Cal Challenger

Team *All About That Case* : Janet Dong, Nathan Malone, Nicole Martinez

Meet Our Champions

JANET DONG

STRATEGY & RISKS

accenture

FAVORITE GAME:
Super Smash Brothers - it's classic

NATHAN MALONE

PRICING & ANALYTICS

PERFORCE

FAVORITE GAME:
FIFA – it's the game without the sweat

NICOLE MARTINEZ

OPERATIONS & MARKETS

ERNST & YOUNG

FAVORITE GAME:
Crash Bandicoot – Tiki guy is a homie

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Overview

Growing Globally

capturing growing markets and creating robust gaming communities

Pricing Dynamically

accounting for individual country's spending power

Capturing Strategically

lowering the "first-purchase" initial barrier for players

Agenda

1. Comparables
2. Methodology
3. Data Summary
4. Findings
5. Recommendation
6. Q&A

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Comparables

Best practices that can be considered as the pricing strategy is refined.

Coca-Cola
Global Pricing

Pricing model varies across product lines

Pricing model aligns with strategy of being a refreshment that is for everyone

Tailoring pricing based on countries' purchasing power

Competitor price matching

Candy Crush Saga
Freemium

Paid boosts become more crucial at higher levels, when players are already locked in

Fosters competition among player's social network

Selling the game as skill-based. Players have personal incentive to purchase power-ups to do better.

Payment vs. wait time option for players

League of Legends
MMO

Potential for return by selling high profile accounts

Paid items allow players to customize their gaming experience.

Virtual currency can be gifted

Community of gamers give players and audience to show off their purchases.

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Methodology

We analyzed industry, market, and global pricing perspectives to develop a well-integrated and scalable pricing model .

INDUSTRY

- F2P game companies are struggling with the challenge of turning players into payers (currently only 2.2%)
- As mobile gaming is gaining global popularity, companies are looking for ways to break into uncaptured markets by culturally tailoring a game to a country or lowering prices

MARKET

- Southeast Asia, Eastern Europe, and Latin America are the regions of highest mobile gaming growth
- As the market becomes increasingly diverse by gender, culture, income, and age, gaming companies need to tailor games and pricing to new preferences

GLOBAL PRICING

- The markets with the highest growth potential are medium income, hyper growing economies→ opportunity to drop prices and augment growth
- As internet security advances and internet law becomes more established, there will a rising opportunity to improve and customize regional pricing while avoiding arbitrage
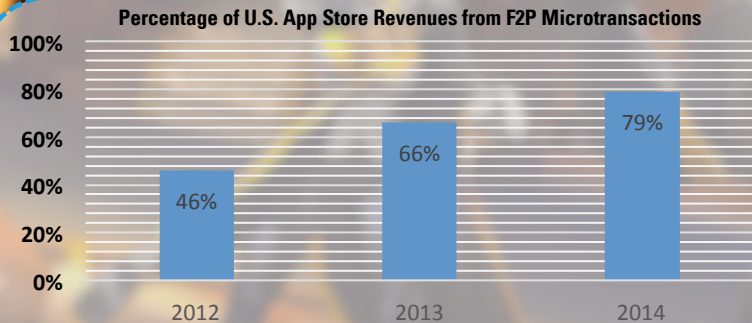
RECOMMENDATION

Kabam should create a global pricing model that meets the needs of the rapidly changing global economy to draw in more players and turn free-to-play gamers into payers.
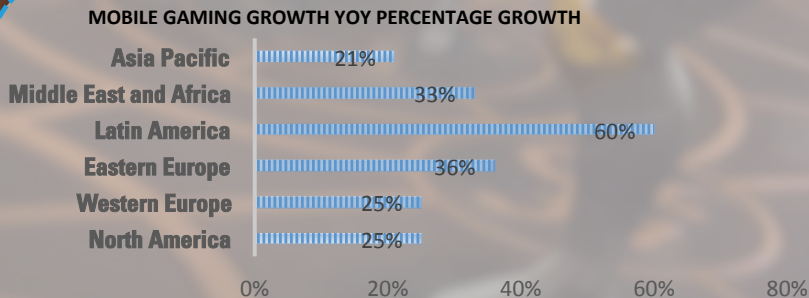
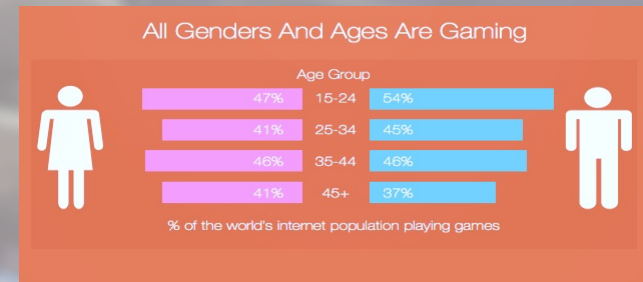See Appendix I

Data Summary

Market Trends

Percentage of U.S. App Store Revenues from F2P Microtransactions

Year	Percentage
2012	46%
2013	66%
2014	79%

Free-to-play is now the standard in mobile gaming, which suggests that competition for in-app dollars is increasing.

MOBILE GAMING GROWTH YOY PERCENTAGE GROWTH

Region	Growth
Asia Pacific	21%
Middle East and Africa	33%
Latin America	60%
Eastern Europe	36%
Western Europe	25%
North America	25%

All regions have mobile gaming growth, but the two most considerable regions are Latin America and Eastern Europe

Consumer Trends

All Genders And Ages Are Gaming

Female	Age Group	Male
47%	15-24	54%
41%	25-34	45%
46%	35-44	46%
41%	45+	37%

% of the world's internet population playing games

Gaming is no longer dominated by young adult males, which is why games & prices must appeal to both genders and all ages

Successful games are becoming more community-based and social:

- **Interactive games built on top of social networks i.e. Trivia Crack, Clash of Clans**
- **Games like League of Legends gain enormous online following for streaming, YouTube video, and online forums**

Key takeaway: building large robust communities is becoming more fundamental for long-term success even at the price of short-term revenue

Sources: Distimo | GungHo | VentureBeat | Entertainment Software Association | GoodNews Finland

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Pricing Strategy

Goal: Kabam wants to create a global pricing model that meets the needs of the rapidly changing global economy to draw in more players and turn free-to-play gamers into payers.

Strategies	Benefits
Pricing Tiers	Divide countries by region into two pricing tiers in order to: • Match country spending power to avoid being overpriced • Gain a foothold in emerging gaming markets by lowering price • Maximize revenue from gaming markets that are already strong
Discount Pricing	Overcome challenge of turning players into payers by: • Lowering initial barrier for first purchase by offering first-purchase discounts and promotions • Decreasing per-unit price for bulk purchases to incentivize larger purchases
Common Currency	• Using common currency between Kabam games increases value proposition for gamers buying Kabam in-game currency (can use for multiple games) • Players are more willing to play multiple Kabam games; creates strong Kabam community instead of just isolated communities within each game

Pricing Model

> **Revenue tiers** provide a good indication of **current market saturation** and **spending potential** of different markets.

We looked at revenue per person that has online access.

High gaming revenue per online user signifies market saturation and **consumer spending power**.

Adjustments were made to the model based on extenuating circumstances for certain countries: **exceptional market size** and **significant mobile gaming growth rate** i.e. Philippines, India

Europe   **Latin America**   **Asia**

	Europe	Latin America	Asia
TIER 1	United Kingdom, Germany, Italy, Spain, Belgium, Netherlands		Japan, South Korea, Taiwan, China
TIER 2	Russia, Kazakhstan, Poland, Greece, Czech Republic	Mexico, Chile, Argentina, Brazil, Venezuela, Colombia, Peru, Ecuador	Malaysia, Thailand, Indonesia, Vietnam, Philippines, India

See Appendix III & IV

Pricing Model

- Tiers were first determined by <u>consumer spending</u> on gaming, market size, and growth patterns.
    - Useful for determining which markets were <u>penetrable by lowering prices</u>, but impractical for determining what that price should be.
- In order to determine specific pricing with a U.S. <u>base price, we utilized disposable income data</u>.
    - Disposable income <u>is more indicative than GDP</u> or total income as to how much consumers are willing to spend on in-game items because only disposable income will be used on gaming spending.
- Created <u>multipliers based on tier</u> and based on continent (Price = US Price * Total Multiplier)

Tier #	Average Disposable Income	Tier Multiplier	Continent Multiplier	Total Multiplier
1	$2,547.11	x1	x1.2	x1.2
2	$876.95	x0.5	x1.2	x0.6

Europe

Tier #	Average Disposable Income	Tier Multiplier	Continent Multiplier	Total Multiplier
1	N/A	N/A	N/A	N/A
2	$668.35	x0.5	x1	x0.5

Latin America

Tier #	Average Disposable Income	Tier Multiplier	Continent Multiplier	Total Multiplier
1	$1,748.84	x1	x0.8	x0.8
2	$484.01	x0.5	x0.8	x0.4

Asia

See Appendix II, V & VI

Risks & Mitigations

Kabam must address and mitigate potential customer, internal & market risks.

| Potential Risks	Mitigations
Upsetting Higher-paying Customers	• Be transparent about the fact that regional pricing exists and explain why (namely differences in purchasing power) • Create price differentiation by discounting tier 2, not marking up Tier 1. Possible specials and premium items for Tier 1 customers
Arbitrage	• Region-lock such that IP address location cannot be changed • Disallow gifting in-game items / currency from region-to-region • Use software that prevents IP proxies from mobile devices
Too Rigid for Shifting Global Markets	• Create general pricing framework that is scalable • Set reevaluation checkpoints and metrics • Seasoned management & talent that can meet global trends
Cultural Resistance	• Domestic market experts oversee pricing rollout of each region • Analysis on consumer-pricing landscape of each region • Expansion domestically and globally hedges against reduced growth in single market

Q&A

Appendix

I. Methodology Explained

- In order to first approach the problem, we looked a number of different data sets by country and region to see what could be the determining factor(s) for determining how we price regionally
    - We supplemented this with real-world examples of how other companies price regionally
- Based on careful analysis of all these data, we ended up picking three to determine our final pricing model (online population, gaming revenue, & growth in global gaming revenue), but we took all of following into consideration.

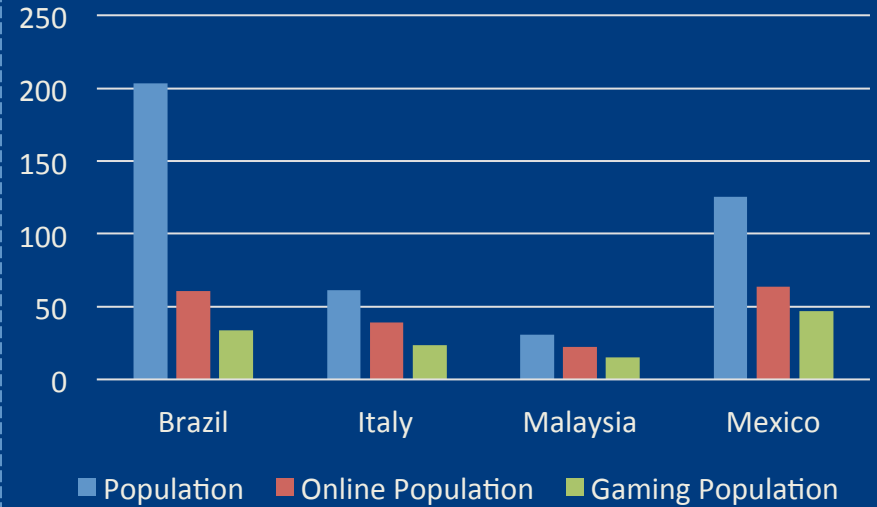**<u>Areas of Consideration/Differentiation:</u>**
- Per Capita Gaming Revenue
- Growth potential of gaming:
    - Spending on Consumer Electronic
    - Online Population
    - Gaming Population
    - Mobile Gaming Revenue
- Saturation of markets
- Per capita GDP
- Population
- Best practices of Global Pricing Models, MMOs, Freemium Games
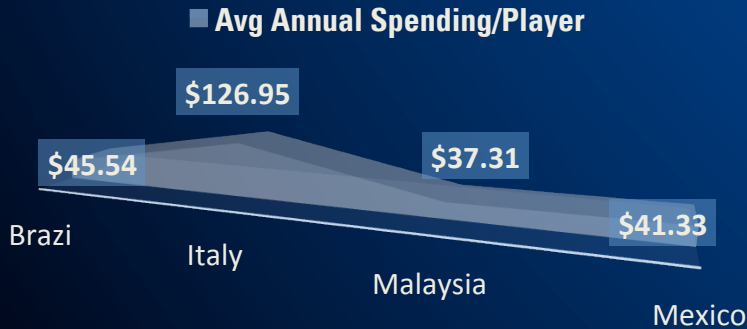
II. Pricing Multipliers Explained
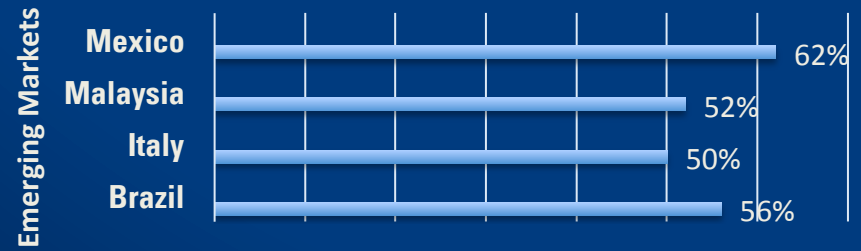
Capital Annual Growth Rate 2014-2018

- 12.40% — Brazil
- 3.30% — Italy
- 20.90% — Malaysia
- 15.60% — Mexico

Legend: —— CAGR
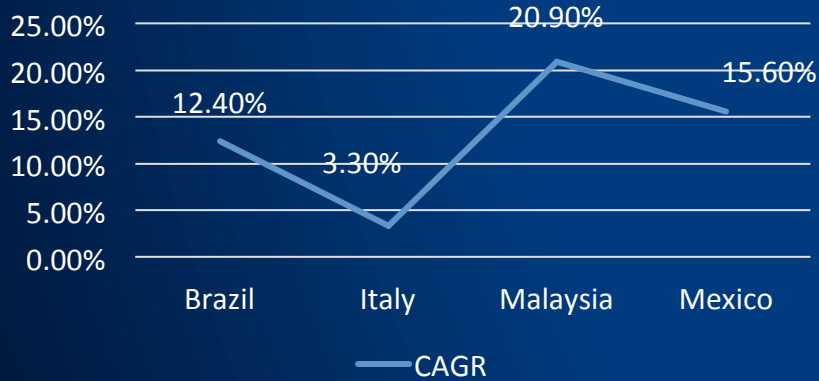
Distribution of Population, Online Population, Gaming Population in Millions

Legend: ■ Population ■ Online Population ■ Gaming Population

Categories: Brazil, Italy, Malaysia, Mexico

Average Annual Spending Per Player in 2014

Legend: ■ Avg Annual Spending/Player

- Brazi — $45.54
- Italy — $126.95
- Malaysia — $37.31
- Mexico — $41.33

Percentage of Gamers who Spend Money

Emerging Markets:

- Mexico — 62%
- Malaysia — 52%
- Italy — 50%
- Brazil — 56%

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III. Pricing Tiers

Rank	Country	Population	Revenue	Online population	Revenue per online person
3	Japan	126,818,000	12,328,860,000	115,975,000	106.3061867
4	South Korea	49,750,000	4,022,366,000	41,735,000	96.37872289
96	Brunei Darussalam *	429,000	13,526,000	312,000	43.3525641
15	Taiwan	23,768,000	767,272,000	20,438,000	37.54144241
38	China, Hong Kong SAR *	7,314,000	173,269,000	5,479,000	31.6242015
1	China	1,401,587,000	22,227,194,000	740,038,000	30.0352063
24	Malaysia	30,651,000	334,994,000	21,916,000	15.28536229
23	Thailand	67,401,000	337,520,000	27,526,000	12.26186151
65	Sri Lanka	21,612,000	45,188,000	6,419,000	7.039725814
25	Indonesia	255,709,000	312,786,000	56,614,000	5.524887837
34	Vietnam	93,387,000	216,345,000	48,851,000	4.428670856
49	Pakistan	188,144,000	115,814,000	31,420,000	3.685996181
42	Philippines	101,803,000	162,423,000	44,478,000	3.651760421
58	Bangladesh	160,411,000	60,886,000	20,372,000	2.988709994
100	Nepal	28,441,000	11,856,000	5,000,000	2.3712
18	India	1,282,390,000	428,265,000	268,020,000	1.597884486

■ = Tier 1   ■ = Tier 2   ■ = no tier

population to small for inclusion in model

Source: NewZoo

1. **Immediately eliminated all populations under 10.5 million to exclude small markets and highlight 8-10 key markets per continent.**
2. **Original Screen by revenue per online population:**
   1. **Tier 1 = $28 – $100+**
   2. **Tier 2 = $7 – $28**
- **There was a sizeable divergence in Asia and Europe between countries of $28+ revenue per online population and next highest below $28 and therefore tier cut-off was placed there**
   - **Asia (China ~$30 → Malaysia ~$15)**
   - **Europe (Netherlands ~$28 → Russia ~$12)**
- **As mentioned in earlier slides, made adjustments based on observed growth rates and market size, but that coincidentally happened four times in the Asian market**

- **Vietnam, Indonesia, and the Philippines are all large game markets with significant growth–2013-2017 CAGR (Compounded Annual Growth Rate) +28.1%, +45.7%, +40.6% respectively**
- **India's market size (over 250M online population) is too large to ignore in model**

IV. Pricing Tiers

Rank	Country	Population	Revenue	Online Population	Revenue per online population
13	Mexico	125,236,000	1,195,456,000	56,757,000	21.06270592
40	Chile	17,924,000	170,081,000	14,017,000	12.13390882
22	Argentina	42,155,000	338,192,000	28,960,000	11.67790055
11	Brazil	203,657,000	1,458,902,000	125,453,000	11.62907224
76	Uruguay*	3,430,000	25,564,000	2,237,000	11.4278051
84	Panama*	3,988,000	20,026,000	1,827,000	10.96113848
41	Venezuela	31,293,000	169,910,000	18,494,000	9.18730399
79	Costa Rica*	5,002,000	23,954,000	2,671,000	8.968176713
62	Dominican Republic*	10,652,000	49,680,000	5,673,000	8.757271285
31	Colombia	49,529,000	234,837,000	28,019,000	8.381348371
77	Puerto Rico*	3,680,000	25,398,000	3,079,000	8.248782072
52	Peru	31,161,000	99,137,000	12,838,000	7.722152983
61	Ecuador	16,226,000	54,607,000	7,406,000	7.373345936
80	Paraguay*	7,033,000	22,148,000	3,453,000	6.414132638
93	El Salvador*	6,426,000	14,618,000	2,332,000	6.268439108
74	Guatemala	16,255,000	26,645,000	4,405,000	6.048808173
78	Bolivia	11,025,000	24,484,000	4,412,000	5.549410698
87	Cuba	11,249,000	18,626,000	3,607,000	5.163848073

Rank	Country	Population	Revenue	Online population	Per online person revenue
68	Luxembourg*	543,000	37,867,000	519,000	72.96146435
6	United Kingdom	63,844,000	3,533,493,000	59,126,000	59.76208436
5	Germany	82,562,000	3,654,669,000	72,828,000	50.18219641
37	Ireland	4,727,000	175,987,000	3,835,000	45.88970013
7	France	64,983,000	2,460,172,000	55,723,000	44.15002782
33	Portugal	10,610,000	221,188,000	5,099,000	43.37870171
95	Iceland*	337,000	13,801,000	332,000	41.56927711
32	Denmark*	5,662,000	225,388,000	5,491,000	41.04680386
26	Austria*	8,558,000	295,116,000	7,222,000	40.86347272
10	Italy	61,142,000	1,505,800,000	37,377,000	40.28680739
35	Finland*	5,461,000	196,457,000	4,978,000	39.4650462
9	Spain	47,199,000	1,564,223,000	40,024,000	39.08212572
21	Sweden*	9,694,000	345,745,000	9,017,000	38.34368415
29	Norway*	5,143,000	268,128,000	7,017,000	38.21120137
28	Belgium	11,183,000	270,032,000	7,171,000	37.65611491
20	Switzerland*	8,239,000	351,210,000	9,822,000	35.7574832
17	Netherlands	16,844,000	463,972,000	15,778,000	29.40626188
12	Russian Federation	142,098,000	1,262,405,000	103,050,000	12.25041242
94	TFYR Macedonia*	2,109,000	13,893,000	1,280,000	10.85390625
48	Kazakhstan	16,770,000	116,926,000	10,777,000	10.84958708
98	Cyprus*	1,165,000	12,558,000	1,165,000	10.77939914
19	Poland	38,222,000	407,947,000	38,222,000	10.67309403
51	Hungary*	9,911,000	103,200,000	9,911,000	10.41267279
86	Bosnia and Herzegovina*	3,820,000	19,228,000	2,031,000	9.467257509
64	Serbia*	9,424,000	49,033,000	5,458,000	8.983693661
53	Greece	11,126,000	96,064,000	11,126,000	8.634190185
72	Lithuania*	2,999,000	31,314,000	3,820,000	8.197382199
69	Croatia*	4,255,000	34,411,000	4,255,000	8.087191539
47	Czech Republic	10,777,000	129,495,000	16,770,000	7.721824687
91	Estonia*	1,280,000	15,948,000	2,079,000	7.670995671
90	Albania*	3,197,000	15,992,000	2,109,000	7.582740635
81	Slovenia*	2,079,000	22,138,000	2,999,000	7.381793931
56	Slovakia*	5,458,000	64,309,000	9,260,000	6.944816415
45	Ukraine	44,646,000	143,616,000	21,579,000	6.655359377
57	Belarus*	9,260,000	61,080,000	9,424,000	6.481324278
85	Latvia*	2,031,000	19,547,000	3,197,000	6.114169534
66	Bulgaria*	7,113,000		7,113,000	6.106003093
44	Romania	21,579,000	143,783,000	44,646,000	3.220512476

= Tier 1   = Tier 2   = no tier

*population to small for inclusion in model

Source: NewZoo

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V. Pricing Multipliers Explained

Country Name	Disposable Income Per Month
United Kingdom	$2,960.54
Netherlands	$2,937.58
Germany	$2,851.85
France	$2,761.99
Belgium	$2,564.89
Italy	$2,117.76
Spain	$1,635.15
Average Tier 1	**$2,547.11**
Median Tier 1	**$2,761.99**
Portugal	$1,081.73
Czech Republic	$1,020.48
Greece	$953.44
Poland	$905.62
Russia	$686.16
Kazhakstan	$614.24
Average Tier 2	**$876.95**
Median Tier 2	**$929.53**

Country Name	Disposable Income Per Month
Japan	$2,782.43
South Korea	$2,174.36
Taiwan	$1,307.43
China	$731.14
Average Tier 1	**$1,748.84**
Median Tier 1	**$1,740.90**
Malaysia	$979.60
Thailand	$502.78
India	$452.11
Vietnam	$334.60
Philippines	$330.73
Indonesia	$304.25
Average Tier 2	**$484.01**
Median Tier 2	**$393.36**

Country Name	Disposable Income Per Month
Argentina	$1,018.58
Chile	$949.50
Brazil	$757.92
Mexico	$729.94
Venezuela	$564.76
Peru	$492.13
Colombia	$474.66
Ecuador	$359.29
Average Tier 2	**$668.35**
Median Tier 2	**$647.35**

Source: NationMaster

- **Goal: Create a pricing system that enables all countries within the tiers to reasonably afford in-game purchases**
  - **Countries previously identified as most opportune (high Tier 2) will have prices lower than the maximum they can afford, but that's aligned with the goal of community building and market penetration**
- **EU has mandatory value-added tax: generally around 20%, but Tier 1 disposable income Europe is similar to U.S.**
  - **Leads to 1.2x multiplier from U.S. price**
  - **Decreasing USD cost by tax would be needlessly price-cutting because Europeans are used to paying VAT**
- **In order to develop pricing model, we can base the rest of the model on the European 1.2x multiplier and use the disposable income data shown above for developing Tier 2 and continental multipliers**

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VI. Pricing Multipliers

$$\frac{Average\ Asia\ Tier\ 1}{Average\ Europe\ Tier\ 1} = \frac{\$1,748.84}{\$2,547.11} = 0.69 \rightarrow 0.69 * 1.2 = 0.83$$

$$\frac{Average\ Asia\ Tier\ 2}{Average\ Europe\ Tier\ 2} = \frac{\$484.01}{\$876.95} = 0.55 \rightarrow 0.55 * 1.2 = 0.66$$

0.8x Asia Multiplier

$$\frac{Average\ Latin\ America\ Tier\ 2}{Average\ Europe\ Tier\ 2} = \frac{\$668.35}{\$876.95} = 0.76 \rightarrow 0.76 * 1.2 = 0.91$$

0.9x Latin America Multiplier

$$\frac{Average\ Asia\ Tier\ 2}{Average\ Asia\ Tier\ 1} = \frac{\$484.01}{\$1,748.84} = 0.28$$

$$\frac{Average\ Europe\ Tier\ 2}{Average\ Europe\ Tier\ 1} = \frac{\$876.95}{\$2,547.11} = 0.34$$

0.5x Tier 2 Multiplier
Higher than disposable income calculation because gaming target market in poorer countries is often wealthier than the general population

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