CASE 12

# Electronic Arts: It's Strategy in the Video Game Industry

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Video gaming had become a vibrant and fast-growing industry in 2023, with over 3 billion enthusiasts playing at any time, on different devices, and in multiple spaces. Gamers from around the world, who may not speak the same language or be in the same time zone, utilize a common platform to explore new worlds, complete quests, survive a hoard of zombie outlaws, or test athletic abilities in a number of esports. Competition was continuing to intensify as video game publishers attempted to convert casual gamers into long-term customers and gain ongoing sales from additional features offering an immersive gaming experience.

Electronic Arts (EA) developed, marketed, and distributed video game software with a particularly strong position in the sports category. Its *Madden NFL 23* and *FIFA 2023* video games were ranked numbers three and seven, respectively in 2023 video game sales. The company had become a dominant player in this industry with a strong brand name, a strong financial position, a diverse portfolio, and experienced leadership. Despite these strengths, the company faced strong competition from companies such as Activision Blizzard, producer of *Call of Duty,* Sony; producer of *God of War, MLB,* and *Gran Turismo;* Ubisoft, developer of *Assassin's Creed* and *Far Cry 6;* and others. The quest to create more visually stunning and technologically complex games had resulted in escalating game development costs and was challenging the ability of rivals to earn attractive profits. Competition from free-to-play games, which were becoming increasingly popular in the early-2020s, could reduce demand for premium-priced games and profitability for EA and its chief rivals. To defend against such threats, EA would need to continue developing cutting-edge video games, dominate the sports market, and further expand into mobile gaming and virtual reality technology. Electronic Arts management team would need to address these strategically important issues and practice sound financial management to sustain its competitive position and profitability.

## COMPANY OVERVIEW

Electronic Arts (EA) was an American video game company headquartered in Redwood City, California. The company was founded in May 1982 by Apple employee Trip Hawkins. EA developed and delivered games, content, and online services for Internet-connected consoles, mobile devices, and personal computers. The company boasts of delivering infinite possibilities, cutting-edge games, innovative services, and powerful technologies to over 600 million active players and fans from around the globe. The company was recognized for highly acclaimed games such as *EA Sports™ FIFA, Battlefield™, The Sims™, Need for Speed™, Apex Legends™, Madden NFL, Titanfall®*, and *F1®*. As of 2022, EA was considered third among the leading gaming companies worldwide.

The company held a 13.5 percent share of video game software publishing industry sales and was considered a Rising Star due to its strong profitability and revenue growth potential. During the 2021–2022 fiscal year, Electronic Art's (EA) video game downloads were the fastest-growing business segment growing by 40 percent compared to the year prior. Its live service segment, which included extra content, subscription offerings, and revenue generated outside of game sales, grew 24 percent year-over-year.

## THE VIDEO GAME INDUSTRY IN 2023

The video game industry had become a mainstream entertainment option across developed and emerging economies across the world, with the COVID-19 pandemic boosting its growth to a billion-dollar market. In 2022, the video games market in the United States generated more than $85 billion and was projected to grow to $128 billion annually by 2028. Digital video game sales have surpassed physical sales becoming the primary driver of video game revenue. This industry included the broader operations of all video game industries in the United States. Gaming consoles, games made for the consoles, and games produced for personal computers make up the retail segment. The development and manufacturing of games, consoles, and accessories constitute a notable share of the market, with added revenue coming from online gaming subscriptions.

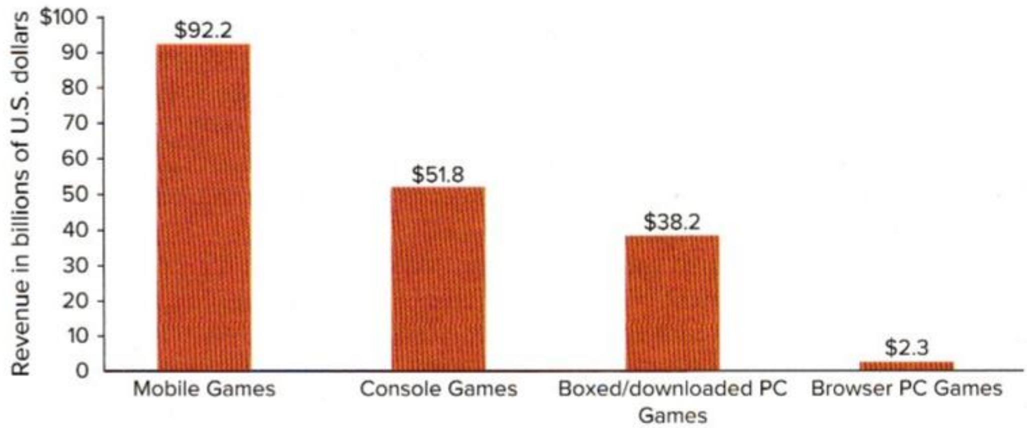
Although the largest regional market in sales and number of gamers was Asia Pacific, the United States was also an important player in the global video games industry. The United States was considered the birthplace of gaming, fueled by the arcade games in the '60s and the introduction of the first personal computers and consoles in the '70s. Fast forward to 2022, game developers have driven the movement to more enhanced software solutions, graphics, better sound, and more advanced interaction for video games.

The video game industry was not only growing but also changing. Internet accessibility and new development in technologies are strong forces for change, causing more and more players to switch from single-player console or PC video games to multiplayer games, social networking games, and mobile games. Mobile games have become a new trend accounting for 51 percent of the revenue of the games market worldwide, surpassing console games and downloaded games or boxed PC games. Mobile games were classified on the basis of location, the number of maximum players, and the gaming experience.

### Video Game Software Publishing

The video game industry was segmented into different activities, with Video Game Software Publishing as one of the fastest-growing segments. Companies in this segment primarily publish video game software; they produce and distribute video games, including design, documentation, installation, and support services. The main activities in this industry include video game publishing, video game development for video game consoles, mobile operations, and computers. Other industry operations include the sale of

**EXHIBIT 1** Worldwide Video Game Market by Segment, 2022 ($ in billions)




*Source:* "Video game market revenue worldwide in 2022, by segment," *Statista*, https://www.statista.com/statistics/292751/mobile-gaming-revenue-worldwide-device/ (accessed June 12, 2023).

in-game software, add-ons, and other downloadable content, as well as endgame advertising. Exhibit 1 provides worldwide video game market revenue by segment in 2022.

## Growth in Mobile Gaming

Mobile gaming had become a driving force behind the growth of the global video game market. Due in large part to technological advances and digital innovation the number of video game users was higher than ever, reaching a record of $41.7 billion. Video games represent one of the most popular forms of entertainment. This industry had proven more lucrative than other popular entertainment, such as movies and music.

The mobile games industry experienced a massive influx of demand during the pandemic leading to projected revenue growth of $286.5 billion in 2023 and a projected CAGR of 7.08 percent for the 2023–2027 period. Demand had been primarily from young male gamers, with most games tailored to this demographic, leaving the female gamer group as an underrepresented segment. Gaming companies have taken note of this opportunity and begun making games that are more gender-neutral in terms of themes and stories.

With most people returning to a normal lifestyle following the pandemic, consumers have less time to spend gaming. This had pushed game developers to develop mobile and online games that can be played on the go. In 2022, mobile gaming became the top-grossing segment, ahead of console and PC. With 1.75 billion mobile gamers worldwide in 2022, this number was expected to surpass 2.2 billion in 2026. With a growing audience and the popularity of mobile games, the mobile gaming market revenues are expected to see an increase from $152.5 billion to $211.9 billion over the same period. Mobile gaming had become the largest market share within the gaming industry.

Top mobile gaming publishers in North America include established publishers such as Disney, Activision, Electronic Arts, and Warner Bros, cross-platform developers such as Zynga and Roblox, and other players with significant hits, content licenses, and wide-ranging mobile portfolios. In 2022, Star Wars: Galaxy of Heroes was a top-grossing mobile game for Electronic Arts (EA) in the Google Play Store, generating almost $110 million in revenues and accounting for EA's largest share of app revenues. EA's second-ranked *FIFA Soccer* game grossed $75.98 million in gaming app revenues.

## Video Game Industry Acquisitions

To understand the competitive landscape of video game companies, it was important to highlight the value of mergers and acquisitions. Mergers and acquisitions are a strategic option to strengthen a company's market position. Acquisitions allow for the combination of operations of similar companies to increase the scope of their business, create more cost-efficient operations, expand geographic coverage, expand a company's product categories, gain access to new technologies, and increase market opportunities.

Mergers and acquisitions were a cornerstone of EA's growth strategy. In April 2021, EA acquired Glu Mobile, a global developer and publisher of mobile games, for $2.0 billion. The acquisition of Glu Mobile was expected to accelerate the company's growth by creating a combined organization with ongoing live services. *Playdemic* was acquired in September 2021 for $1.4 billion with the goal of continued leadership in sports and mobile expansion.

One of the biggest video game industry acquisitions was Tencent's purchase of Finnish gaming publisher Supercell for $8.6 billion in January 2022. Supercell was a mobile game company known for the top-grossing title *Clash of Clans.* Tencent was a Chinese Tech Company that started as PC-based messaging software in 1999 and evolved into an Internet giant with a market value of $452 billion. Tencent's business model was focused on increasing customer reach before app monetization. Earnings come from value-added services, a third of which are generated by online games. A 2019 partnership with Nintendo had extended its offerings in the Chinese console market.

Take-Two Interactive purchased the social gaming company Zynga with the goal of increasing synergies and revenue opportunities. Take-Two Interactive was based in New York and owns Rockstar Games and 2K publishing labels. The company was a leading developer, publisher, and marketer of interactive entertainment for consumers around the globe. Its products are designed for console gaming systems, PC, and Mobile including smartphones and tablets, delivered through physical retail, digital download, online platforms, and cloud streaming services.

# ELECTRONIC ARTS' STRATEGY IN THE VIDEO GAME SOFTWARE PUBLISHING INDUSTRY

EA's mission was to inspire the world to play. They did this by developing, licensing, marketing, and publishing games that can be played on different devices. EA's revenue-generating products and services include physical games and software. The company's strategies had produced consistent revenue gains between 2020 and 2022, but the increasing cost of goods sold, research and development, and marketing and sales expenses had resulted in a 74.1 percent decline in net income between 2020 and 2022. Exhibit 2 presents Electronic Arts' consolidated statements of operations for 2020 through 2022. The company's consolidated balance sheets for 2021 and 2022 are shown in Exhibit 3.

The company produced and published games for all major gaming platforms, with two-thirds of its revenue coming from console games. Live services, one of EA's fastest-growing revenue segments, reported an increase of 24 percent year-on-year compared to 2021. In 2022, *FIFA 21* and *20* became the revenue drivers for live service, followed by sports franchises such as *Madden NFL*. In 2022, EA released full-game downloads and released new titles such as *Battlefield 2042*, *It Takes Two*, and the remastered *Mass Effect Trilogy*, making this segment the largest revenue driver.

EA followed a hybrid strategy by developing, licensing, and distributing its own games using a cross-platform approach. Part of the strategy was ensuring that games can be iterated or sequeled; for example, *Madden NFL* releases a new edition every

**EXHIBIT 2** Electronic Arts, Inc. and Subsidiaries Consolidated Statements of Operations, 2020–2022 ($ in millions, except per share data)

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Net revenue | $6,991 | $5,629 | $5,537 |
| Cost of revenue | 1,859 | 1,494 | 1,369 |
| Gross profit | 5,132 | 4,135 | 4,168 |
| Operating expenses: | | | |
| Research and development | 2,186 | 1,778 | 1,559 |
| Marketing and sales | 961 | 689 | 631 |
| General and administrative | 673 | 592 | 506 |
| Acquisition-related contingent consideration | — | — | 5 |
| Amortization and impairment of intangibles | 183 | 30 | 22 |
| Total operating expenses | 4,003 | 3,089 | 2,723 |
| Operating income | 1,129 | 1,046 | 1,445 |
| Interest and other income (expense), net | (48) | (29) | 63 |
| Income before provision for (benefit from) income taxes | 1,081 | 1,017 | 1,508 |
| Provision for (benefit from) income taxes | 292 | 180 | (1,531) |
| Net income | $ 789 | $ 837 | $3,039 |
| Earnings per share: | | | |
| Basic | $2.78 | $2.90 | $10.37 |
| Diluted | $2.76 | $2.87 | $10.30 |
| Number of shares used in computation: | | | |
| Basic | 284 | 289 | 293 |
| Diluted | 286 | 292 | 29 |

*Source:* Electronic Arts, Inc. Annual Report, SEC Form 10-K, 2022.

**EXHIBIT 3** Electronic Arts, Inc. and Subsidiaries Consolidated Balance Sheets, 2021–2022 ($ in millions except par value data)

| | March 31, 2022 | March 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,732 | $ 5,260 |
| Short-term investments | 330 | 1,106 |
| Receivables, net | 650 | 521 |
| Other current assets | 439 | 326 |
| Total current assets | 4,151 | 7,213 |
| Property and equipment, net | 550 | 491 |
| Goodwill | 5,387 | 2,868 |
| Acquisition-related intangibles, net | 962 | 309 |
| Deferred income taxes, net | 2,243 | 2,045 |
| Other assets | 507 | 362 |
| TOTAL ASSETS | $13,800 | $ 13,288 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 101 | $ 96 |
| Accrued and other current liabilities | 1,388 | 1,341 |
| Deferred net revenue (online-enabled games) | 2,024 | 1,527 |
| Total current liabilities | 3,513 | 2,964 |
| Senior notes, net | 1,878 | 1,876 |
| Income tax obligations | 386 | 315 |
| Deferred income taxes, net | 1 | 43 |
| Other liabilities | 397 | 250 |
| Total liabilities | 6,175 | 5,448 |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value. 10 shares authorized | — | — |
| Common stock, $0.01 par value. 1,000 shares authorized; 280 and 286 shares issued and outstanding, respectively | 3 | 3 |
| Additional paid-in capital | — | — |
| Retained earnings | 7,607 | 7,887 |
| Accumulated other comprehensive income (loss) | 15 | (50) |
| Total stockholders' equity | 7,625 | 7,840 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $13,800 | $ 13,288 |

*Source:* Electronic Arts, Inc. Annual Report, SEC Form 10-K, 2022.

year. Game themes include action-adventure, casual, family, fantasy, racing, music, multiplayer online role-playing, and simulation. The company had a strong portfolio of wholly owned properties that include brands such as *EA SPORTS™ FC, Battlefield™, Apex Legends™, The Sims™, Madden NFL, Need for Speed™, Titanfall™*, and *Plants vs. Zombies™*. EA's portfolio also included licensed intellectual property, such as *Madden NFL Football, FIFA Soccer,* and *F1®*.

EA's strategy included acquisitions of companies, businesses, intellectual property, and other assets, as well as investing in strategic partnerships. The company was focused on expanding its reach and engaging players through a variety of channels. Investments in digital distribution have allowed EA to reach a global audience and monetize its content through in-game transactions and subscription models.

EA owns and operated gaming studios and subsidiaries such as Bioware, Codemasters, DICE, PopCap Games, and Respawn Entertainment. *Madden NFL* and *FIFA* are EA's flagship franchises releasing new versions yearly.

### Electronic Arts' corporate social responsibility and sustainability strategy

EA's global impact on communities for the fiscal year 2022 includes \$9.5 million in total giving, \$7.7 million in company grants, sponsorships, and matching gifts, \$1.8 million in employee gifts, 6,428 total volunteer hours, 4,359 nonprofits supported, and 3.764 donated game codes. EA created the John Madden Legacy Commitment to Education by committing \$5 million over five years to support nonprofit organizations focused on STEAM education. EA had also sponsored students affiliated with The Jackie Robinson Foundation Scholarship by providing multiple internship opportunities since 2012. EA believed in the power of positive play and in making the gaming community and platforms a fun, fair, and safe experience for all.

## PROFILES OF LEADING VIDEO GAME SOFTWARE PUBLISHERS

### Activision Blizzard

As of October 2021, Activision Blizzard was ranked second with a market cap of nearly \$46.98 billion. The company had benefited from rising mobile and ancillary revenue. The mobile and ancillary platform revenue increased to 24.0 percent in 2021, due primarily to higher revenues from in-game player purchases and advertising on games such as *Candy Crush* and *Call of Duty*. The publisher of popular video games like *Call of Duty*, *Diablo*, and *StarCraft* was focused on the development of mobile versions of some of their core brands. They have a notable market share in Video Game Software Publishing, holding an estimated 10.8 percent of the total industry revenue.

### Microsoft

Several mergers and acquisitions have made this playing field even more competitive. One of the biggest video game acquisitions in 2022 was the purchase of Activision by Microsoft for \$68.7 billion. Microsoft had already made news in 2020 when it acquired video game company ZeniMax for \$7.5 billion. In September 2014, Microsoft acquired the Swedish Minecraft studio Mojang for \$2.5 billion. Microsoft's strategic move demonstrated its intent to purchase studios and gaming publishers and develop new games. As of fiscal quarter 2022, revenues of Microsoft Xbox content and service agreements increased by 2 percent compared to previous years.

### Sony Corporation

Sony was a private company in the United States with a notable market share in at least four industries: recordable media manufacturing, movie and video production, video game software publishing, and video games and video game software publishing. Their largest market share was in the recordable media manufacturing industry. Sony, Microsoft, and Nintendo are formidable competitors in the console segment leading to a high industry concentration.

### Nintendo

Nintendo was a private company with a notable market share in video game software publishing and video games and video game software publishing industries. Their largest market share was in video game software publishing, accounting for an estimated 9.7 percent of the total industry revenue. In 2022, Nintendo Co. LTD entered into an agreement to acquire the Tokyo-based company SRD Co LTD. SRD had been providing support in the programming and development of Nintendo games such as *Donkey Kong, Super Mario Bros,* and *The Legend of Zelda*. The agreement between Nintendo and SRD will secure development resources for Nintendo and strengthen the management structure for SRD. An added benefit of this vertical integration included an improvement in software efficiency.

## Roblox

More than 60 million people engaged in Roblox games and simulations using tablets, smartphones or computers in 2023. The company was ranked among the leaders of the gaming industry, with its tremendous growth during 2021 had been attributed to the metaverse hype at the time. However, the market cap declined to $24.55 billion as of April 2023.

## Epic Games

Epic Games was a software and video game publisher based in the United States. The company was known for the success of *Fortnite Battle Royale,* which accounts for the most significant share of the company's estimated $6.27 billion in annual gross revenues. The company was also the developer of *Unreal Engine,* a game engine for video game development. Aside from video game publishing, the company launched the Epic Game Store in 2018. As of 2021, PC gamers had spent 840 million on gaming content in the Epic Game Store.

## Ubisoft

Ubisoft was a leading global producer, publisher, and distributor of interactive entertainment products. In fiscal year 2021-2023, the company generated €1.8 billion in sales. Eighty-five percent of Ubisoft's sales were attributed to the digital format–the U.S. subsidiary accounts for the majority of sales revenues of the parent company. The company plans to develop free-to-play and mobile games for the 2023-2024 financial year. Ubisoft was known for games such as *Mirage, Assassin's Creed, Avatar: Frontiers of Pandora,* and *Tom Clancy's Rainbow Six Mobile*

## Take-Two Interactive

Take-Two Interactive was a developer, publisher, and marketer of interactive software games. The company generated total revenue of $5.3 billion, up from $3.5 billion in 2022. Take-Two Interactive was the parent company of the publishing labels Rockstar and 2K. In 2022, TT Interactive purchased Zynga for $12.7 billion, making this one of the biggest video game purchases of all time. Some of Take Two Interactive most popular games include *Grand Theft Auto, 2K Sports, Borderlands, Max Payne,* and *Red Dead Redemption.*

A 2022 survey found that more than seven out of ten gamers in the United States were familiar with Nintendo, making this company the most well-known; Epic Games, the publisher of *Fortnite*, ranked second, with Electronic Arts (EA) ranking third. The brand awareness of competing video game studios and publishers in 2022 is presented in Exhibit 4.

# CHALLENGES AND OPPORTUNITIES IN MID-2023

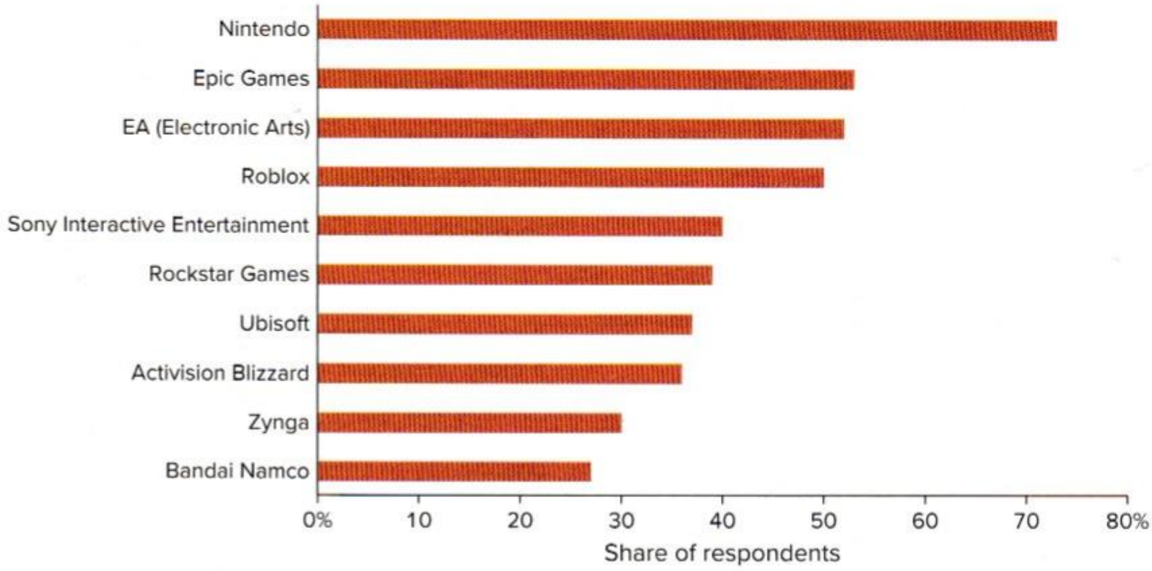
The next steps for EA included expanding its mobile business with the EA SPORTS portfolio and creating a more interactive and social platform where players could stay connected to friends. EA's growth strategy also included providing creation tools for their gamer community to engage more deeply with content and experiences; the company planned to distribute content and experiences to more players on more platforms and in more geographies while harnessing the power of social ecosystems.

EA had built significant relationships with Sony and Microsoft to distribute digital products and services compatible with PlayStation and Xbox consoles. An agreement with Apple, Google, and other app stores allows the distribution of mobile applications and additional content would be important. The company's senior management must also consider the impact of publishers such as Tencent and Nexon who produced mobile and PC free-to-play games in many Asian countries, including China and Korea.

## EA's Strategic Risks

Electronic Arts faced several strategic issues at mid-2023, including the right to use intellectual property, which required forecasting, sometimes years in advance, and competitive pressures from well-funded technology companies such as Amazon.com, Alphabet Inc., Meta Platforms, Microsoft, and Netflix, who are able to strengthen their interactive entertainment capabilities by providing larger budgets to develop and market tools, technologies, products, and services and shift player time to different platforms. Other issues included continuously evolving laws; the increase in mergers and acquisitions, which posed a threat and put added competitive pressure as interactive entertainment companies grow through acquisitions. Also,

**EXHIBIT 4:** Video Game Studio and Publisher Brand Awareness in the United States, August 2022




*Source:* "Video game studio and publisher brand awareness according to games in the United States, as of August 2022," *Statista*, **https://www.statista.com/statistics/1341633/video-game-studio-publisher-brand-awareness-us/** (accessed June 12, 2023).

the company's managers recognized that while many new products and services were introduced to gamers, only a relatively small number drove significant engagement and accounted for a significant portion of total revenues.

Electronic Arts leadership would need to forecast and anticipate the rivals' moves and successfully implement new or evolving technologies. Expansion opportunities included expansion of its mobile business and building a more extensive EA SPORTS portfolio. In addition, a commitment of resources allocated to product development was necessary to advance the availability of games compatible with new consoles, systems, and devices. Also of interest was how acquisitions or strategic alliances in new technologies such as artificial intelligence, virtual reality, and the Metaverse might lead to growth in revenues and shareholder value.