

Game subscription analysis--Take Xbox Game Pass as an example

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Abstract. Game subscription is a huge innovation made by Microsoft and an important development trend of the game industry in the future. This paper focuses on analyzing game subscription and mainly focus on Xbox Game Pass (XGP). This paper analyze the XGP's operational mode and benefit. And future prospect of XGP. Through the research, XGP is benefit for both Microsoft themselves, game producers and users. Through the calculation of software hardware ratio, it can be concluded that Microsoft can definitely make money under the XGP model. XGP also helps game companies to provide financial support and reduce the cost and risk of promotion. XGP also reduces the decision cost for users. So this model is benefit for both Microsoft itself, game producers and users. In order to attract users to buy the XGP, the most important way is to increase the games that the users can play by the XGP. So Microsoft started a big acquisition spree in 2018, buying a lot of game companies, including, Recently, acquired Activision Blizzard. Game subscription is also the future of the game industry, and many other game companies have adopted the same strategy, such as SONY's PlayStation Plus (PS Plus), EA launched a subscription service in 2018: Origin Access Premier (now EA PlayPro).And perhaps more companies will join the game subscription in the future.

Keywords: Xbox Game Pass, Game subscription, Microsoft, Business model

1. Introduction

Subscription model is already widely used in other industries. From productivity software Office 365, and Adobe; To Music streaming services Spotify and Apple Music; To the upstart video streaming services Netflix, Disney+, Hulu, and more; Even including members of various e-commerce sites and apps, it can be said that subscription has become ubiquitous. The average American household has nine subscription services, an average of 25 hardware devices connected to subscription services (such as mobile phones, TV set-top boxes, computers, game consoles, intelligent voice assistants, in-car systems, etc.), and spends an average of \$273 per month on various subscription services. So subscriptions are a big market, and what Microsoft is doing is taking over the gaming industry. Recently, Microsoft acquired Activision Blizzard for \$68.9 billion. It is the largest acquisition in the gaming industry and the technology industry. One of the reasons Microsoft was willing to pay so much for Activision Blizzard was to develop their business Model, Xbox Game Pass (XGP) [1]. A model like XGP is a huge innovation in the game industry. When a game is added to XGP, the average revenue increases 2.8 times. Once in the library, 67% of the game's revenue came from XGP subscribers, half of whom had never played the game. Microsoft's indie game program ID@Xbox, for example, saw a 300% increase in revenue for a Pay to Play game compared to pre-XGP 2016, with XGP accounting for nearly two-thirds of the growth. To get more players to buy their XGP service, Microsoft needs to increase the number of first-party games, which is an important factor in the battle between Microsoft and SONY. Microsoft's games will only be available on Microsoft's platforms. Third-party game companies have no loyalty, whoever gives more money will put their games on the platform of whoever. So Microsoft and SONY buy or create game studios to augment their first-party lineup or pay third parties to be exclusively available on their platforms. Compulsion Games Microsoft started a big acquisition spree in 2018, buying Playground Games, Undead Labs, Ninja Theory, and Compulsion Games, then went on to acquire OBSIDIAN and inXile, Double Fine and Bethesda, and more recently Activision Blizzard.

This paper focuses on analyzing XGP's model and competitiveness, comparing XGP with PS Plus, and discussing the benefits of Microsoft's recent acquisition of Activision Blizzard.

2. Data and Method

2.1 Data

In 2021, the average U.S. home had nine subscription-based services and 25 related hardware devices. Consumers spend an average of about \$273 a month on a variety of subscription services, including music, video and games, and the game industry will have to join the subscription-based model in order to compete for user time. Game subscription is a huge innovation for Microsoft's gaming industry, but it's still early days. But SONY has also launched PS Plus based on the XGP subscription model, and Steam and Nintendo are likely to follow suit. These data sources are open and reliable, and the game industry is rapidly changing, and information is time-sensitive. These data are recently, and the current market analysis is of great reference value.

2.2 Method

This paper uses the method of case study to conduct research. The research object is Microsoft's XGP Model. This paper compares the data changes before and after the establishment of XGP with the data released by Microsoft itself, third-party news and association, etc., to explore the significance of Game Pass to consumers, the sustainable development of developers and the impression of XGP on the future of the Game industry. And compare the data of Play stations released by SONY. Compare XGP and PS Plus. Through the Recording Industry Association of America and Motion Picture Association, we analyze the current situation of digital distribution and subscription system in the music industry and film and television industry, and analyze the necessity of subscription system in the game industry. During the Game Developers Conference (GDC) in March 2022, Microsoft presented a speech titled "Game Pass-Maximising Your Game's Total Value" to developers, thus analyzing the benefits that XGP can bring to developers [2]. According to Gamesindustry.biz, XGP could be a big boost for indie game developers [3].

3. Results and Discussion

3.1 What is the XGP

Xbox Game Pass, is a Game subscription service launched by Microsoft Xbox in June 2017. It is similar to a streaming video service, and allows you to play all the games in your library with a subscription, although some of them may be dropped after a while. Depending on the platform, it is divided into XGP (for Console) on the host, PC Game Pass (PGP) on the PC, and Ultimate XGPU (Ultimate) that covers the Console, PC, and cloud Game platforms. There are three types of games in the library: First, the first-party and third-party works published by Microsoft, regardless of the size of the development specifications, will be added to the library on the day of release and will not be withdrawn in principle. The second is other publishers, usually not the first to join the library, for six months to three years, the specific time to join the library depends on the publisher's own considerations. The third is independent games, some of which are supported by the independent Developer program ID@Xbox and will be available in XGP for at least a year [4].

3.2 How XGP works

XGP is base on the subscription system. The subscription system enables users to have the use right instead of the ownership. The revenue and expenditure source of the producers changes from a single user to customers and advertisements, and the revenue and expenditure mode of the producers changes from a fixed income from the sale of a single product to a constant fixed income plus sharing with the platform. The cash flow will be more stable and promote the healthy development of the industry. On top of this subscription system, Microsoft has made a further innovation, which is to switch the source of revenue between the producers and the platform in the previous direction: instead of the game companies paying Microsoft entry fee, Microsoft pays the game companies invitation

fee, and then provides a share at a later stage. This seemingly simple behavior is really the core of the entire XGP. Two terms are used here: Transaction Costs and Transaction Exposure. Transaction Costs refer to the Costs incurred by both parties before and after the completion of a Transaction. Transaction Exposure refers to the risks that may exist during a Transaction. A game according to the usual mode from project approval to launch, will experience high development costs, publicity costs, launch costs; There's also the risk of selling your game, and if you have a cash flow problem, it could hurt the finished product. If this game can enter XGP, it will not only reduce the cost of publicity and launch, but also get financial support according to the situation and reduce the risk of sales. In the case of excellent quality, it will also get a high share in the future, and reduce the search cost and bargaining cost. For game developers, buyouts may not be the best way to make money, especially if you're not a F2P (free to people) game, which means your money is a one-off. But XGP offers another possibility. As Phil Spencer mentioned in an interview, Microsoft's current payment model for XGP game developers is flexible and open [5]. Microsoft has designed to pay only for the "duration" of a game. But it turns out that some developers want to pay upfront and provide a one-time development fee. For indie developers, Microsoft even has a history of directly covering the entire cost of development, giving developers a regular share, and not restricting them to other platforms like PS4 or Switch. According to Phil, the eventual game subscription split model could be "hybrid", with a combination of playtime and pre-payment. This also means that older games can continue the Long Tail effect and continue to generate revenue. Instead of having to make it all over again with various HD remakes.

With any subscription format, the content is the most important. Microsoft is exactly using its own financial resources and share the risk of manufacturers and reduce transaction costs in exchange for better content, or co-create better content. Good content will also have more revenue sharing later. There is good content will have flow, flow to make this business model turn up [6]. After a series of acquisitions, including the recent acquisition of Activision Blizzard, Microsoft now owns 32 first-party game studios, which guarantees a huge amount of quality titles and traffic. And Microsoft creates greater value by cooperating with partners and facilitating partners to cooperate with each other. Here we can cite the Coase Law of Ronald Harry Coase, a Nobel Prize-winning economist: If the transaction cost is zero, no matter how to conduct initial configuration rights, the negotiations between the parties will lead to these wealth maximization arrangement. That is to say, under the premise of no transaction costs, the market will automatically achieve wealth maximization, and all resources will be allocated to the most appropriate people, and the result is that this thing will create the greatest value. What the business model does is try to get as close to this "zero transaction cost" assumption as possible.

3.3 The effect of XGP

Microsoft definitely can make money by the XGP. There's a term in the game console industry called "soft/hard ratio," which refers to how many games are available over the life of a console. According to the previous industry statistics show that in addition to host life expectancy of the seventh generation (PS3, Xbox 360, Wii), each player in a host of life cycle on average of seven to eight games, that is the host of hard and soft than in 7:1 to around 8, is the vast majority of players, on average, only a year to buy less than two game. And this figure, also true reaction in different host manufacturers in different periods of financial statements. For example, according to Nintendo's semi-annual report for this fiscal year released on November 4, as of September 30, 2021, Switch has sold 92.87 million units and 681 million copies of games, with a soft/hard ratio of 7.33 to 1[7]. According to SONY's 2019 financial results, As of March 31, 2019) , the PS4 has sold 96.8million units and 1180 million games worldwide, with a soft/hard ratio of 12.19to 1[8].

Over the console's typical 5-year life cycle, the eight games that players bought were all \$60 triple-A blockbusters and contributed only \$480 in revenue, but the original XGP subscription cost \$120 / year, or \$600. So Microsoft can definitely make money this way

At the same time, each type of player can get different happiness in XGP. Through the price discrimination such as subscription, discount and delivery, consumers also get greater benefits. For heavy players, XGP saves a lot of money for them. For the average player, it reduces the cost of trial and error.

So XGP is a good model for Microsoft itself, game developers and users alike. Compared to XGP, the new PlayStation Plus tiered membership subscription service debuted in Asia on May 24, 2022. The core game platform is PS4 / PS5 players. Although the entry strategy will be different, it is still possible to play hundreds of games for a low annual fee. Game subscription is a big trend in the future of the game industry, so it is likely that more game platforms will join this model in the future.

4. Conclusion

XGP is a model that is good for Microsoft itself as well as for game companies and gamers. Microsoft is sure to make a profit, despite the upfront costs. Game companies can continue to receive financial support and revenue during the development phase, when they go public and after they go public. In addition, after entering the XGP, you will get further exposure, and also reduce the game company needs to spend publicity costs. In addition, various Transaction Costs and Transaction Exposure are reduced. For the player, the player can reduce the cost of making decisions and try more games. For people who play a lot of games, XGP will save them a lot of money. With subscriptions, it's all about the content. With good content, many players will buy XGP. So Microsoft has made a number of acquisitions, including the recent acquisition of Activision Blizzard, in order to expand its game library and use Activision Blizzard's reputation and well-known IP to attract more players to XGP [9][10]. These conclusions apply to all game subscription systems, not just XGP. Content will always be the most important thing to attract players, and upfront funding and continued revenue sharing will give game companies more money to develop more and better games. At the same time, it reduces the decision-making cost of players, allowing players to play more games at a cheaper price. At the same time, the platform itself can also get a lot of profit. These conclusions apply to all game subscription systems, not just XGP. Content will always be the most important thing to attract players, and upfront funding and continued revenue sharing will give game companies more money to develop more and better games. At the same time, it reduces the decision-making cost of players, allowing players to play more games at a cheaper price. At the same time, the platform itself can also get a lot of profit. SONY also modeled the PS Plus on the XGP. And EA launched a subscription service in 2018: Origin Access Premier (now EA PlayPro). It is possible that more platforms will be added to the game subscription system in the future.

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