while business analysts expects Sony to have a loss at 2000 SEK on each console. According to analytical research firms within the industry also Microsoft had this problem in the launch of Xbox 360 but is today reported to have a profit on each console. Since Microsoft has higher margins due to decreasing production costs it enables them to lower the price in the future and thereby constituting a good position to put price pressure on Sony.

If Sony has a great loss on each console they must sell as many consoles as possible to the early adopters before they can start to lower the price and attract the majority of the consumers. This means that it will take quite some time before they can offer a price level suitable for the mass consumers. Therefore, lowering the price of Xbox 360 in the mid 2007 or in March, when PS3 is expected to be released, is a great opportunity for Microsoft to put pressure on Sony.

Also offering a lower price on the core product is a good strategy to attract consumers since it lowers their switching costs. Given that a console is cheaper to buy it is a relatively low switching cost to buy another brand. Since Microsoft has been one year ahead of Sony they can now lower their price on the console. At the same time they can try to sell as many games as possible and in that way higher the switching costs again when won over the consumers.

One can also argue that Sony's PS3 is simply too expensive which might put off many consumers from buying the console. Furthermore, Sony's marketing of PS3 as a luxury product might result in a business strategy that is not appropriate when aiming for the mass consumer market. Consequently, with the highest price tag ever on the market Sony is running a great risk of losing consumers in the mass market which should give Microsoft an opportunity to win over Sony's former gamers. Consequently, the price sensitive consumers buying a new console are

likely to choose Xbox 360 or Nintendo instead, an advantage that Microsoft needs to focus on to win over the consumers.

Though, one large segment group, the hard core gamers, tend to be brand loyal and price insensitive mainly since they are in their 20s and 30s having more money to spend on expensive consoles than young children where the parents pay for the console. Because of this, that segment needs to be targeted in another way than the price and it is therefore the great mass consumers that can be attracted with the price. If Microsoft can win over gamers from the mass consumer segment they will definitely have a great chance to increase their market shares. However, Nintendo's Wii is the cheapest console on the market, so if Sony is to loose consumers that will likely be to both Microsoft and Nintendo.

In sum, Microsoft's advantages are: a) a high technology product with multimedia possibilities to an affordable price and b) profits on each console. Furthermore, by utilizing these advantages even more they can use strategies like; c) put price pressure on Sony when they release PS3 d) offer several price levels and e) lower the consumer switching costs.

5.5.3 Strategy Canvas

To be able to clearly see what strategies that are used in order to attract consumers in the console industry and what strategies Microsoft is using compared to their competitors, we have chosen to summarize and illustrate the factors of competition in a strategy canvas. By depicting important factors in the industry we can compare the strategy profiles to see how distinct and unique Microsoft's strategies are and also to distinguish possible similarities. By drawing a canvas it is also easier to discover adoption obstacles for the non-gamers and to identify which factors should be changed, eliminated or created.

According to Mauborgne & Kim, the purpose of a Strategy Canvas is to illustrate a company's strategy profile relative to its competitors; however exact numbers is not the issue in this diagram. Thus, our purpose is to highlight the focus areas in the industry. Drawing a strategy canvas is fairly easy in the theory although it is a great piece of work in practice with a lot of research and work. We would therefore like to stress that the numbers given to the companies in the diagram is roughly estimated by means of our interviews. Furthermore, when comparing game supply, we have taken games for PS2 and Gamecube into account since PS3 and Wii are backwards compatible and since there are only a few games out for the new generation consoles, comparing that supply with the one of Xbox 360 would give a misleading picture of the conditions.

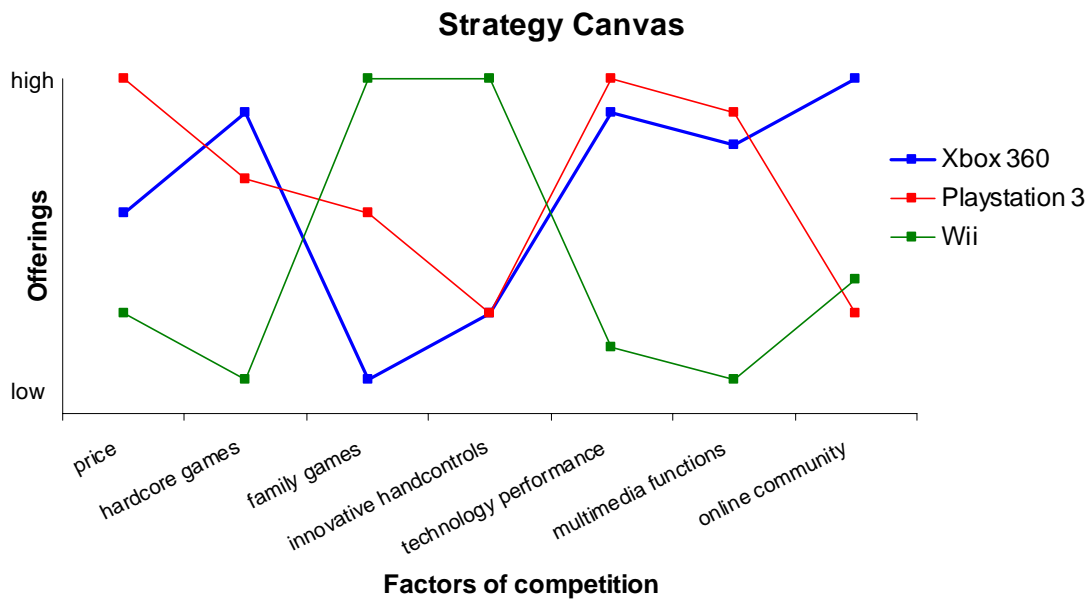


Figure 5.1 Strategy Canvas over the video console industry

As can be seen from the picture Microsoft's most distinct characteristics are their price level, their assortment of hard core games and their online gaming community. Furthermore, both high technological quality and multimedia capabilities are focused on. As one can see, Microsoft's strategy profile is at present coherent with their initial segment of hard core gamers with a great supply of such games and a less developed game range of family games. However, Microsoft's strategy profile is in an evolutionary process towards the mass consumer market. To attract the mass market and non-traditional gamers Microsoft is focusing mainly on development of mainstream games to establish Xbox 360 as the optimal multimedia platform that will entertain the whole family including women and other non-traditional gamers. However, since Microsoft has recently embarked on a new business profile they have only begun to develop children's games which is why this is not yet to be seen in the picture. By offering new games and multimedia functions Microsoft aim at extending their target segments and also to keep attracting the hard core gamers. In order to attract the wider market, the price level will be important.

When it comes to price, Microsoft is positioned in the middle with a higher price than Nintendo's Wii but with a significantly lower price than PS3. Since Microsoft is offering both high technological quality and multimedia capabilities to a price level reasonable for the mass market, they have a great competitive advantage. Though Sony's PS3 is offering superior technological performance it is to a significantly high price level which might deter the less devoted gamers. Also compared to Nintendo's Wii, Xbox 360 has an advantage in price since the functionalities of the Xbox 360 surpasses by far the technology of Wii yet to a reasonable price.

Another distinct feature is Microsoft's focus on the hard core gamers. By choosing one segment to target when entering the industry Microsoft has been able to build up a consumer base where they have become very successful. Also,

since the oligopoly market was split between Sony and Nintendo and none of them was focusing solely on this segment it could be further exploited and pave the way for Microsoft. In this segment, however they have a rival in Sony who targets both hard core gamers as well as younger gamers.

Microsoft's most distinct feature in their strategy profile and thus also their unique competitive advantage is undoubtedly their large installed base in their online community Xbox Live. Since Microsoft was first to identify the huge potential with an online service and to introduce the concept, they could reap all the benefits without sharing with any competitors. Furthermore, by creating a meeting place for gamers all over the world, sharing the same interest they can create a sense of belongingness and brand loyalty.

The factors that have been depicted in the strategy canvas are those of importance in the industry today. However, this can come to change in the future with technological innovations and development where new factors will be important such as online gaming and mobile phone gaming.

Up till now, Microsoft and their competitors have had somewhat different strategy profiles aiming for different target segments. However, by analysing Microsoft and their competitors' one can see that they are starting to become more alike on certain aspects. For example, Microsoft's competitors have now begun to realise the importance of a large installed online base and has started to develop similar online communities. Furthermore, both Microsoft and Sony are competing with high technology functions and multimedia capabilities. Also, Microsoft has started to sell children's games and highly promoting their first "hit" game in this area, Viva Pinãta. By targeting younger children Microsoft will enter Nintendo's focus area and they are also taking up the fight with Sony not only on the hard core gamers but on the whole market. This will make Microsoft's and Sony's strategy profiles similar, focusing on the same factors. That would at the same time make Nintendo's strategy profile the most unique one.

In other words, if Microsoft is about to target the mass market they should try to push their unique selling points like the online community in order to still have a competitive advantage and to have a distinct point in their strategy profile. This leads us into the discussion of the creation of a Blue Ocean Strategy.

5.5.4 Blue Ocean Strategy

Today there are three dominant actors in the game consol market and the battle for the consumers are getting more intense. From the strategy canvas one can observe that the companies have different focus on several factors. However, after extensive research and interviews it is now possible to see that the companies are getting more alike. If Microsoft is to target the mass consumer market they will enter a market where the leader Sony is very successful. This will also make Microsoft's and Sony's strategy profiles very similar. Therefore Microsoft must offer the consumers additional value in a way that the competitors do not. To avoid getting into the Red Ocean for Microsoft, where they are now heading due to their change in strategy profile, we believe a Blue Ocean strategy becomes highly relevant for the company in the future.

When studying the strategy canvas it becomes clear that Microsoft's unique selling point is their online community which is something they can use in order to enter a Blue Ocean and hence, make the competition irrelevant. Since the tenet in the theory is to create an advantage in order to make the competition irrelevant, the intangible resources in the community that is hard to imitate can form a strong base. However, both Sony and Nintendo have now understood the value of such a community and Microsoft therefore needs to invest extensive time and financial resources in order to sustain their lead in this area.

Although the competitors have now started to develop online services and meeting places, Microsoft has been in control of the online market and the reigning champion in this area for quite some time which would give them a considerable dominant advantage hard to imitate or replace. Furthermore, since Microsoft has been providing their gamers an online meeting place for a relatively long time they have been able to refine their website making it even more exciting and attracting for the users. Also they have had time to develop it with new possibilities and offerings. Therefore, Microsoft should have a substantial lead due to their knowledge and experience with an online community.

Due to the theory, to create value for the consumers, there are four questions a firm should ask themselves when challenging the present strategy profiles on the market to develop a Blue ocean strategy. These are:

1. Which of the factors that the industry takes for granted should be *eliminated*?
2. Which factors should be *reduced well below* the industry's standard?
3. Which factors should be *raised well above* the industry's standard?
4. Which factors should be *created* that the industry has never offered?

In the game console industry, it is not sure whether any factors should be completely eliminated. However, one can argue whether the gamers really care about such things such as the DVD-format. By studying the format war it appears that not even Microsoft believes that a DVD-format is what creates real consumer value and that other features are more important for the consumers.

The competitor Sony is of an opposite opinion and has invested heavily on the format spending huge financial resources as well as time to build in the Blue-ray format into the console. By having a flexible strategy in the DVD-format war Microsoft should have a great competitive advantage since they can not really loose the war.

Another factor that could be overestimated is the technological performance which can lead to a too expensive product for the mass market. Of course high quality, graphics and life-like play is important to improve the gaming experience; however one must be careful not to be blinded by technology, developing a too advanced product which can be replaced by a disruptive technology. When Microsoft is to widen their target segment to include the mass market they must consider how advanced the technology should be and consider if any devices should be either eliminated or reduced in order to offer user friendly products at a price level more suitable for the majority.

There are also factors that can be raised well above the industry standard. For example, Microsoft can approach the more non-traditional gamers such as women and young girls by identifying their adoption hurdles in order to attract new potential gamers. By targeting also potential consumers Microsoft should be able to increase their installed base substantially since attracting new consumers is certainly less demanding than attracting consumers from competitors. In order to attract new gamers low initial costs for the consumers are important such as an affordable price. Once these consumers are attracted however, Microsoft should increase the switching costs with a great supply of complementary goods.

Furthermore, Microsoft has increased the integration with their gamers by letting the consumers create games online. By making parts of the internal game development program XNA Game Studio Express public Microsoft is integrating the consumers. This co-creation of games with the consumers is a new idea which was introduced in the end of 2006. Since integration with consumers has just begun we believe that this is an area that Microsoft can make further use of in the future. In addition, multimedia capabilities might also be raised above the current industry standard.

Also, since Microsoft has extensive in-house competence and know-how in software and PC games as well as in online gaming, this could be further developed and raised above industry standard. Also, PC gaming and online gaming is expected to increase in the future. By exploiting their knowledge within this area they could integrate their software programmes and different gaming and also integrate their hardware such as different consumer technological products. By integrating both software and hardware Microsoft could increase the switching costs for their consumers making them harder to attract for competitors.

Since Microsoft has an extraordinary advantage with all the competence and knowledge on software within the company, this is an advantage they should utilize. The planned launch of the “Windows Home Server” is a great way to capture this knowledge and is a new and innovative way in how to integrate the console together with other digital media in order to establish Xbox 360 as a part of the entertainment and multimedia box. Instead of focusing to make the console as an option to the computer, they make it a complement. Since Microsoft has unique knowledge in this area compared to their competitors they have a great opportunity to succeed and a valuable source that is both hard and costly to imitate.

Finally, according to the theory, Microsoft has to create something new and unique to the market that no competitor has done before. A good example of this is Nintendo’s development of a new motion sensitive hand control for a more “life-like” experience when playing. Thus, they have created a completely new way of gaming by letting the gamers make physically movements when playing. The hand control has been described as “revolutionary” in the business and constitutes a good example for Microsoft to learn from. Furthermore, business analytics are speculating about a new voice technique to the console which Microsoft is developing. This could be a great opportunity to bring in new innovative ways to use the console and consequently enter a Blue Ocean.

When entering a Blue Ocean, it is not the core product or in this case, the hardware that is most important, rather it is the way the product is used by the consumers that must be identified. For example, Southwest Airlines has become very successful by comparing the convenience with flying by taking the car and has created a strategy with more in common with cars such as convenience and frequent departures. Similarly, Microsoft must identify how the consoles are used and what factors consumers value the most and in that way find out which features to emphasize in order to build a unique strategy.

6. Conclusion

In this chapter we will give our conclusions of the study. Based on our analysis, we present our answers to the sub-questions and the overall question, what strategies that are of importance for a challenger in a consumer technological market to attain top leader position.

6.1 Conclusions from the Microsoft Case

After studying and analysing Microsoft and the game console industry it becomes clear that this is a market place with remarkable ongoing changes. The long time market leader Sony has start stumbling and the second greatest actor Microsoft has got an opportunity to take over the gaming throne. After studying and analysing Microsoft and the game console industry it becomes clear that this is a market place with remarkable ongoing changes. Although one can not for sure predict how the future will be, the position between the companies in the gaming industry will be altered as they embark on new business profiles. History in the gaming industry reveals that nothing lasts forever and that even long time market leaders can be replaced if they are handing the challenger an opportunity. Therefore competitive strategies are crucial for Microsoft as well as exploiting their existing advantages in order to attain the top position.

What are Microsoft's competitive advantages?

One highly competitive advantage for Microsoft is that they have recognised the potential value in an online gaming community. With Xbox Live they have a great lead over their competitors and have created a space where competition becomes irrelevant. In addition, the community should generate benefits such as increased connection with and between the gamers which is likely to result in higher switching costs and thereby higher brand loyalty making Microsoft's gamers hard to attract for rivals.

Furthermore, due to their flexible strategy in the DVD-format war Microsoft has yet another advantage. When a technique is new and unproven it can be risky to stake everything on one card. Developing or supporting a technique that does not come out as the standard in an industry can lead to several problems for the firm and except from loosing money, a company might end up locked out from the market. Therefore by using adaptability as a strategy Microsoft has an advantage since Sony might stand or fall with the standard.

Also, Microsoft has a history as a frontrunner in computer software and a great in-house competence and by mass-distributing computer operating systems they have built up a standard which has excluded the competitors and made the users dependant on the programmes. This is a great potential for Microsoft and if they could build a software standard for game development programmes for mass-distribution they would have a great competitive advantage.

How can Microsoft take advantage from Sony's setbacks?

Since Microsoft have been selling units for a year's time the sales is likely to have driven down production costs which means that Microsoft has an advantage since they can exercise price pressure on Sony. Furthermore, Sony's strategy to position PS3 as a luxury product is likely to be more suitable for the high-end consumer segment thereby constituting a risk of overshooting the demand of the mass market. This may prove to be the golden opportunity for Microsoft to reach out for the mass market and by that increase their market share and power. In addition, even if Nintendo aim for the top position, Microsoft is the nearest equivalent when it comes to technological functions and multimedia performance.

However, since Microsoft's objective is to embrace the overall market, they have a big disadvantage at present since they seem not to have fully seized the moment. During the whole year at the market they have only released a handful of children's games. Since Microsoft now is targeting the greater majority we believe that by not offering mainstream games they are missing the mass market. In other words, PS3 delay has been a great opportunity and Microsoft could have exploited this even further.

How should Microsoft act to become the market leader?

If Microsoft is aiming for the mass market their strategy is not coherent with their objective, resulting in an ambiguous strategy profile. Thus, for a challenger aiming for a top position a focused strategy profile is crucial in order to know how to focus resources and actions. Therefore Microsoft must decide what to focus on and create a clear vision and strategy profile. This is essential and they should therefore put more efforts to release loads of entertainment games as soon as possible. Especially in consumer technological industries a great supply of complementary goods is essential in order to attract consumers and increase the installed base, thus a lack of complementary goods can result in great difficulties in attracting both new consumers as well as the consumers of the competitors. To be able to offer the best game supply on the market, Microsoft should promote long lasting and sustainable relationships with other companies such as retailers and external game developers.

Since Microsoft will target the mass consumer market their strategy profile will become similar to Sony's. However, we believe that in order to be real powerful Microsoft must be embraced by the mass market. When taking up the fight with Sony they could therefore try to find a unique way to offer consumer value that is hard to imitate. For example, they can further develop their online community to stay ahead of the competitors. Microsoft has today started to offer the gamers the possibility to rent movies over the Internet. Another example is that Microsoft has made parts of their game developing program public to let the consumers create games and be a part of the whole process. Also they can focus on innovations such as voice technique, integration and compatibility between all Microsoft's consumer technological products.

Furthermore, if gaming is to be a social phenomenon engaging the whole family, Microsoft has an advantage with their multimedia focus. By integrating their

consumer hardware products as well as their games and online community their purpose is to create an integrated entertainment concept. By identifying new ways to use the product they can make the competition less relevant. In addition, they have experience with PC gaming as well as in online gaming which can be expected to increase in the future. Therefore if they can utilize their in-house competence in this area and come up with innovations they could enjoy great possibilities to influence the evolution in the gaming industry.

6.2 The Contribution of the Thesis

After analysing Microsoft's position in the video game console industry we have been able to identify what strategies and actions Microsoft must take in order to reach the top position. We believe it is reasonable to assume that these findings could be valid also to other challengers in consumer technological markets. However, we would like to stress that since we have conducted a qualitative case study we do not mean that our contribution is generalizations in statistical terms rather the contribution is in form of an analytic discussion and increased knowledge within the area that can be useful in the study of other challengers. The following strategies have been identified by posing our overall research question:

What are the important strategies for a challenger in consumer technological markets to attain top leader position?

1.) Identify Windows of Opportunity:

If there is a great distance between the market leader and the second greatest actor where the market leader has significant greater share of the market, it can be quite difficult for a challenger to reduce the lead. However, golden opportunities may arise, either by mere chance or because the competitor stumbles or makes a mistake that is advantageously to the challenger. Then, the challenger must be perceptive to when such an opportunity arises and also grasp it in time to be able to utilize it fully. If the market leader is changing their business profile it can be an opportunity for the challenger to capture potential unsatisfied consumers.

2.) A focused Strategy Profile:

Furthermore, a company that has a new vision and strategy profile must be aware of where they are heading and make sure that they actually do what they say they are. Also, when changing strategy profile to compete with the market leader, the vision and strategy must be coherent to keep focus.

3.) Promote new and innovative ways to use the product:

If aiming the same target segment using a similar strategy as the market leader, one must find something unique and valuable to offer the consumers to become successful. If the challenger has new innovative ideas of how to use the product that should be reflected in their business strategy profile and clearly communicated to the consumers. Furthermore, if the company has know-how in a

certain area that could be useful in the new fields of application they have a competitive advantage here.

4.) Adaptability:

Although, flexibility is important in most cases, it is perhaps even more crucial in technology industries where there are rapid technological improvements. When there is a competition on a dominant design the companies are facing a risk of possessing an obsolete technology if they loose the war, making their product incompatible with the standard. Consequently, stake everything on one card can be risky if it turns out that one has backed the wrong horse. Therefore, creating back-up plans to gain adaptability is a good strategy in order to become flexible and less vulnerable.

5.) Great supply of complementary goods:

In consumer technological industries, a great supply of complementary goods is crucial in order to attract consumers since this generates higher value for the consumers.

6.) Utilize in-house competence:

A challenger and a market leader can have different backgrounds. Therefore, if the challenger possesses in-house competence within a certain area that the leader does not have, they should try to find ways to combine and utilize this knowledge with the industry where they are the challenger.

In a consumer technological industry one can neither make oneself comfortable with existing technology nor get too occupied with developing too advanced technology since that will leave room for a challenger to take initiative which can lead to an accession of a new leader. Since market leadership seldom lasts forever, the challenger will always reflect on strategies to take over the top position. As a challenger it is therefore natural to aim at a leading position and to be outstanding since there are rapid changes which can make one's products and technology outdated. Especially in technological industries that are very changeable it can never be a lasting strategy to be satisfied with a second position.

The 80s were the era of Nintendo, the 90s was dominated by Sony, is the 21st century the future era of Microsoft? No one can say for sure what is going to happen but we truly believe that Microsoft has good prospects to achieve the top position although there are some important advantages to further exploit and strategies to develop to get there.

7. Final Thoughts

In this chapter we will give our final thoughts of the study as well as proposals for future research. The chapter is concluded with our thoughts about the constructed theoretical model that has guided us in the study.

7.1 Concluding Remarks

In most consumer markets there are fierce ongoing battles for market shares with companies striving for a leadership position. Although, it is of frequent occurrence in widely spread markets it is perhaps even more apparent in oligopolies. In such markets the difference in division of market shares becomes more apparent and the actors become well aware of each others positions and strategies. The game console industry is a typical oligopoly market with three giants dominating the market. The console market is also clearly divided between the three, where the actors have had their own positioning and target segments. The implication of the industry structure is that there has been a tendency to implicitly share the market. However, since Microsoft is to enter the mass consumer market, they are challenging the competitors and the industry dynamics.

The warfare situation between few direct competitors are quite common in several different industries like the soda war between the market leader Coca Cola and the number two player Pepsi and also the mobile phone war between Ericsson and Nokia. These wars each illustrate examples of competition between a leader and a challenger. In the former case, Pepsi always seems to be considered to be the second player, whereas the latter case illustrates that even a market leader might loose their position in favour of the number two actor. Since the phenomenon that has been studied is common, our conclusions and findings should be valuable not only for Microsoft in the game console industry but also to other challengers in consumer technology industries.

By analysing Microsoft we have been able to answer our main question and identify important strategies for a challenger aiming for the top position in a consumer technological industry. At a first glance, our findings and conclusions about important success factors and strategies may seem obvious, however, one should keep in mind that they are not that evident and easy to identify and implement in practice. These strategies and factors are relevant in the competition in the game console industry; however it can be difficult to make generalisations to other consumer technological markets, since they can be quite different in structure and dynamics. For example, the fact that the game console industry is an oligopoly market might have an impact on what strategies have been found to be of importance. Other consumer technological industries can have full competition and thereby other prerequisites generating conclusions containing other strategies and factors. Therefore, we think that the knowledge of challengers could be further increased by complementary future research.

7.2 Future Research

When conducting our case study of a challenger we chose an external perspective studying Microsoft in relation to the industry context. To complement our view, a re-examination of Microsoft could therefore include a research from an internal perspective focusing on the internal core resources such as in-house competence, experience, organizational culture etc. Within the field of strategic management and challengers, future research could also include more study on what the differences are between the market leader and the second greatest actor. Since the challenger is very successful but still not the market leader, the market leader must have something the challengers do not have.

Future research could also include more studies within consumer technological markets in general since these markets tend to contain rapid technological developments and changing conditions for the actors. For example, it has become more common that companies in consumer technology industries are widening their product portfolio entering adjacent market. We believe that integration and compatibility not between standards but between products will become highly important in the future, an area we believe could be further investigated.

7.3 Concluding thoughts of the Framework:

In addition to our contribution with identifying successful factors and strategies for market challengers, we have also created a theoretical framework that can be a useful tool when conducting studies similar to ours. When conducting a qualitative research, common working procedure is to go out in the field, either with certain theories in mind gathering data that supports or contradicts the theories, or with an open mind where the data later in the process has to be sorted out and structured in accordance with the theory. Instead, we choose to conduct our research process from an entirely different mode of procedure. By creating a theoretical model we had a point of departure for all three stages in the research process, when assembling and structuring the data as well as when analysing the material. This further enabled us to clearly see and identify important aspects of our findings. The fact that the framework was created in an initial stage of the study and used during the whole research process has contributed to the full utilization of its guidance functionalities.

In the initial phase of the study, the framework gave us direction in the research procedure making it easier to identify relevant information and thereby facilitating empirical collection. In the next stage when the data was to be organized and sorted out the formation of the model was used but with headings that suited for the empirical data, this since we had additional findings that could not be categorized. Finally, when analysing the data the structure of the model was used. This has facilitated the analytical procedure since it eliminated the risk to overlook important aspects at the same time as it helped us to know what aspects to focus on. Finally, by creating a model that runs all through the thesis it has been easier to get a coherent and well structured text. In other words, our model has come to play a great part in the working process of the thesis.

The theoretical framework consists of three key themes, strategic, social and technological factors. We believe these are important aspects for a challenger aiming for the top position and they have been the foundation to our study. Our research has been conducted with an external industry perspective where the case company Microsoft has been put into the industry context. Consequently, a wide and broad view was important which further support the three chosen themes instead of focusing on only one since this can constitute a risk of missing important aspects and not give the whole picture. Therefore, by means of our model, theories concerning different external conditions and consumer technological industries and have been gathered in a meaningful way. Thus the model has been very helpful in order to execute an external study of a challenger and to get an industry perspective and an overall picture of the situation.

Our theoretical framework has proved helpful during our study and we truly believe that this is a great tool that can be useful also when analysing other challengers in consumer technological industries. If studying another company the three themes can have different importance and impact, if so, they can still be used but with different emphasize on each. Also what theories those are included under the different themes can easily be adjusted depending on what topic to investigate and the model can therefore become customized after the thesis purpose. Still, if choosing to conduct a study with an internal perspective the three themes are still useful since one can include other theories and factors under each box. However, the framework should be seen and used as a foundation and point of departure to a study, but it is truly important to be aware that the reality can include other factors that a theory does not take into consideration. Therefore, when departure from a framework and chosen theories, one needs to add also additional findings and facts, those that are present in specific contexts and that will vary depending on each research. Finally, we hope our model and mode of procedure can give inspiration to other researchers conducting similar studies.

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Appendix 1

Design of the consoles

Microsoft's Xbox 360



Nintendo Wii



Sony's Playstation 3



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Appendix II

Xbox 360 Games

