

Electronic Arts

2012 Case Synopsis

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Introduction

As the 2012 holiday season approaches, the video game developer and distributor, Electronic Arts, remains to be one of the premier gaming companies in the world. The company grew tremendously throughout the late 80's and early 90's through aggressive acquisitions of smaller developers to become the third largest gaming company in the world, behind only Nintendo and Activision Blizzard in revenues (Software Top 100, n.d.). However, this rapid growth did not come without criticisms from its community, which became increasingly concerned that Electronic Arts was becoming "The Evil Empire" of the video gaming industry.

Today, the heavy-handed tactics that Electronic Arts used to become a leader in its industry has left a poor taste in the mouths of many consumers, which has created a stigma against the corporation and its business practices. Most recently, two aspects of Electronic Art's business practices have come under intense scrutiny. First, Electronic Art's abusive Digital Rights Management (DRM) practices: limiting the use of digital content after sale by tying their unique product code to their e-mail online, has annoyed many consumers as it has limited the way they can enjoy their purchases.. Secondly, Electronic Art's excessive day one downloadable content (DLC): additional game content consumers must pay for, has also made consumers feel as if they are being gouged for game content that they believe is essential to their ability to enjoy their gaming experience. These two latest issues, along with the inability to effectively manage these criticisms, has led to and a community of disgruntled gamers and The Consumerist naming them the "Worst Company in America" (Paul Tassi, 2012).

However, Electronic Arts (EA) has financially never been more successful than it is today. Electronic Arts has recovered remarkably since the 2008 recession and posted its first positive net income since 2007 (EA, 2012a., pp. 28), and appears to be regaining its strength overall. However, the ghosts of its past and apparent lack of concern for consumer needs may result in an undesirable future.

About the Industry

The video game industry today is a highly cyclical, hit-driven industry hotly contested by several console and game developers. The gaming industry is a highly volatile and ever changing market, with new technological advances in console and platform development occurring almost constantly. Gaming studios, such as Electronic Arts, have demonstrated in the past that they are capable of anticipating these changes and investing accordingly in future product development to meet these innovations as they occur.

The industry itself is highly reliant upon hardware developers, such as Nintendo, Sony and Microsoft, to produce hit gaming systems upon which developers can sell their games. The relative success of a gaming system often dictates the success of various developers, such as Electronic Arts, and their ability to generate significant returns. As well, when studios develop games they are often held hostage to the set royalties these hardware developers charge to produce games for their platforms, and are also not obligated to release information on future consoles as well (EA, 2012a., pp. 19).

The industry itself is also highly cyclical, with a large amount of sales occurring in the late fall and winter months as the holiday season approaches (EA, 2012a., pp. 10). As a result, the majority of gaming studios gear up for the holiday season by releasing their best products, hoping to be one of holiday-hits of the year. As a result of this, gaming companies have had to grow reliant on these holiday sales and on the prospect of releasing hit games to get them through the lackluster summer months, in which sales drop industry wide.

As a result of these various factors, gaming studios such as Electronic Arts have attempted to further diversify their reliance on any one platform or gaming device. The success of mobile and online gaming is partially a result of this, as studios seek to explore new avenues through which to grow their businesses. This has led to the industry becoming incredibly competitive across various gaming platforms, in which developers must not only compete against each other, but against hardware developers like Nintendo and Sony who develop their own gaming software. The rise in gaming on mobile and online platforms has also become hotly contested, as these markets have been characterized by frequent, ever-evolving releases across varying devices.

Overall, the gaming industry today is a highly complex and ever-changing industry which requires forward looking developers and management teams to navigate successfully. Companies who fail to do so are almost certain to fall to the wayside as more nimble and attentive developers rise to overtake them.

Building the Brand

Electronic Arts has done an incredible job in diversifying its product and genre offerings, which in itself has largely led to their success within the industry. In general, the company produces products for a variety of platforms including:

- In home consoles such as the XBOX 360, PlayStation 3, and the Nintendo Wii.
- PC Games, either through disc-sales or through their online store: Origin.
- Mobile, cellular and tablet devices are increasingly becoming a major aspect of their business.
- To a lesser extent, online-based games.

Their products are largely sold through Best Buy, Gamestop (15% of sales) and Walmart (10% of sales) (Hoover's Inc., 2012), however their push to gain a greater share of the PC gaming and digital downloading market led to the establishment of Origin in 2011, which already possesses 30 million registered users (Sinan Kubba, 2012).

In addition, Electronic Arts also separates its game developers through various labels, such that their developers are specialized on the products that they produce. Their four major labels include:

EA Games	Their central studio and development team which produce the majority of their action, racing and role-playing games. Includes popular titles such as Battlefield 3, Dead Space, Need for Speed, etc.
EA Sports	A major studio which publishes the company's successful line of sports games, including their most successful lines: FIFA Football, Madden NFL, and NHL Hockey.
EA Maxis	The central developers of the infamous life-simulations games such as The Sims, Simcity and other non-traditional games.
EA Bioware	EA Bioware is responsible largely for the production of their multiplatform Role playing games such as Mass Effect and their Massively Multiplayer Online (MMO) games such as Star Wars: The Old Republic.
PopCap Games	A recently acquired subdivision, responsible for creating both free and fee-based games for various platforms, such as the Xbox 360, iOS, Android and others.
Social and Mobile Studios	Responsible for providing the free-to-play social games produced for sites such as Facebook, Google, Android and Apple iOS.

Electronic Art's ability to effectively segment their various studios has allowed the various gaming studios to operate in relatively autonomy, giving Electronic Art's marketing and strategy teams to effectively build their franchises and generate significant returns on a variety of their recurring labels.

The company builds their brands and labels largely through licensing agreements with various studios and hardware developers to acquire and sell intellectual property. As a result, the company possesses a large network of licensing relationships and a wide breadth of intellectual property which they can exploit. These licenses are typically not exclusive to Electronic Arts, opening console gaming to a variety of developers that increase the creativity and quality of games being released. However, Electronic Arts does possess a variety of unique licensing agreements with other various franchises. For example, Electronic Arts has had a long standing agreement to produce content for LucasArts, which has resulted in a near monopoly on digital content for the lucrative Star Wars universe.

Creating Success

In its beginnings, Electronic Arts established itself in a unique way as a major player in the video gaming market which was still very much in its infancy. Unlike many developers at the time, founder Trip Hawkins was focused upon creating an entertainment business, one which put more emphasis on appearance and customer enjoyment. To do so, he stressed the importance of having great graphic arts and art designers, rather than software programmers to create unique ideas and better quality games.

To further establish a distinction within the industry, Hawkins began developing products for multiple platforms, including Nintendo's 8-bit and Sega's 16-bit systems, something relatively rare at the time. This action allowed EA to gain a strong foothold and a great deal of respect within the video game industry.

Throughout the 90's Electronic Arts focused more so on growth, which they achieved through acquisition strategies focused on acquiring a variety of different of domestic studios. Most notably Electronic Arts acquired Maxis and Tiburon Entertainment. These two studios have developed Electronic Arts' most consistent and long lasting video game franchises such as their various yearly sports titles and

infamous Sims universe. The successes of these franchises in the late 90's and early 2000's gave Electronic Arts a stable base upon which to experiment with various other gaming ventures.

As a result of this acquisition strategy, Electronic Arts was able to create a selling structure upon which consistent, yearly releases from their sports titles such as Madden NFL and FIFA Football, have become the basis for venturing into new markets such as online games and games for mobile devices. Despite poor performance in recent years, driven largely by the conditions created by the economic crisis, the company remains to be one of the top gaming companies in the Western market, and is poised to explore new options and opportunities in the ever-changing gaming market.

Becoming “The Worst Company in America”

As a result of their great successes in recent years, consumers and critics alike have come to expect great things out of everything that Electronic Arts produces. When they fail to live up to these expectations however, as has been evident in their handling of DRM among many other issues, a great deal of criticism is likely to arise.

Much of this criticism began with what many people view as a rampant acquisition strategy. Although Electronic Arts can attribute much of their success to the various studios and intellectual capital they have acquired, their practice of dismantling many of these small studios has been seen as anti-competitive and harming to the gaming community, as small, innovated studios are pushed out of the market.

These poor memories have lasted well into the 21st century, and have soured the appeal Electronic Arts has had for many consumers. In addition, as Electronic Arts progressed through the 21st century, many critics have begun to feel that many of their most reliable and popular titles, especially the releases from the EA Sports label, have become quite stale and lacking in change. Although sales for these games have remained relatively stable in recent years, some critics argue it is only a matter of time before gamers get fed up (Paul Tassi, 2012).

In addition, a great deal of bad press has surrounded Electronic Art's poor management of customer relations. The most prominent issues to many consumers is what has been perceived by many critics as an "inept" customer support system (William Usher, 2012a.). A recent example of this issue came in the form of a bug in Electronic Art's most recent hockey game title, NHL 13 for the Xbox 360, in which customers who purchased in-game content did not receive what they had purchased. Electronic Arts, to the angst of many consumers refused refunds as they could not resolve the problem without going through a great deal of effort to change various statistics and data related to this content (William Usher, 2012b.).

In recent years as well, the rise of Electronic Arts experience hindering DRM practices have also resulted in a very large number of disgruntled consumers in their community. However, some of Electronic Art's most recent releases such as Battlefield 3 and Mass Effect 3 have been of such great quality that according to many critics, consumers are willing to put up with these inconveniences because there are not any other major studios to go to.

The combination of these issues has largely led to the sour opinion many gamers have developed towards Electronic Art's titles. As well, many critics have bashed the company and their practices, with some critics going so far as to say "[they] believe EA is a destructive force in the industry" by not "[making] gaming more accessible and respected as a medium" (Paul Tassi, 2012).

Where Are They Now?

During 2012, Electronic Arts has seen a dramatic drop in share value, reaching the lowest point in its history this past August (EA, 2012b.). The company has declined steadily since the release of one of its most highly anticipated games, Star Wars: The Old Republic, which failed to gain the traction investors and gamers anticipated in the massively multiplayer market (Rob Fahey, 2012).

The gaming industry itself has also largely been in decline, as the companies prepare for another major transition to the next generation of gaming consoles expected to be released next year (Rob Fahey, 2012). Electronic Arts however, has further failed to even keep up to the top competitors in its

industry, including companies like Activision's Blizzard which has managed to weather the recent downward trend through its titles which continue to produce returns years after their releases.

Electronic Arts itself is in the midst of a transformation plan that their current CEO, John Riccitiello, began in 2007. The plan originally, was to take three years and set out to further increase game quality and diversifying their business into new platforms. Although Riccitiello has been successful in improving the average quality of their games and diversifying their product offerings (Dan Gallagher, 2012), the company's recent performance is indicative of the perceptions many investors have that his plan is failing, at least so much as his timeline to complete it goes (Rob Fahey, 2012).

Outlook

Overall, things are not looking overly promising for Electronic Arts. The company has been in a steep decline over the past several years, and although showed promising signs of recovery last year, it appears they still require a significant change.

Despite the success the company has had up until the past five or six years, the recession and overall decline of the video game industry has significantly hurt the expectations that the company will come back strong in the future. To compound their poor financial performance, Electronic Art's inability to keep consumers satisfied with their product offerings and services has severely damaged the reputation of the company.

However, things may not be entirely bleak for this gaming company. Despite its recent underperformance, Electronic Arts still possesses a wide breadth of studios and solid titles which it can rely upon to generate future success. As well, they have demonstrated the ability to take risks and explore new gaming markets, and although games like Star Wars: The Old Republic may have been a long run flop in terms of its subscription numbers, the game was one of the fastest selling MMO games of all time (Joe Selina, 2012), demonstrating the company's ability to generate hype and design good games.

In order to get back on the right track though, the company needs to make some aspects of the way they do business. Most importantly, they must find a way to fix the way consumers view their

company, and perhaps more importantly their products, before customers begin voting with their wallets and refuse to purchase their games.

Summary

- Background on company – 1 page
 - Founding
 - Acquisitions of various studios
 - Becoming a leader
- What products do they offer? - < 1 page
 - Video games
 - Perhaps breakdown a little on genres they have achieved success with
 - Where do they offer their products? Formats?
- Why have they been successful? – 1 page
 - Which aspects of business have they done best
 - What share of entertainment market have they penetrated
- What do customers have to say? – 1 page
 - Why do they feel this way?
 - What alternatives are they seeking?
 - Who are their main customers?
 - What are their needs?
- Where are they now? – 1 or 2 pages
 - What issues do they face?
 - How are these issues hampering performance?
 - How have competitors reacted
- What are their competitors doing? – 1 page
 - Include stats on market share
 - Competitor reactions
 - What do customers have to say about them?
- Where are they headed? <1 page
 - How will these issues affect them going forwards

Some good stuff to look at:

[http://www.wikininvest.com/stock/Electronic Arts \(EA\)](http://www.wikininvest.com/stock/Electronic_Arts_(EA)) – Company/industry analysis, short

[http://en.wikipedia.org/wiki/Electronic Arts](http://en.wikipedia.org/wiki/Electronic_Arts) - Read the wiki, it really helps out with Identifying their main issues today (seriously, if you read this wiki, you should get a good sense for what's going on)

<http://www.cinemablend.com/games/Why-People-Hate-EA-Ten-Simple-Reasons-43696.html> – Good to see why their consumer base dislikes them

Again, look over financial reports if you deem it necessary, it'll help you get acquainted with deeper data that may be needed in the paper.

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Additional Notes

“Before Customers begin voting with their wallets”

Software Top 100: <http://www.softwaretop100.org/gaming-company-top-25>

Forbes: <http://www.forbes.com/sites/insertcoin/2012/04/04/ea-is-the-worst-company-in-america-now-what/>

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Joystiq (2012) <http://www.joystiq.com/2012/10/31/eas-origin-has-30-million-registered-users-4-4-million-paying/>

EA statement: http://files.shareholder.com/downloads/ERTS/2120404081x0x590179/108820DF-CD66-41CA-9DBD-0D18119A4CD5/2012_Proxy_Statement_Annual_Report.pdf

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EA 2012C <http://investor.ea.com/stockquote.cfm>

Gamesindustry: <http://www.gamesindustry.biz/articles/2012-06-21-stock-ticker-why-eas-market-valuation-has-crashed/>

Dan Gallagher, market watch <http://www.marketwatch.com/story/electronic-arts-riccitiello-aims-high-2012-01-17>

Joe Selina:

http://www.pcworld.com/article/247153/star_wars_the_old_republic_shatters_mmo_sales_records.html