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THE GAMING INDUSTRY:

By Hymie Dweck, Category Captain, Mastermedia

As sell-through numbers skyrocket, the gaming industry begins to look more and more like the packaged goods business. Consumers are looking to buy their games at the retail stores smart enough to merchandise them. The alternate channel retailers are now taking their slice from the pie that has always been divided up between the leading retailers in the primary channel: national electronics and toy chains and mass merchandisers.

The basic product life cycle begins with the new release titles that the frontline stores sell anywhere from \$19.99 to \$49.99. The shelf space is given to only the best performers, as there are always new titles in the pipeline that need to push out the older ones. When the publishers have excess inventory or are no longer focusing on a specific title, alternate channel distributors work with them to purchase existing inventory and market them to secondary channels: drug, supermarket, discount and variety stores. These titles typically retail under \$10 for PC games and under \$20 for video games. The success of a title all depends on the "demand for the brand," how well it is merchandised at the store and how much it is currently retailing for. Obviously, the best situation is for the title to be almost on its way out of the frontline stores and post-peak, but still selling for \$19.99 and able to retail at secondary channels for \$9.99 or less.

Merchandising is a key factor in determining the success of a planned promotion. Retailers need to have their marketing departments aware and motivated to introduce a new display via circular ads or other means of letting the consumer know about the great new gaming promotion being offered.

The E- and T-rated titles (everyone and teen) that are wallet-friendly seem to perform the best. The M-rated titles (mature) tend to sell better to the core gamers who shop in the specialty stores and don't mind paying a premium price for the newest title release. The retail business has gotten much more refined and much more strategic; it used to be, "Stack it high, and let it fly." Now, retail is very much into category management and very merchandising-centric. Additionally, it's better business for everyone involved.

Video Games are Attracting More Demographic Segments and are Utilized for a Growing Array of Applications

Video games are now more than a source of quick thrills for boys and young men. In fact, women 35 years of age and older are the largest gamer demographic. Moreover, video game technology is being harnessed for the most serious of purposes, such as preparing soldiers for urban combat. Video

games are captivating consumers' attention and capturing their wallets. The average time spent consuming advertising with a video title is 110 hours versus 20 hours for football. Video games are played for an average of six months. Video game-related revenues are positioned to continue growing at torrential rates. For instance:

- Video games generated over \$13.9 billion in revenues in 2004, significantly more than the \$9.2 billion generated by movie studios.
- Some video games skyrocket right out of the starting blocks: one game sold more than \$100 million in its first day of release.
- The Entertainment Software Association estimated that 47% of adults with children plan to give a video game as a gift this holiday.
- Advergaming revenue is estimated to grow from \$200 million in 2004 to \$1 billion by 2008.
- Estimates are that at least 12 million people have actually placed real money wagers via the Internet.

With most retail/vendor partnerships, as the retailer finds out information, the vendor finds out via communication and weekly reporting. When the vendor knows how a title is selling, it helps them react, both with manufacturing and replenishing, and know where to emphasize or deemphasize their marketing, based on how the title is working in a specific store or demographic area.

No wonder, then, that the publishers and some of the biggest mass merchants have gone beyond traditional vendor management – in which suppliers work with retailers to make sure their own product is optimized – and have adopted a "category-captain" arrangement. Instead of the retailer having separate relationships with each supplier in a category, one supplier, generally the category leader, takes on a significant role in managing the entire inventory of products in a particular category.

The more efficient management of PC and video games as a category is beneficial for all participating retailers and vendors. Both sides are working towards a common goal.

One high-ranking executive who prefers to remain anonymous says the primary goal of a category captain is to help the retailer with the "heavy lifting": analyzing data and making recommendations on product mix and placement. The retail buyer then reviews and collaborates based upon the suggestions made.

Analysis is conducted to look at each SKU in the program, as well as how



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performance can be improved as it relates to unit sell-throughs as well as gross margin. The retail chain is then provided with key reports on when to cut titles, when to move them to different fixtures, which stores are out of stock, which have too much stock, and how to balance inventory, so that the inventory dollars invested are turning quickly.

Ultimately, retailers are concerned with two major things: their market share in the category and how well a certain title did. Retail is all about driving market share higher, and they need somebody in the middle who can share this data with them. The category captain's special privilege is that he is close to the market, and the closer you are to the market, the better you can manage the business. Many retailers have dramatically increased their business by adopting this model in just under 60 days from initial launch of a goal-oriented gaming promotion.

The business model has changed to a fast-moving consumer product. PC games will never be a true commodity product like soap or peanut butter, but they are a very strong impulse buy, more like magazines or books. The consumer might buy his or her child an interactive game instead of a traditional toy or gadget.

What half of America might not know is that the other half of America is regularly playing video games. And it's not just kids anymore. The average video game player – or "gamer" – is 30 years old. That gamer isn't feeding quarters into an arcade machine, either. He (and increasingly, she) is playing on a home computer, having adventures under a different name and identity in an eternally existing cyberworld full of danger, romance and thousands of other people pretending to be someone else.

And that home computer is ever more electronically sophisticated because it was designed in part to play games. Gamers are also playing on home consoles.

They're just game machines now, but the powerful companies that make them expect their future home consoles will control not just games, but the television, PC, DVD – all the electronic information and entertainment we see.

Increasingly, that entertainment will be game-inspired. There used to be video games and movies. Then there were video games based on movies. Now there are movies based on video games. The video game industry has surpassed the movie industry in revenue, even though video games have been in existence for only about 33 years.

It is an exciting time to be a part of the business in general, and the budget games category will continue to grow as the entry level gamers look for an opening to join in. If the previous console generation is any indication, the next two to three years should be a major boon for publishers of value-priced titles. While some companies will be quick to jump on the next generation of consoles, it's important to remember the more than 25 million existing gaming console owners

out there, many of whom won't be making a technological leap right away. With fewer titles vying for shelf space and mind share, the door opens for value-priced publishers to step up and fill in the gaps with releases of their own.

In conclusion, the PC and video game market is growing by leaps and bounds. Retailers that cater to this customer will be adding incremental sales to complement their assortment of general merchandise and will be luring in a customer that might be spending those dollars at a direct or non-direct competitor. In today's competitive retail landscape, no retailer should be leaving potential sales and profits on the table. •

