RAIS RESEARCH ASSOCIATION for INTERDISCIPLINARY STUDIES
AUGUST 2019
DOI:10.5281/zenodo.3386110

Electronic Arts: Strategic Differentiation in the Global Video Gaming Industry

Thomas Teeter[1], Dr. Ryan Lunsford[2]

[1] *DBA Student, University of the Incarnate Word, San Antonio, TX, USA, teeter@uiwtx.edu*
[2] *Professor, University of the Incarnate Word, San Antonio, TX, USA, lunsford@uiwtx.edu*

ABSTRACT: Electronic Arts Incorporated (EA) is a leading global developer of video game software with FY2018 revenues in excess of $5B. And although the organization has demonstrated innovative leadership in the industry for many years and has an established portfolio of "hit" game titles, industry trends have created an increasingly competitive environment. Digital game distribution, for example, has dramatically reduced the cost of product delivery, but has also negated a previous barrier to entry for new competitors. In a $36B industry that has been completely reshaped by digital content and distribution, EA seeks to better engage and retain players via digital capabilities. This case study analyzes EA's differentiated competitive strategy founded on three pillars: Player-First, Commitment to Digital, and One EA. Each of these strategic focuses has a direct connection to trends in the transforming video game industry, as the company seeks to expand its player base across platforms, geographies, and business models. Together, these highlight the path for the company to operate more efficiently, create more engaging products and services, and develop increased customer loyalty towards EA games.

KEYWORDS: Electronic Arts Inc., digital content, video games, strategy

Introduction

Since its founding in 1982, Electronic Arts Inc. (EA) has grown to become one of the most profitable video game software developers and publishers in the world, posting revenues of $5.1 billion for the fiscal year 2018. EA's video game portfolio boasts top-selling video game titles across multiple platforms, including its Star Wars, Need for Speed, Battlefield, FIFA, and Madden NFL franchises. While EA has benefited from the success of such popular franchises, the rapidly evolving video game industry is becoming increasingly competitive as barriers to entry dissolve through digital distribution of products, independent game publication, and free to play video games. In an industry where success is heavily dependent on 'hit' games, EA faces intense competition from both established rivals and innovative newcomers. To remain competitive, the company has become increasingly focused on developing its relationship with video game players through online services and digital content (Electronic Arts 2018b). This case examines EA's competitive position in the video game industry and its player-centric, digitally focused strategy.

Video Game Software Industry

As a developer and publisher of video games, EA competes in the entertainment and games software industry, which is primarily focused on developing software that is compatible with existing video game consoles, personal computers (PC), and portable media devices. Console developers also compete in this industry by publishing proprietary games, which run exclusively on their respective hardware. The most popular current video game platforms include Nintendo's Switch, Microsoft's Xbox One, Sony's PlayStation 4, and PC. These consoles are referred to as eighth generation game consoles, which consists of gaming hardware released since the debut of Nintendo's Wii U in 2012. Although these platforms and their predecessors have long been consumer favorites, the rapid acceleration of technology in mobile devices over the past decade have spurred an increased focus on developing immersive games for cell phones and tablets (Kuchera 2018).

In 2017, software sales, including in-game purchases and subscriptions, accounted for 80% of video game industry revenues at $29.1 billion (ESA 2018). In an industry where a small number of 'hit' titles account for a large percentage of total revenue, each of EA's primary competitors, Activision Blizzard, Nintendo, Take Two Interactive, and Ubisoft, have established a solid portfolio of popular franchise games (Morningstar 2018). Franchise games are continuations that build upon the storyline, characters, or theme of existing game titles (Roberto & Carioggia, 2004). Recurring revenue and market share growth from these titles are critical to developers' success. Table 1 lists the ten best-selling games in 2017, all continuations of previously successful titles (Kaine 2018). While prevalent game franchises often account for a significant portion of a publisher's revenue, they also pose a risk to financial stability. Given the significant investment in development and marketing, a titles failure to generate sales can be detrimental to a publisher's bottom line (Roberto & Carioggia 2004).

Table 1. Top Selling Video Games 2017

Title	Publisher
Call of Duty: WWII	Activision
NBA 2K18	Take Two Interactive
Destiny 2	Activision
Madden NFL 18	Electronic Arts
The Legend of Zelda: Breath of the Wild**	Nintendo
Grand Theft Auto V	Take-Two Interactive
Ghost Recon: Wildlands	Ubisoft
Star Wars: Battlefront II	Electronic Arts
Super Mario Odyssey**	Nintendo
Mario Kart 8**	Nintendo
Source: Kaine (2018). Note. Not including digital sales.	

Traditionally, video games have been printed onto optical media and either shipped to retailers or directly to consumers through online purchases. The old distribution model has been increasingly disrupted in recent years, due to improving Internet speeds, and a significant increase in both physical and cloud storage capacity. Each year an increasing number of gamers choose to purchase downloadable digital versions of games over their disk predecessors. Digital video game sales exceeded box sales of video games for the first time in 2018 (Santiago 2018). While the shift towards electronic distribution of video games has the potential to reduce production costs for existing game developers, it also shatters a previous barrier to entry into the video game industry that has strategic planning implications. Entry to the industry no longer requires substantial investment in packaging, shipping, and complex channels of distribution as developers may now publish games directly to the chosen platform at a fraction of the cost.

Along with this, the industry has seen an influx of video games that are free for consumers to download and play but monetized through in-game purchases. Rather than paying for a game that they may not enjoy, gamers can test the game for free and decide whether to purchase additional content or the 'full version' of a game. This trend emerged from mobile platforms but has shown the potential to disrupt traditional console markets as well. In 2017, Epic Games, Inc. made a unique decision to adopt the free to play model, when a multiplayer shooter, Fortnite failed to generate expected sales at its original $40 price tag. Making the game free created rapid userbase expansion and the game earned over $150 million through in-game purchases of digital content, including weapons, in-game currency, and add-on characters known as 'skins' (Needleman 2018). This model promotes rapid user base expansion because it reduces the decision-making process for purchasers. However, it can be costly if large investments are made in titles that are not well-received or fail to stimulate sales of add-on content.

EA's Background

Trip Hawkins, a former director of strategy and marketing at Apple, founded Electronic Arts in 1982. Hawkins' vision for EA was to create a large video game production company that would seek out potential hit video games from independent developers, provide financial and project management assistance to the developer, and then distribute games to retailers under the EA brand (Roberto & Carioggia 2004). This was a fundamental shift from the common practice of smaller developers attempting to sell their intellectual property directly to console manufacturers. Through the early 1990s, EA saw continued success under the leadership of VP of sales Larry Probst by building its distribution capacity and selling directly to retailers.

When Hawkins left the company in 1991 to pursue other ventures, Probst took over as CEO and shifted EAs focus from marketing other developers' games to acquiring software distributors and development studios to acquire their technological capabilities, intellectual property, and human capital (Roberto & Carioggia, 2004). These acquisitions included companies such as Origin Systems, Maxis, and DreamWorks Interactive, among others. By successfully merging these newly acquired technology companies that were more narrowly focused on specific segments of the video game industry, EA built a well-rounded portfolio with a wide range of capabilities and resources. This expansion allowed the company to easily adapt its most successful titles for multiple gaming platforms.

In the late 1990s and early 2000s EA saw growing demand for online multiplayer video games as Internet speeds improved to rates that could handle the transmission of advancing graphics. The company capitalized on this trend by selling games that were capable of both online and offline play. They then offered a subscription service that allowed players to use the games online functionalities giving them a distinct competitive advantage in its sports and first-person shooter competitive online games (Eisanman & Wong 2006).

In 2007, Probst resigned as CEO, and John Riccitiello, a former EA executive, returned to serve in as the companies chief executive (Tassi 2013). Probst stayed on as Chairman of the Board of Directors and has served in that capacity since. Riccitiello was charged with leading EA through the rapid changes in the video game industry. Unfortunately, during his tenure, EA struggled to transition its business model toward digital game distribution and mobile development, and saw multiple game titles failed to meet sales expectations (Scherr 2013). He resigned as CEO in 2013, after the company failed to meet earnings expectations on multiple occasions (Tassi 2013).

EA and others in the industry have since continued to focus on building their online service revenue through in-game purchases, subscription services, and downloadable content. In 2018, EA's profits were just as dependent on the success of its online live services as its games. EA's Ultimate Team service, in which players of its sports games, such as Madden and FIFA, trade and collect digital 'cards' of professional players, and build a virtual team to compete against other player's personalized teams online, accounted for roughly 21% of the company's total revenue for FY 2018 (Electronic Arts 2018a).

Competitive Strategy

EA Sports executive VP, Andrew Wilson, took over as CEO following the resignation of John Riccitiello (Lenley & Sharr 2013). Wilson formed a new strategy for EA based on three pillars: Player-First, Commitment to Digital, and One EA (Electronic Arts 2018b). Each of these strategic focuses has a direct connection to trends in the transforming video game industry, as the company seeks to expand its player base across platforms, geographies, and business models.

Player-First

The Player-First strategy is focused on customer retention and relationship management. To deliver games and services that consumers find both enjoyable and valuable, developers must adopt a player's mindset to forecast player expectations on every level. Historically, EA has frequently failed to implement new business initiatives in a player-oriented manner (Tassi 2017). For example, the company received widespread criticism upon the release of the most recent installment of its Star Wars game franchise, Battlefront 2, which allowed for a quicker game progression advancement buy purchasing additional digital content. Following negative customer feedback and requests from licensing partner Disney, EA eventually halted microtransactions in the game to protect unit sales (Fritz & Needleman 2017). To avoid such potentially costly mistakes, EA must connect with players through in-game feedback channels. Player-First also means a focus on continuing to build on EA's most successful franchises, including FIFA, Madden, the Sims and Need for Speed (Electronic Arts 2018b). Retaining consumers who purchase each iteration of these titles is critical, as the development expenses are much lower for established games than completely new projects (Roberto & Carioggia 2004). EA also has the capability of adapting and extending the life cycle of its most valuable games through periodic digital content releases.

Commitment to Digital

In the past decade, digital media and services have vastly reshaped the way consumers engage with technology to consume media. Netflix, Spotify, and other digital streaming services using a subscription-based model, have seen overwhelming user growth. The video game industry has embraced the digital revolution, with game developers offering cloud-based game streaming subscriptions, digital game purchases, microtransactions, and virtual currency (Nowak 2018). Continuous development of digital media content and services is now a necessity to remain viable in the video game industry. EA's digital product revenue for the fiscal year 2018 accounted for 67% of the company's total revenue (Electronic Arts 2018a). The company wants to expand this portion of its business, as profit margins are higher for digital products versus packaged and digital capabilities give greater opportunity to engage players. EA offers subscription services: EA Access, and Origin Access, which allow players to download and play its most popular games for a monthly fee. The company also wants to continue developing mobile games which can be monetized through live services (Electronic Arts 2018b). Mobile games give EA additional flexibility in generating revenue, as they can monetize advertisements in free-to-play games, even if player's never make an actual purchase. The combination of subscription-based gaming, live streaming services, and mobile gaming capabilities will be critical as the video game industry shifts away from the traditional console towards universal playability (Kaine 2017).

One EA

EA's acquisition of several successful game developers in the 1990s gave the company a breadth of talent, technological capabilities, and intellectual property (Roberto & Carioggia 2004). The purpose of the 'One EA' model is to leverage the company's scale and resources to create a value chain that allows the company to deliver similar game experiences across as many platforms as possible (Electronic Arts 2018b). EA has moved all of PC and console development to a single game engine so that employees with varying expertise can now develop across multiple titles seamlessly. An initiative called Project Atlas is also underway at EA to develop a cloud-based game processing which could bypass the capabilities of individual hardware through the processing power of servers, which is the next step towards a unified user experience for purchasers of EA games, regardless of the console (Smith 2018). By adopting consistent methodologies across the company, EA hopes to identify ways to improve player experiences and introduce existing players to other through its subscription services (Electronic Arts 2018b).

Recommendations

Wilson's three-pillared strategy for Electronic Arts, focused Player-First, Commitment to Digital, and One EA, addresses the most critical priorities facing the video game software industry. Player-First improves the way EA approaches player acquisition and relationship management. Commitment to digital confronts the rapidly expanding preference of digital media by both consumers and video game developers. One EA recentralizes the company, by adapting processes and organizational structure, to create a more efficient value chain. These foci complement each other and overlap to create a comprehensive strategy, but to ameliorate this strategy, EA must consider two more specific considerations that may reinforce the three pillars.

First, EA must fix its reputation of putting profits over players. The company has long received criticism for inadequate customer service and poor monetization tactics (Campbell 2012). Additional downloadable content and live services are a critical revenue pipeline for all game developers, but EA has been particularly scrutinized for its inability to forecast gamer expectations. Consumer outrage upon the release of Star Wars: Battlefront 2 surrounding the ability for gamers to purchase additional content that gave an unfair advantage exemplifies the improvements still needed to achieve its goal of being a Player-First company (Fritz & Needleman 2017). Electronic Arts should consider utilizing in-game social networks, already part of the One EA emphasis, to obtain direct customer feedback about what digital products gamers find valuable at varying price points.

In-game social networks are a powerful source of data, which EA can leverage to improve upon existing products and services, develop new offerings, and forecast how customers may respond to pricing tactics. While some industry leaders, including Take Two Interactive's CEO Strauss Zelnick, feel that larger game developers are not threatened by the free to play access of games like Fortnite (Fritz & Needleman 2017), EA must consider how the preference of customers shift over time. With the advancement of markets of one, EA must consider how its pricing structures can attract the largest number of players. One way that EA can do this is by diversifying the channels that players can access games. EA Access and Origin Access are subscription services for Xbox One and PC that allow players to access a library EA games for a monthly fee. Expanding these services to capture market share of video game subscribers must be a priority given the expansion of online-only media subscription services in all entertainment industries (Lee 2018). Another approach that EA should consider piloting is providing customers with the option of purchasing access to certain modes versus full-versions of all games. For example, Madden 19 has various game modes including Franchise, Exhibition, Online, and Longshot. Some players may use all game modes and want the full version of the game, typically priced at $59, while others may use online or Franchise modes exclusively and prefer to pay accordingly. Although this may not be a viable option for all its titles, EA should consider the potential ability to expand its player base through tiered pricing.

Conclusion

The rise of digital media and services created a new playing field for the video game software industry. Game software developers, including EA, now benefit from increased margins, direct customer access, and additional revenue streams via digital content, add-ons, and services. Along with the benefits of technological innovation comes the realization that, as when EA was founded, business models must be adjusted to meet changing consumer preferences. Even independent video game developers with relatively low budgets, now can reach consumers directly via digital distribution, which means increased competition for established companies. EA's strategy to remain competitive includes three pillars: Player-First, Commitment to Digital, and One EA. Together, these highlight the path for the company to operate more efficiently, create more engaging products and services, and develop increased customer loyalty towards EA games. However, to fully realize these ideal traits, EA must repair its reputation with video game consumers, grow its subscription services, and utilize in-game social networks to better understand consumer demand.

References

Campbell, C. 2012. *Why do people 'hate' EA?* IGN, June 14. Accessed June 1, 2019. https://www.ign.com/articles/2008/02/05/interview-with-peter-moore.

Eisanman, T., & Wong, J. 2006. Electronic Arts in online Gaming. *HBS No. 9-804-140*. Boston, MA: Harvard Business School Publishing.

Electronic Arts. 2018a. "Earnings Release." *EA Investor Relations,* September 30. Accessed June 1, 2019. https://ir.ea.com/home/default.aspx.

Electronic Arts. 2018b. *Form 10-K 2018*. Accessed June 1, 2019. http://ir.ea.com/secfiling.cfm?filingID=712515-18-24&CIK=712515.

ESA. 2018. "US Video Game Industry Revenue Reaches $36 Billion in 2017." *Entertainment Software Association,* January 18. Accessed June 1, 2019 https://www.theesa.com/news-resources/.

Fritz, B., & Needleman, S. 2017. "Electronic Arts Pulls Microtransactions From 'Star Wars Battlefront II' After Fan Backlash." *The Wall Street Journal*, November 17. Accessed June 1, 2019 https://www.wsj.com/articles/electronic-arts-pulls-microtransactions-from-star-wars-battlefront-ii-after-fan-backlash-1510936871?mod=searchresults&page=1&pos=4.

Kain, E. 2018. "The Best-Selling Video Games of 2017." *Forbes,* January 19. Accessed June 1, 2019. https://www.forbes.com/sites/erikkain/2018/01/19/the-best-selling-video-games-of-2017/#794e82fc6226.

Kaine, E. 2017. "Xbox Chief Phil Spencer Is Right About The Future Of Console Games." *Forbes,* April 12. Accessed June 1, 2019. https://www.forbes.com/sites/erikkain/2017/04/12/xbox-chief-phil-spencer-is-right-about-the-future-of-console-games/#d2bf4f228f54.

Kuchera, B. 2018. "Next generation consoles are heard but nt seen at E3 2018." *Polygon,* June 11. Accessed June 1, 2019. https://www.polygon.com/e3/2018/6/11/17449338/next-gen-consoles-e3-2018-xbox-ps4.

Lee, P. 2018. "*Digital media subscriptions on the rise*." *The Wall Street Journal,* May 24. Accessed June 1, 2019. https://deloitte.wsj.com/cmo/2018/05/24/digital-media-subscriptions-continue-to-rise/.

Lenley, M., & Sharr, I. 2013. “EA CEO John Riccitiello Is Resigning: Here’s His Farewell Letter.” *The Wall Street Journal*, March 18. Accessed June 1, 2019. https://blogs.wsj.com/digits/2013/03/18/ea-ceo-john-riccitiello-is-resigning-heres-his-farewell-letter/.

Morningstar. 2018. “Industry Peers EA.” *Morningstar Investment Research Center,* November 5. Accessed June 1, 2019. http://library.morningstar.com.uiwtx.idm.oclc.org/stock/industry-peer?t=EA&region=USA&culture=USA.

Needleman, S. 2018. “How 'Fortnite' Defied Convention and Became a Hit.” *The Wall Street Journal*, February 16. Accessed June 1, 2019. https://www.wsj.com/articles/how-fortnite-defied-convention-and-became-a-hit-1518786000.

Nowak, B. 2018. “Video Game Publishers Flip the Swithc on Business Model.” *Morgan Stanley Equity Research*, February 26. Accessed June 1, 2019. https://www.morganstanley.com/ideas/video-gaming-publishers-2018

Roberto, M. A., & Carioggia, G. M. 2004. Electronic Arts: The Blockbuster Strategy. *HBS No. 9-304-013*. Boston, MA: Harvard Business School Publishing.

Santiago, L. 2018. “The Video Game Industry Powers Up.” *The Wall Street Journal*, June 8. Accessed June 1, 2019. https://www.wsj.com/articles/the-videogame-industry-powers-up-1528480056.

Scherr, I. 2013. “Electronic arts CEO to resign.” *The Wall Street Journal,* March 18. Accessed June 1, 2019. https://www.wsj.com/articles/SB10001424127887323415304578368770677378936.

Smith, A. 2018. “EA Eyes Cloud Gaming Development With Project Atlas.” *PC Magazine*, October 30. Accessed June 1, 2019. https://www.pcmag.com/news/364676/ea-eyes-cloud-gaming-development-with-project-atlas.

Tassi, P. 2013. “As Earnings Falter And SimCity Fires Burn, John Riccitiello Steps Down As EA CEO.” Forbes. Accessed June 1, 2019. https://www.forbes.com/sites/insertcoin/2013/03/18/as-simcity-fires-burn-john-riccitello-steps-down-as-ea-ceo/#52279f7cd36a.

Tassi, P. 2017. “In 2017, EA Has Turned Into An Industry Punching Bag Once Again.” *Forbes,* November 13. Accessed June 1, 2019. https://www.forbes.com/sites/insertcoin/2017/11/13/in-2017-ea-has-turned-into-an-industry-punching-bag-once-again/#f5b4ff4224d5.