

Open system, Commitment, Revenue generating Business model

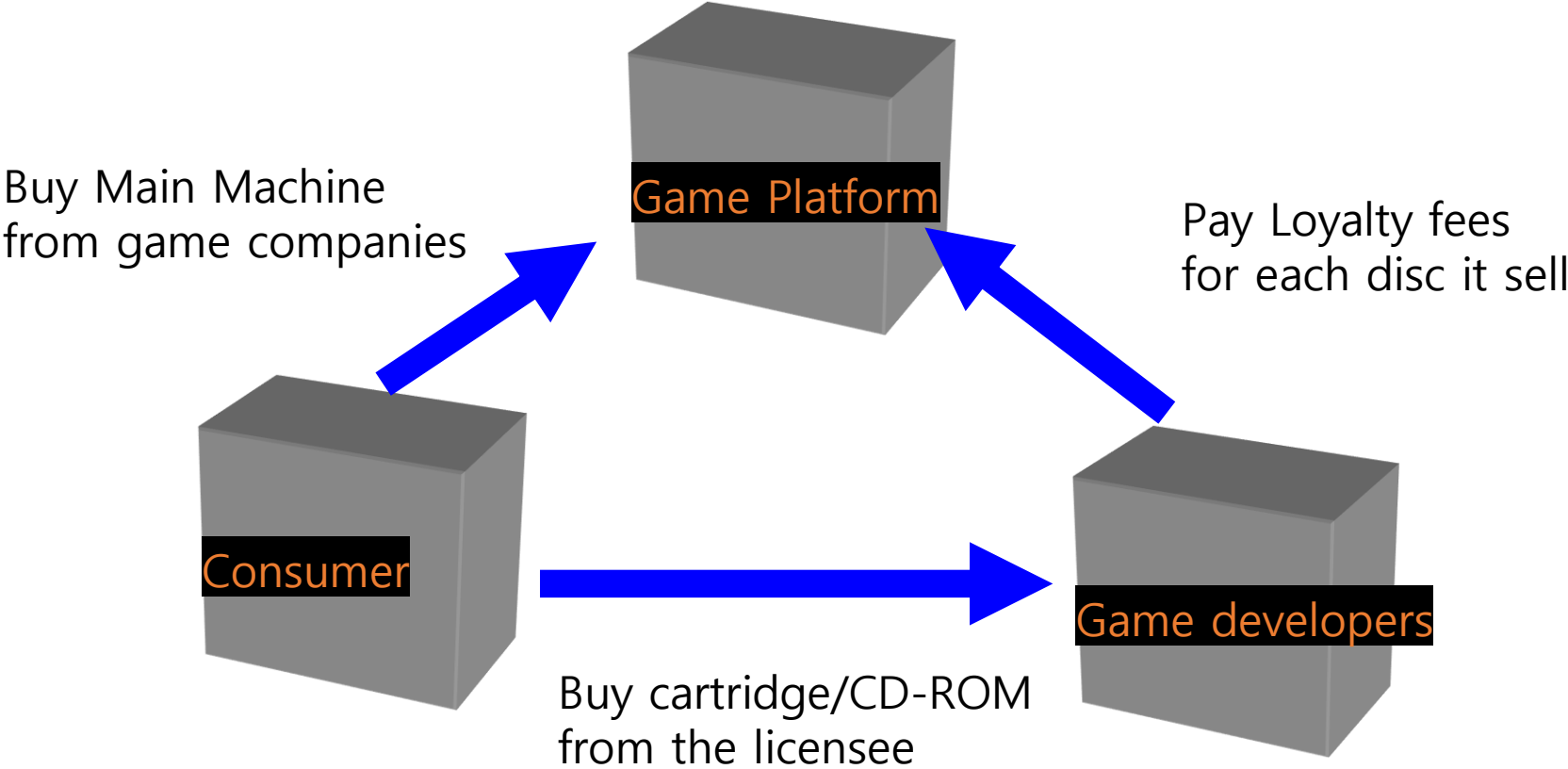
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- Review of Video Game Industry
- Successful MSP operator
 - Open system, commitment, revenues generating business model.
 - Property Right, right to exclude
 - Restrictive constraints; Is it procompetitive or anticompetitive?

Regulator in a two-sided market

- Atari Success and failure
- Nintendo Big success
 - quite restrictive licensing schemes
- 3 DO
- Playstation

Video Game Platform; Two-Sided Market



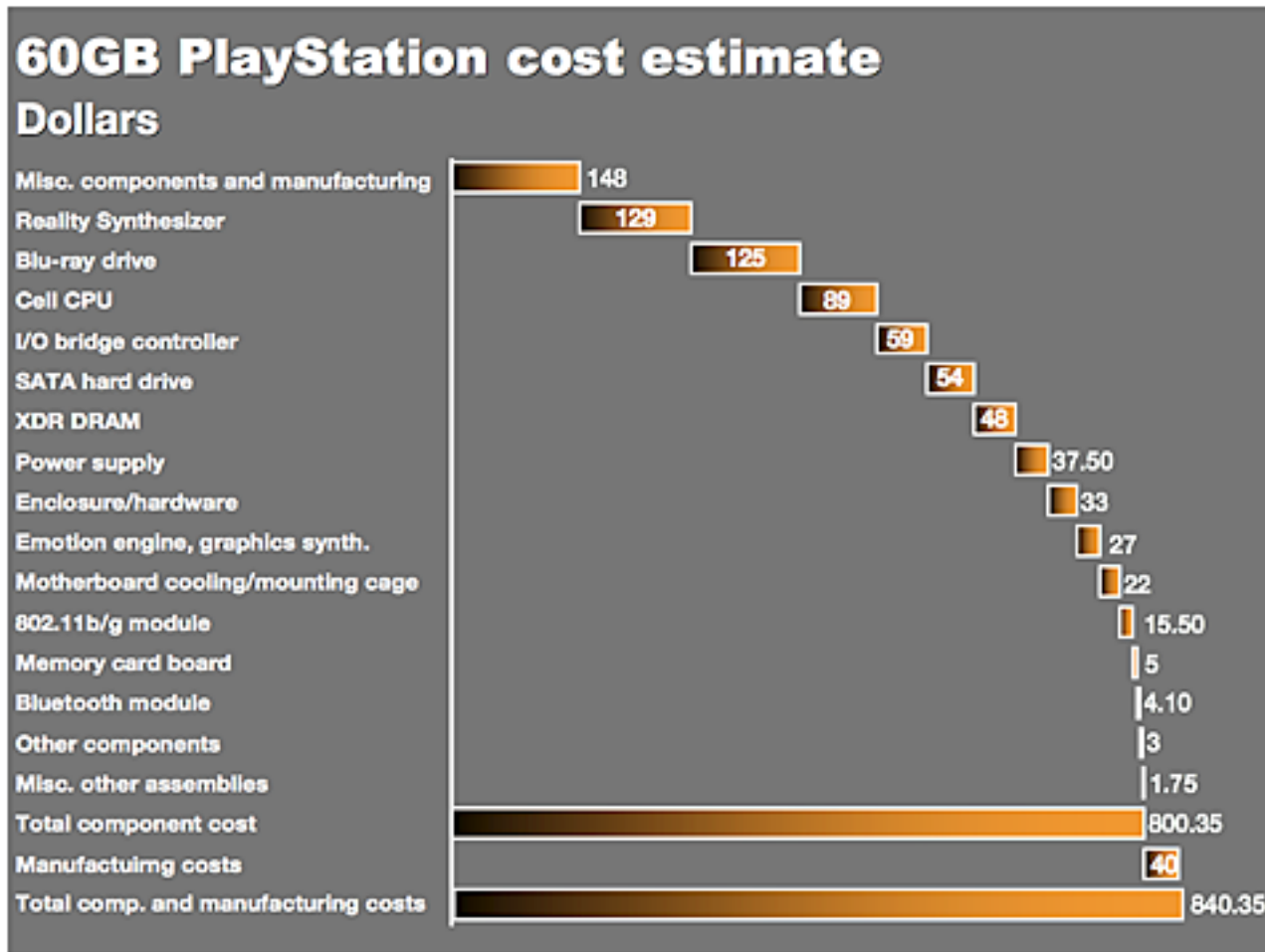
Atari, Video Game Platform

“videogame crash.” At the time, the popularity of the Atari VCS (video computer system) 2600 console had attracted large numbers of “fly-by-night” developers seeking a quick profit: they flooded the market with poor-quality VCS-compatible games (that Atari did not anticipate and had no technological way of excluding), which undermined the consumer experience and drove high-quality games out of the market.” A.Hagui(2006)

Giants – Nintendo

- Nintendo security chip, which allowed Nintendo to have a control grip on the game side. It required amount of purchase of Chips on game developers.
- A limit on the number of titles per year. A set of standards including a ban on any excessively violent or sexually suggestive material.

Playstation 3



- “Describing the PS3 as an “engineering masterpiece,” iSuppli estimates that the more expensive \$599 console costs \$840.35 to build, leaving Sony with a \$241.35 loss on each console. The picture is worse for the cheaper, \$499 version. Sony takes a hit of \$306.85 per \$499 console sold”

From <https://arstechnica.com/gaming/2006/11/8239/>

“Sony made the most memorable price announcement of all time. In 1995, Sony’s Steve Race walks to the podium, says a single word (announcing the launch price of the PlayStation) and walks off to a room full of applause. That’s how it’s done.”

<https://thebests.kotaku.com/the-best-e3-moments-1704385912>

Commitment?!

3rd Party game developers are invited into a new game system.
A Platform operator needs to provide ‘commitment.’

Why low hardware price?

Signaling effects; low hardware price signals high quality system.
Low hardware price can make sense only if it can sell a low of software products.

Commitment device; a large installed base.

In a two sided market, controlling a pricing structure is not enough. Platform operator takes a role of regulator.

Regulator in a two sided market

- Network externalities; Katz and Shapiro(1985)
- Indirect Network externalities; Church and Gandal(1992)
- Two sided market; Caillaud and Julien(2003)
- Platform regulator
 - Brandenburger and Nalebuff
 - Haigui (2006)
 - Open system, Commitment and regulation

- A successful platform regulator in an open system needs to handle
 - commitment not to ex post exploit
 - quality control
 - Revenue generation business model
- Restrict quality control and revenue generating business model

Bouncer's right ! ?

- Multi-sides interacts, externalities
- Common goal to promote a system, solving asymmetric information problem, coordination among participants.

- Facebook vs MySpace
- eBay
- Search algorithms. Google/J.C. Penney

- (restrictive) Business model
 - When?
 - How?
 - Outcome?