

New Century: How XBOX can reverse the disadvantage it faces today against its competitors?

Yuming Zeng^{1, *}

¹Department of Business School, The University of Southampton, Hampshire, UK

*Corresponding author: yz5e21@soton.ac.uk

Abstract. XBOX is currently competing with playstation and switch in international markets at a significant disadvantage. This article will discuss how XBOX can improve itself to attract new audiences and how the success of its long-term strategy in international markets will depend on the effectiveness of its transformation in international markets today. And the Asian market is one of the most important expansion markets for XBOX. The purpose of this thesis is to reveal which disadvantages of XBOX in the gaming industry need to be remedied in order to establish a competitive advantage over its competitors through the Xbox brand. Practical solutions are offered based on the conclusions drawn.

Keywords: Xbox game pass; Sony; Game console war.

1. Introduction

Video games have been launched since the 1980s and are now one of the entertainment market's most promising and lucrative segments [1]. Technological advances and COVID-19 throughout the world have led to the recent rapid development of the game console industry. Government restriction policies on citizens' activities during the pandemic have also been one reason for the increasing game console market sales. In addition, technological advances (such as virtual reality) have taken the user experience of gaming consoles to a whole new level. The Nintendo Switch is the most popular video game console during the pandemic period, which sold 15.6 million units as of September 2020. PlayStation 4 and XBOX sold 7.22 and 2.17 million units, respectively [2]. The game console industry became a fast-growing industry in the pandemic era.

The Xbox was officially announced at the Consumer Electronics Show in January 2001 and launched in US shops in November. Microsoft's best-selling and influential product was Windows. The XBOX is Microsoft's original gaming device dedicated to playing games which were prompted by pressure from game publishers. Although Xbox remains the best-selling console in the US market, it has been squeezed out of the worldwide competition by the PlayStation and Switch. In recent times, Microsoft has been attempting to regain global markets by acquiring Activision Blizzard and a significant push for the Xbox game pass. This paper focuses on the significance of the XBOX game pass for XBOX and the fact that it opens up a whole new track for XBOX in the Asian market. This is a point that has rarely been mentioned in other papers

2. XBOX current situation

2.1 XBOX game pass

When Microsoft launched the game consoles Xbox in 2001, it faced solid competition, including Sony and Nintendo. According to a recent statement released by Sony, Sony has far surpassed Microsoft's in-game console sales. It installs, selling more than twice as many units as the Xbox in the last generation of consoles. Based on its figures of 117.2 million units sold for the PS4 series, the Xbox One series will sell at least less than 58.5 million. Although this is better than the 27.43 million units sold by Microsoft's seventh generation Xbox 360 series, it is still a considerable difference from the PS4. From an overall market perspective, the Xbox is currently reclining against the Playstation. However, its market is also being gradually taken over by Nintendo's switch, which has a similar price positioning and target audience.

Sony's usual sales method is a buyout system. This model allows consumers to enjoy the entire game after one payment, with no subsequent payments and includes the following content updates. After 2020, most software revenue on the PlayStation platform (approximately 80%) [3] continues to come from independent game production companies. These publishers can decide on their own which platforms they want to put their games on. This is because certain high-quality games have increased consumer demand for consoles.

In contrast, the increased software sales on the platforms have benefited from a more extensive installed base of consoles [4]. And Xbox has been continuously promoting a new operating model since 2002. Microsoft launched Xbox live, which is like a membership subscription purchase model and now includes streaming features such as live streaming, music, movies, and TV services. In addition, Microsoft has been pushing its Xbox game pass recently, giving consumers access to a great lineup of games from Microsoft's library when they subscribe to the service for \$15 per month.

However, this subscription+advertising revenue model has not brought them significant profits; most of the time, they are even in the red. According to available figures, even if all 200 million Xbox and PS users paid for their subscriptions, they would only reach a total revenue of \$24 billion. That is still far less than the current \$35 billion console gaming market. Microsoft's main aim is to gain a more extensive user base.

Microsoft now plays multiple roles as a hardware supplier, platform provider, and content provider. Microsoft is pushing XGP hard not only to expand and consolidate the user ecosystem but also to help Microsoft further develop its core business, the cloud computing service Azure. As users continue to grow, Microsoft can generate revenue from hardware sales, channel share, subscription fees, in-game purchases, and cloud services.

Microsoft's intention in pushing this move for XGP is to use a cost-effective way to attract more customers to this new model and drive more traffic to Microsoft's other businesses, even if they face financial losses in the short term. Xbox is backed by Microsoft and has enough economic scale to back up its strategy of selling more at a lower price, even if it gives away to consumers to capture the market. Predictably, after the initial fierce price war between platforms, the subscription service price will inevitably rise.

2.2 SWOT analysis

Strength:

As one of the world's top-ranked unicorns, Microsoft brings Xbox access to advanced technology and financial support. For example, Microsoft's recent acquisition of Activision Blizzard for \$70 billion in cash, a move that brought several well-known IPs and advanced gaming technology to Xbox in one fell swoop.

Secondly, the large PC user base that can become Xbox consumers is a significant competitive advantage for Xbox against its competitors. Although Sony is the head of the console market, there is still a large gap between the scale and Microsoft, especially regarding the number of users. As the home computer market monopolist, Microsoft's windows system covers over 90% of the world's home computers. Microsoft can promote Xbox to this vast user base through home computer systems, which generates advertising benefits that are difficult for other companies to catch up with.

Weakness:

It has been lagging behind Sony's PlayStation in overall sales. While many Kinect customers who enjoy interactive gaming are turning to the Wii as Nintendo's product, the Wii, has a reasonably similar gaming style to Microsoft's Kinect. Nintendo is also close in terms of price. So while Microsoft is trying to stay ahead of the PlayStation, Nintendo is stealing Microsoft's customers. And With upgrades being too frequent about every 2-3 years, consumers have to adapt to new consoles and buy new games for them, which is one reason why Microsoft's console sales have declined.

Opportunities:

With Microsoft's colossal consumer base on the PC, Xbox can leverage the linkage between console and PC to drive more consumers, focusing development on interoperable online games rather

than standalone, standalone games. With more Xbox users, Microsoft will be able to push new game products to these users, creating a cycle within the platform and avoiding the loss of existing customers. In addition, it would be an excellent strategy to gain access to markets in emerging regions where games are exported by reducing the selling price. This would give Xbox an advantage over its competitors, similar to Sony, with their high pricing and ten games that can cost as much as an entire gaming console. Cutting the price of games through a subscription service like game pass and monetizing them through sales is a significant opportunity for Microsoft.

Threat:

Market share in Europe and Asia continues to be squeezed out by Switch and Playstation due to Xbox's lack the attractive IP games platforms in these two markets. After covid-19 swept the world, overall console sales are in a period of the relatively rapid upturn. However, XBOX's sales volume growth rate lagged far behind switch's market share growth rate during the COVID-19 period. It also lagged behind PlayStation.

3. The competitive disadvantage of XBOX

3.1 Lack of the famous exclusive IP

Console manufacturers are keen to release more exclusive games on their platforms to differentiate themselves from their competitors and attract loyal fans of their IPs [5]. To do this, they sign exclusivity contracts with publishers to prevent them from putting their games on other consoles. They may even buy out the publishers if necessary [6]. They may also pay high fees for such exclusivity or involve partnerships with game developers, such as advertising for them or granting them exclusive promotion rights.

Microsoft has almost reached a monopoly in the home PC market. However, Microsoft's home PC is stealing a portion of the Xbox console market. Microsoft has placed many well-known games on the Xbox. Still, the vast majority are not exclusive, and consumers can enjoy almost the same game offerings on the PC as on the Xbox, making it unnecessary for consumers to buy the XBOX to get the gaming experience. This is a sore point for Xbox. Not only is it facing the squeeze from competitors, but its PC market is also squeezing the viability of Xbox. Call of Duty and NBA2k have been the main games promoted by Xbox. These games have been criticized frequently for their lack of innovation. But it has still been introducing the latest products every season. The significant frequent updates and uninspired gaming products reduce consumers' desire to buy. On the other hand, Sony's PlayStation has exclusive access to globally popular IPs such as Persona 5, Spider-man, and Final Fantasy. Those who want to play these games must pass through PlayStation, which has helped Sony increase its market share, especially in Asia.

Another major competitor, Nintendo, holds several of the world's most famous IPs, such as Pokemon, Zelda, and the Mario series. These exclusive IPs, which have a substantial global reach, have contributed to Nintendo's sales of the switch series. Nintendo's products are priced in a similar range to the Xbox. Target audiences overlap, which has led to a steady erosion of the market of Xbox that has been occupied in recent years by Nintendo.

3.2 Falling behind in the global market competition

Microsoft's XBOX held 53% of the US market in 2021 and became the most popular game console in the United States [7]. With a "richer ecosystem of game suppliers," the US indie scene remains vibrant and creative due to many independent game developers. In contrast, the massive Nintendo and Sony monopolize relatively speaking Japanese game developers. In the global market, especially in Europe and Asia, Xbox's market share lags far behind that of PlayStation. although, in Europe, where the cultural background is relatively closer compared to Asia, the market share of Xbox is still below 20% in recent years. Sony has been the giant in the European market. The Asian region, where Sony is headquartered, goes further. Xbox weakens against Sony in the global market due to two main reasons.

Firstly, the principal recommended games on Xbox are games such as Call of Duty and NBA2K, which are in line with the tastes of American gamers. The preferred genre of video games depends on the country, and RPGs dominate Japan. RPGs are dominant in Japan, using anime art styles or emphasizing slower, more detailed storytelling techniques such as G.I. Joe and Final Fantasy [8]. On the other hand, American video gamers have shown a greater preference for the shooter and sports genres, with games from the Call of Duty and FIFA series consistently topping the sales charts [9]. Western studios strive for realism in their games, and Japanese studios strive for fantasy. According to past trends, "American users play Japanese games, but Japanese users don't play American games" [10].

Compared to Sony's library, Xbox's games have a relatively limited appeal to the Asian and European markets. Xbox cannot also cater to these markets. And this disadvantage has not improved over time. Xbox has never acquired game products that could open up the Asian and European markets. This left it unable to compete with Sony in the Asian and European markets. Even in the US, Sony's market share is 36.1%. Xbox's current library of games cannot expand in the global market. Moreover, Microsoft and Xbox have an American-centric image, with Xbox portraying a cultural vision in line with mainstream American values and hoping to spread American values around the world through its gaming products. In reality, however, this idea has not appealed to European and Asian markets. Especially in non-English speaking regions, where Sony's dominance over the Xbox is overwhelming [11], the Xbox needs to be culturally transformed into a global product to meet the needs of consumers from different cultural backgrounds and regions.

3.3 Ambiguous positioning compared with competitors, with the original market being taken up by Nintendo

They were already lagging behind Sony, now losing market share to Nintendo with the exact price positioning. Due to the lack of exclusives, most Xbox games are available on the Switch. The Switch has a lot of popular exclusives. For example, Switch's IPs, such as pokemon and Mario, have a huge fan base and consumer base in the global market. Besides that, Switch's library of games reaches a wide range of people, covering all ages, genders, and genre preferences. Its online play and multiplayer games also bring on a broader audience, which gives switch a competitive advantage over the Xbox. Either be innovative and user-friendly or push the envelope on technology. Nintendo's mission is to achieve the first point. Sony and Microsoft both fall into the latter category [12]. The Switch can be used not only as a gaming console but also as a handheld console. It is portable and can be played at any time. It is in line with the current trend of fragmented entertainment (entertainment that takes place in a fragmented, unimportant time). On the other hand, Xbox lacks global appeal, and its games are only popular in the US market. While Xbox is competing with PlayStation, its market is being squeezed by the Switch, especially in Asia in recent years, where the Switch is gradually taking over the market share of Xbox in a similar price range. That can be said that Xbox's game library and cultural image have minimal appeal to non-English-speaking regions [13].

4. How to improve the competitiveness of the xbox

4.1 A groundbreaking and rapidly growing consumer Xbox game pass

Xbox game pass (hereafter XGP) is trying to capture market share with its unique subscription membership system. Unlike the traditional buyout system used by PlayStation, XGP offers gamers a wider choice of games at a low price. Consumers who sign up for XGP can try new game genres that they do not need to pay additional fees. For \$15 per month, XGP gives consumers access to a deluxe library of hundreds of games on the Xbox, including some renowned names such as Horizons and Halo. XGP has been multiplying on the Xbox console platform and has become a feature for Xbox, replacing the traditional way of purchasing games.

Due to Microsoft's massive volume and partnerships with headline game makers, consumers will be willing to pay for the XGP's many games, despite the lack of exclusives. If it cannot compete with PlayStation regarding exclusive IP and game quality, Xbox chooses to outperform its rivals in quantity and value for money. And the XGP library continues to expand, with most of Microsoft's titles being added to it in the future. Microsoft has also announced a future home version of XGP for up to five people to help consumers save as much money as possible. Not only that, but the XGP is more like a complete streaming community built by Xbox than PlayStation, which only offers game-related content and services. The platform allows developers to make communities more efficient and increase the profit potential of their online games. Help it reach a broader consumer base than just gamers. New forms of gaming will influence market dynamics and the role of software in the proliferation of platforms. Game streaming services aiming to be the "Netflix of gaming" [14] will surprise the latest generation of console wars.

Due to Microsoft's long-established cloud archiving and online cloud capabilities, Xbox is pushing the boundaries of cloud gaming, keeping players' archives in the cloud. That makes gamers can be used simultaneously on either Xbox consoles or mobile and PC, lowering the hardware barrier to gaming. The Xbox supports HDR 10/Dolby Vision HDR and is the only multimedia player that fully supports all the available features in the industry. All the above features have helped Xbox appeal to a broader range of consumers.

XGP aligns the interests of consumers and Xbox, allowing gamers to enjoy more quality games at a lower price. In contrast, the high pricing and cost of purchasing games for the PlayStation itself has always been a point of dislike by consumers. Phil Spencer, the head of the Xbox brand, has said that he hopes to change the current position of Xbox in Japan and has mentioned that he is working to increase the engagement of Japanese gamers through services such as Xbox Game Pass [15]. Even though XBOX is lagging in Japan due to the dominance of Nintendo Switch, Xbox Game Pass can still occupy more of the consumer market.

4.2 Expand globally and acquire more exclusive IPs

Microsoft announced its acquisition of Activision Blizzard in 2022 for a whopping \$68.7 billion, a price that exceeded Microsoft's total net profit for 2021. The acquisition gives Microsoft the gaming behemoth Activision Blizzard and many of its influential global IPs, such as World of Warcraft and Overwatch. In terms of the scope of their businesses, Microsoft and Activision are not at the same level of the industry chain, although they are in the same industry. Activision Blizzard is a well-known game developer, whereas Xbox does not make its games but provides the industry's top hardware and software platforms and infrastructure services. For Blizzard, which was previously mired in scandal and financial difficulties, Microsoft's acquisition at a 40% premium was undoubtedly a rescue [16]. And for Microsoft and its Xbox, the acquisition significantly boosts its presence in the gaming industry. Activision Blizzard makes and publishes games for a wide range of audiences, including the RPG genre World of Warcraft, the FPS genre Overwatch, and the recent rise of the card game Hearthstone. Activision Blizzard offers a wide range of fun for all ages and cultural backgrounds, which has given it a considerable presence in the gaming community. Microsoft's acquisition of Activision Blizzard makes up for the lack of its well-known IPs. At the same time, Xbox can access the original Activision Blizzard consumer base with Blizzard games on the shelves and has reached the goal of capturing more console market share. This is especially true for the European and Asian markets, where Xbox has long been a laggard. As a globally famous gaming company, Blizzard's games have a large and loyal consumer base in these two regions.

5. Conclusion

Overall, XBOX's current cultural image and game library content has temporarily lagged behind in the international market competition compared to its main competitors. During the Covid-19 period, PlayStation and switch further dominated XBOX's market share. Playstation was the main competitor

for XBOX during the past 20 years. However, the current switch has grown fast and has been a competitor at the same level as XBOX. Microsoft uses the XBOX game pass to tap into the Asian and European markets. It is acquiring some of the most influential companies in the gaming industry, such as Activision Blizzard, to compensate for the lack of well-known IPs. Blizzard's games, such as Overwatch and Hearthstone Legends, can also cover many consumers in the Asian and European markets. In addition, XBOX needs to do more market research about the Asian region. It should get more information to understand consumers' consumption habits and gaming preferences in the areas where the market share of XBOX is weak.

References

- [1] Ryan R M, Rigby C S, Przybylski A. The motivational pull of video games: A self-determination theory approach[J]. *Motivation and emotion*, 2006, 30(4): 344-360.
- [2] Southern Maryland Chronicle. Nintendo switch is the top selling gaming console in 2020[J]. 2020
- [3] Liu H. Dynamics of pricing in the video game console market: skimming or penetration?[J]. *Journal of marketing research*, 2010, 47(3): 428-443.
- [4] Stremersch S, Tellis G J, Hans Franses P, et al. Indirect network effects in new product growth[J]. *Journal of Marketing*, 2007, 71(3): 52-74.
- [5] Schauerte N, Peers Y, Bleier A. Software Multihoming to Distal Markets: Evidence of Cannibalization and Complementarity in the Video Game Console Industry[J]. *Journal of the Academy of Marketing Science*, 2022.
- [6] Corts K S, Lederman M. Software exclusivity and the scope of indirect network effects in the US home video game market[J]. *international Journal of industrial Organization*, 2009, 27(2): 121-136.
- [7] Lantano F, Petruzzelli A M, Panniello U. Business model innovation in video-game consoles to face the threats of mobile gaming: Evidence from the case of Sony PlayStation[J]. *Technological Forecasting and Social Change*, 2022, 174: 121210.
- [8] Kuzuhara, T. The Gamers Powering Japan's \$22.1 Billion Games Market: Consumer Motivations, Behavior & Data | Newzoo[EB/OL]. Newzoo. 2022
- [9] Wiegand N, Peers Y, Bleier A. Software multihoming to distal markets: Evidence of cannibalization and complementarity in the video game console industry[J]. *Journal of the Academy of Marketing Science*, 2022: 1-25.
- [10] Wiegand N, Peers Y, Bleier A. Software multihoming to distal markets: Evidence of cannibalization and complementarity in the video game console industry[J]. *Journal of the Academy of Marketing Science*, 2022: 25-28.
- [11] StatCounter Global Stats. Console Operating System Market Share Europe | Statcounter Global Stats.[J] 2022
- [12] Bogner R, Hung P, Wang G, et al. Sony Corporation and the Video Game Console Market: A Competitive Analysis[J].
- [13] Adebimpe S. Xbox in Japan? Understanding the Distinctions of the Japanese Video Game Market to Increase Microsoft's Competitive Advantage[J]. 2022.
- [14] Nan D, Lee H, Kim Y, et al. My video game console is so cool! A coolness theory-based model for intention to use video game consoles[J]. *Technological Forecasting and Social Change*, 2022, 176: 121451.
- [15] Robinson A. Xbox's position in Japan 'isn't acceptable', says Phil Spencer | VGC[EB/OL]. VGC.
- [16] Karlsson A. The Impact of Indirect Social Gaze in Competitive Multiplayer Games[J]. 2022.