MOTION CONTROLLERS HELP GAMESTOP, DIGITAL THREAT LOOMS
(AMZN, ATVI, BBY, EPU:UBI, ERTS, GME, MSFT, TGT, TTWO, TYO:6758/SNE, UBI, WMT)

Reverdy Johnson, rj@blueshiftideas.com, 415.364.3782
With additional research by Adam Lesser and Scott Martin

Research Question:
Will GameStop be able to capitalize on the release of motion controllers from Sony and Microsoft to stave off competitors?

SUMMARY OF FINDINGS

► Motion controllers from Sony Corp. (TYO:6758/SNE) and Microsoft Corp. (MSFT) are expected to increase sales for GameStop Corp. (GME) but only in the short term. The devices are expected to be supplementary to consoles.

► Customer sources in GameStop stores expressed little interest in motion controllers, instead opting for games for traditional consoles.

► An industry shift to digital content at the expense of physical discs remain a long-term concern for sources. GameStop will struggle in adjusting its business model to meet this transition, and its physical inventory and store fronts will be its demise.

► GameStop’s competition is not expected to come from Best Buy Inc. (BBY) or other large retailers entering the used-game business. However, Amazon.com Inc. (AMZN) is a viable option for those purchasing games online.

► Blueshift found little consumer interest in 3D games as most households do not have the TV to support the technology. Nintendo Co. Ltd.’s 3DS, however, is expected to make a splash with its expected spring release as the handheld device is portable and does not require glasses.

► Activision Blizzard Inc.’s (ATVI) Call of Duty: Black Ops is this holiday season’s highly anticipated game. Stores have been taking hundreds of preorders for its Nov. 9 release. Still, this holiday’s season’s game sales may be slower than last year.

SILOS

1) Video Game Developers
Three sources said the new motion controllers could provide a short-term boost for GameStop by luring in families drawn to games for these new devices. No source had much confidence in GameStop’s long-term viability. The industry is moving toward digital content, positioning GameStop to become the next Blockbuster or Tower Records. One source believes Best Buy’s used-game business will not succeed. Another said publishers ultimately want to eliminate selling through brick and mortar retailers.

2) Video Game Distributors
Two sources said GameStop will see increased sales from the motion controllers, but the issue of digital downloads looms large over the company. GameStop needs to participate in the shift toward digital, but will be hurt in a transition by its considerable physical store presence. Both sources cited Amazon as a formidable competitor to GameStop, though they differ regarding the trend in sales of used games. Call of Duty: Black Ops is expected to be a winner this holiday season.

3) Industry Experts
Two sources questioned GameStop’s long-term viability. One said GameStop will struggle with the switch to downloadable content. Another questioned the effect of motion controllers on GameStop’s used-game business. The sources disagreed on the Kinect; one said it is not likely to do well because of negative press, while the other believes it will revitalize a hardware cycle and has received more positive reviews from consumers.

4) GameStop Customers
Five sources said they were not familiar with or overly excited about the motion controllers or 3D games, nor were they interested in downloadable games. Four of the five frequent shoppers like Best Buy and Target for video games purchases as much as or more than GameStop.

5) GameStop Stores
Five sources said Sony’s Move is a popular seller and is more accurate than the Wii. Expectations for Microsoft’s Kinect are equally high. A New York store reported a 25% decrease in console sales in the last six months because of increased digital downloads and mobile gaming. Another store’s used-game business was unlikely to compete with GameStop.
FINDINGS AND RESEARCH

INITIAL FINDINGS
Blueshift Research’s previous reports (Jan. 8 and March 19) found that GameStop needed to update its business model to combat the numerous threats from retailers, downloadable games, online auction sites and mobile gaming and that it faced another potential threat from stagnant console gamers (May 14).

CURRENT RESEARCH
In this next study, Blueshift assessed the effect of new motion controllers from Sony (the Move for the PlayStation) and Microsoft (the Kinect for the Xbox) as a way for GameStop to keep its competition at bay. Blueshift employed its pattern mining approach to establish and interview sources in seven independent silos: 1) video game developers, 2) video game distributors, 3) industry experts, 4) GameStop customers, 5) GameStop store employees, 6) Best Buy store employees and 7) additional sources. During the past week, Blueshift interviewed 20 primary sources and included six of the most relevant additional sources focused on Kinect and Move sales, GameStop's move into digital distribution, and an expected slowdown in holiday video game sales.

SILOS

Video Game Developers
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A mobile developer for a leading console, online, and mobile video game publisher believes the new motion controllers will drive some video game sales in the short term. Microsoft’s Kinect and Sony’s Move should do well though uptake will be slow as developers get accustomed to the platforms and begin producing games. He sees potential for Microsoft’s Xbox and Sony’s PlayStation to become family gaming units, similar to Nintendo’s Wii. However, he expects GameStop to lose out in the long run because of the industry’s transition to digital delivery of console games and game publishers’ desire to push retailers out of the value chain.

- “In the short term, the new devices should drive some video game sales. It looks like they’re moving decent units.”
- “Motion controllers will have an impact on game sales. It’ll be slower uptake, but once developers get comfortable with the controller, it’ll open up consoles to a bigger audience. As you get them on an Xbox and PS3 with bigger TVs, it’ll get easier for people to play games. People with small kids view it as a family unit, not just a traditional console for teenagers.”
- “It’s going to take time for developers to get used to the Kinect. But once they do, it’ll get quicker uptake. ... I’m not hearing that there are that many games. It’ll start like Wii-style party games and then over time will catch on.”
- “Long term, GameStop will mimic what happened with video rental stores. As everything goes digital you don’t have as much of a value proposition. The only way to survive is to become the next Netflix [Inc./NFLX], but that’ll be challenging when you have people like Apple [Inc./AAPL] opening up stores. It’s going to be publishers selling directly or opening up on device stores.”
- “Digital content distribution on consoles is a matter of time. It’s going to be all digital. You look at the Mac App store. That’ll drive things on the Mac platform. Eventually Microsoft or Google

Motion controllers will have an impact on game sales. It’ll be slower uptake, but once developers get comfortable with the controller, it’ll open up consoles to a bigger audience. ... People with small kids view it as a family unit, not just a traditional console for teenagers.

Mobile Game Developer
As far as I’m concerned, the next generation of consoles will concentrate less on processing power or even traditional game play and more on the controller. This is not a creative choice. It may become a business necessity.

GameStop can eke out a continued niche for itself renting or reselling the specialized controllers, the hardware. This is something that you just can’t handle online. I have no idea how large this niche is, but I can imagine it subsidizing a lot of specialized controller development. Remember how videotapes were ‘priced to rent’? In theory, multiple consumers could cost-share a virtual ‘car’ controller or whatever. Overall, volumes would be low, but the manufacturer would still get a decent bit of revenue out of the product.

The problem is that GameStop isn’t a tech service company, and rental devices need fairly heavy maintenance. This might cut into their margins compared to their existing software-driven business, which is basically a matter of tacking on a profit and putting the game on the shelf.

New controllers are already a proven seller in places like GameStop as well as broader-based retailers, so I see the potential here for Best Buy, Target [Corp./TGT], Wal-Mart [Stores Inc./WMT] to stock the new devices like they now stock any other electronic toy. That said, I
It's definitely a catch-22. Physical media sales are dying, and I'm sure the company doesn't want to suffer the fate of Blockbuster or Tower Records. ... But unless they can build a viable online community around the download experience, they're doomed anyway.

Web-based Game Designer

A Web-based game designer wonders whether GameStop's competitive strengths can survive a move toward online sales. Otherwise, he is fairly neutral on the company's business model.

- "A new console would help bring people into the stores—building excitement through those special events—but also make their existing inventory more of an albatross. Of course, they can simply dump the old inventory ahead of the new console release, so it may not be that big a problem."

- "It's definitely a catch-22. Physical media sales are dying, and I'm sure the company doesn't want to suffer the fate of Blockbuster or Tower Records, choking on its useless physical inventory. But unless they can build a viable online community around the download experience, they're doomed anyway."

- "GameStop's charm—if you can call it that—is that it is the hub for a community of young gamers without much disposable cash and hardcore older gamers who just want to live and breathe games. The tournaments and special events go a long way toward giving fans a nonvirtual community experience. The more the company tries to divorce itself from the physical stores, the weaker that connection gets. After a while, there's nothing keeping the customer from just finding the cheapest price anywhere and drifting from retailer to retailer."

- "GameStop has a great brand. Generations of kids have grown up in these stores. They need to recognize the role they play in the lives of their core customers: the kids and the hardcore gamers who are really only a little above kids as it is."

- "I think the social experience of gaming is too easily forgotten. We play these things in private, but we also play them in groups. Sometimes that group experience is online-only, but people still..."
get together in the evenings and just play. The funky and eccentric record stores survived because they had a more social retail experience, whereas Tower Records is gone. If GameStop moves to an online-only approach, whatever strengths the company had in the brick-and-mortar stores vanishes. It simply becomes another Amazon with slightly higher prices and not nearly as much stuff, which is to say it becomes BarnesandNoble.com [BKS] and dies a lingering death.”

**Video Game Distributors**

Two sources said GameStop will see increased sales from the motion controllers, but the issue of digital downloads looms large over the company. GameStop needs to participate in the shift toward digital, but will be hurt in a transition by its considerable physical store presence. Both sources cited Amazon as a formidable competitor to GameStop, though they differ regarding the trend in sales of used games. *Call of Duty: Black Ops* is expected to be a winner this holiday season.

A distributor of video games to international, midsize and large customers said motion controllers will drive some sales for GameStop, but he does not expect a longer-term boost or a Wii-like trend. Downloadable video games for consoles are inevitable but could be slowed if demand for 3D takes off first. He believes GameStop has a good online presence but is over-expanded in physical stores. Its transition to digital content could be overshadowed by its slowing used-game sales. Amazon presents considerable competition in the online game market. His company’s sales are up 10% from one year ago, but he said orders for November and December have been conservative. *Call of Duty: Black Ops* and the PS3 will be this holiday season’s big winners.

- “I don’t think the motion controllers will have much of an impact for Sony and Microsoft. It’s more for Nintendo and for the younger generation. At the beginning, everything that comes out with the motion controllers will drive sales for GameStop. But long term it won’t help them that much.”
- “Sony is going to be a leader this year. Wii won’t do as well this year. Microsoft will still be solid. I think people who buy Microsoft or Sony products are more serious gamers and stuff like the Kinect and the Move are more for people who with younger kids or who have their friends over. It gets real old real fast. People buy the Wii and then play for a few weeks and are sick of it.”
- “Anyone who wanted something like a Wii has already used and abused it. Nintendo was at the right place at the right time, and they took advantage. How deep are games going to get using motion? People who buy Xbox and PS3 want to play *Call of Duty* and online interactive gaming.”
- “Console-based gaming will continue to grow, especially when 3D games come out. We’re expecting to see the first 3D for Christmas 2011 as the Nintendo 3D Game Boy got pushed back.”
- “3D stuff won’t be downloadable, but if the technology stays where it is now, we’re definitely going toward downloadable. It’s a lot harder to have 3D technology through downloadable software. *Call of Duty* will be distributed online, but it’ll probably take a year or two to get to the point.”
- “Physical retailers are going away. That’s the issue for GameStop. Unless they own the properties, they’re going to lose money closing stores. That’s a matter of time. They’re very good at selling online, so we’ll have to see.”
- “I’m sure GameStop will try to sell downloadable through its Web site. They have a lot of customers, and they sell a lot online. But they have too many retail stores. That’s their problem.”
- “For the publishers, online distribution makes sense. It puts an end to renting and reselling. But the publishers aren’t good at customer service and back end, which they’ll need GameStop for. Selling online/downloadable content is a lot harder than people think.”
“This year’s October was better than last year’s October. We were up about 10% over last year. It’s not clear what will happen with November and December. People are still very conservative and holding back in terms of placing orders for the holidays.”

“The used-game market is not as hot as it used to be. People just want the new-release hot stuff. They don’t want the older games that GameStop has tons of inventory of.”

“I don’t think Best Buy’s used strategy will be that successful. In the used market, you really have to be on top of stuff. GameStop is good at buying and selling used software. It’s hard for a company like Best Buy to do that. I don’t think it’ll have any effect on GameStop. It’s like Blockbuster trying to compete with Netflix. It’s not going to happen.”

“I think GameStop will do well this holiday season. A lot of big titles coming out. Call of Duty will be big this holiday season.”

“Amazon is smart, aggressive; their shipping options are easy and inexpensive. Most holiday shoppers will use Amazon. They’re taking a chunk from other retailers.”

“PS3 is going to have good sales because the price is so reasonable, especially with Blu-ray. They’re coming out with better games that their customers are looking for. You get a lot for your money. It’ll be the best-selling system for the holiday season.”

“The 3D and virtual reality gaming is going to be hot as the technology gets better. It’s going to take at least two years. Look at the first iPod that came out versus what we have today. It’s a huge difference.”

A distributor of used-video games said the recent announcement that GameStop will sell credits for Xbox Live Arcade is a sign that GameStop may be accepting that the video game market’s future will be in digital downloads. He has concerns that such a market will wipe out the used-game business for GameStop but said this evolution will take five years. He has seen excellent growth in his used-game business, thanks to the recession. The buzz surrounding the Move and the Kinect has been measured.

“I think the Xbox/GameStop deal is not that big of a deal for GameStop. I still see the problem that if GameStop goes to this digital download market, how do they sell used games? They may just try to get something from the digital download market because that’s where the market is heading. It’s probably better for them to just embrace it rather than fight it and eventually lose. Blockbuster didn’t embrace it quickly enough and got hurt. GameStop will need to embrace it now or be in a world of hurt in five years when it goes that way. There’s so much pressure from the publishers to go downloadable.”

“Publishers want to get to a digital distribution world. They don’t have to spend money on production and give the retailers a cut. There is a portion of the market that doesn’t want digital but it will eventually get to that point for newer stuff. Most consumers won’t have a choice.”

“We’ve definitely noticed an increase in business. We had three employees last year, and now we have 10. Sales and traffic are up. For us, a lot of our customers are trading down from the newer, expensive systems and are buying older and used systems for their kids. Then we have the customers who like the vintage game stuff and are reliving their childhoods. There are economic issues, and some people want to buy cheaper, older systems versus buying an Xbox 360. We didn’t slow down during the recession. We’ve been growing the last two years.”

“I’m sure GameStop will try to sell downloadable through its website. They have a lot of customers, and they sell a lot online. But they have too many retail stores. That’s their problem.”

Video Game Distributor

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Used-Video Game Distributor

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“Best Buy's used-game plans will eventually affect GameStop. GameStop's margins have been big on used games. Eventually, people will have more options to buy used games at other places. I think it'll put pressure on their margins. They'll have to offer better buy-back prices or sale prices. People will be able to shop around for the best price.”

“GameStop has a ton of competition online, particularly Amazon and eBay [Inc./EBAY]. The biggest draw for GameStop is instant gratification in the store and doing the sale there. If Best Buy and Wal-Mart can do something like that, that'll be the big push for competition for GameStop.”

“In terms of the Autodesk [Inc./ADSK] ruling, the person buys the product and gets the actual item. As long as they resell that one copy of the code, it’s OK. My guess is it’ll be overturned.”

“People I’ve talked to at E3 think [Sony's] Move is a cool idea, but it wasn't that much better than the Wii. I don’t think that’ll spur a huge jump. Wii’s already out there. Kinect is more intriguing, but I haven’t seen too much hype or excitement.”

### Video Game Industry Experts

Two sources questioned GameStop’s long-term viability. One said GameStop will struggle with the switch to downloadable content, negating any short-term gains from the new motion controllers. Another questioned the effect of motion controllers on GameStop’s used-game business and predicted customers will be dumping their old games to buy the new merchandise. The sources disagreed on the Kinect; one said it is not likely to do well because of negative press, while the other believes it will revitalize a hardware cycle and has received more positive reviews from consumers.

A video game journalist for leading gaming magazine said the Kinect and the Move will bring in some business but only short term. Eventually, all games will become solely downloadable, which could eliminate GameStop. The Kinect showed poorly at E3, and the gaming press has had limited access to the device. He sees potential for fitness games but not for RPGs on the Kinect. He reported fewer major games releases year to year and said an overall dip in video games sales this holiday season is possible. He said Goozex Inc. is an emerging used-game competitor for GameStop.

> “GameStop is doing OK. Their trading continues to work, and trade-ins generate new-game sales for them. Because Kinect and Move are new, they’ll bring in some game business. There’ll be big numbers. Call of Duty will be big and [Microsoft's] Halo, too. But I don’t think it’ll be long term. And I don’t think we’re going to see big numbers from other games.”

> “Assuming the next generation goes download-only, I don’t know how long GameStop can survive. Discs are their business. They can’t just sell hardware. That’s not enough to keep them in business. As soon as we go download only, GameStop is toast.”

> “GameStop is doing a little bit of downloadable stuff. It’s just not in the same category of a place like [Valve Corp.'s] Steam. They recognize they need to start thinking ahead. I can download Xbox games from my console. I have no reason to download them from GameStop. downloadable games are growing with these Xbox promotions.”

> “When the Wii came out, we didn’t know how big it would be. That said, I don’t think the motion controllers will do as well as the companies think they will, especially the Kinect. It demoed pretty badly at E3 with the press. The press isn’t that interested. I’m wondering if Microsoft is afraid of what the press thinks because they’ve been going mainstream with Oprah demos, skipping over the gaming press. What we’ve seen so far is not the greatest.”

> “The Move has a small selection of games. They’re retroactively updating games. [Quantic Dream S.A.’s] Heavy Rain is getting a patch to make it usable with Move. There’s a handful of party
games that are family-oriented, multiplayer. Not a whole lot of stuff that’s going to appeal to the hardcore masses.”

- “I think the Move will be successful enough to satisfy Sony, but I really don’t see the Kinect working like Microsoft thinks. I don’t think people are going to want to ‘become’ the controller. Most people just want to sit on the couch.”
- “I’m looking forward to the fitness stuff, the dancing games. But on the whole I don’t think people are going to want to stand in front of their TV and swing a sword.”
- “I think the controllers will be a segregated market. You’re not going to see video games latch onto the motion controllers. It’s going to take time to get developers to latch on and support. The fitness thing could be the key, like the Wii. The Wii games aren’t that great, and people buy them. It’s just tough to gauge, but there’s no word on what games are coming or who’s buying them.”
- “We’re still seeing a lot of people buying physical discs. It’s inevitable that we’ll eventually move past discs, but it’s going to take a long time to edge retailers out of the business.”
- “We are seeing great games on Xbox Arcade with lots of great releases. That happens during the summer, but this year it’s continued beyond the summer and these games are $15. People will eventually realize they don’t have to pay $60 for a game. With Xbox Arcade, you buy with points and download, play it straight from there. If the next console generation said, ‘We’re going download only,’ that wouldn’t shock me. We could get five more years with these consoles.”
- “Right now we have three major consoles, and we have retail distributors like GameStop and Best Buy selling them. As soon as you try to cut them out of the chain, they won’t sell your hardware. Hardware manufacturers feel like they have to sell physical discs to GameStop because otherwise they’d have to handle selling their consoles at GameStop. People still buy a lot of consoles at GameStop.”
- “Most of the big games are already out. I don’t see a game that will change everything this holiday season versus last year, where there was a deluge of games. I wouldn’t be surprised if we see a dip in sales this season. Call of Duty is hitting Nov. 9. That’s the big game for PS3 and Xbox. [Ubisoft Entertainment S.A./EPA:UBI] Assassin’s Creed will be big. But Halo and [Microsoft’s] Fable have already come out. The games aren’t that good to drive huge sales. There are a lot of poorly done party games that I don’t think people are going to jump onto.”
- “I don’t think any of the consoles are on the way out. The Move and Kinect are refreshes to add longevity to their cycles.”
- “Not a lot of people are supporting 3D games.... The TVs are just too expensive right now for it to catch on. The 3DS is going to be spring/summer next year. I could see that lighting the fire of the market and selling like hotcakes. Anytime Nintendo releases a new handheld, it’s big. It’s different hardware altogether. It’s 3D and you don’t have to wear glasses.”
- “The only new contender for physical game reselling is Goozex. It’s a clever way to trade with others. You spend a dollar on a trade token. Then I list the game for a set amount by Goozex. I can ship, and then I get the points in my account to buy games. It goes around retailers. It’s doing quite well. I know a ton of people who use it. It’s not as big as Amazon, but I think it’s going to become a regular thing for the games community. It’s not better than GameStop, but it serves a different purpose.”

A longtime industry commentator likes the Kinect and is optimistic that the new wave of controllers and consoles will revitalize GameStop’s business.

- “Kinect has received plenty of whining in the game industry press, but let’s face it: People are buying it. If the industry press hates a product and it sells out in preorder anyway, who are you going to believe?”
- “We were due for a new hardware cycle. The Wii was the last real excitement I can remember spilling out beyond the industry press, and if Kinect or Move gets that kind of excitement, it may be a good retail season.”
“GameStop makes a lot of money on hardware as it is. Their last comps on hardware showed something like 40% growth while the games themselves—new and used—were basically stagnant. The game trading still serves as the heart of their customer service experience, but I don’t know if it’s really the heart of their business now.”

“A new console or controller triggers a refresh cycle for game content. You can’t play the game that the hardware comes with forever, but since it’s a new interface, you need all-new games to play on it. However, GameStop may find itself taking a lot more old games in trade as people dump their old collections in order to get the new games. Those old games go stale fast. I’m sure their managers are being told to contain their buying right now.”

Customers in GameStop Stores
Five sources said they were not familiar with or overly excited about the motion controllers or 3D games, nor were they interested in downloadable games. Four of the five frequent shoppers like Best Buy and Target for video games purchases as much as or more than GameStop.

- A male customer in his early 30s in Pasadena said he rarely goes to GameStop for anything but to trade in games. He prefers Best Buy for the accessories and hardware because he can visit other departments. He thinks the new controllers could generate a renewed interest in console gaming. He had little interest in 3D, which he said is outpacing consumers’ ability to pay for it, let alone understand it.
  - “I own two Sony PS3s and a Wii, so we have lots of hardware around. I like the new motion controller from Sony but haven’t bought it yet. I’m holding out because of finances. I think the new Kinect controller is cool, but it’s not really that different from what Wii is already doing. Body motion is not a new technology to me.”
  - “I buy digital content sometimes directly from Xbox online and sometimes from Best Buy online. For GameStop I’m usually just coming in the store to trade. You can’t buy used games at Best Buy; you can only trade in for store cash or credit.”
  - “I use Best Buy for hardware because they have a bigger selection and it’s a one-stop-shopping spot for me. I can get other things there.”
  - “You’ll see a lot more interest in the new consoles, especially if it’s got the capability for teams or family players. Digital is more of a solo deal. I see digital as an augmentation, not a replacement for interactive gaming experience.”
  - “3D is a giant waste of time. People are still upgrading to HDTV, let alone preparing to buy 3D. And, in this economy, I don’t see people rushing out to buy a lot of it. Technology is pacing faster than people can keep up with, financially or intellectually.”

- This 26-year-old Boston-based gamer is a frequent GameStop customer. He is unenthused about motion controllers and 3D, preferring to play games on a PlayStation Portable (PSP). He frequents both GameStop and Newbury Comics for used games but less often than last year. He was unaware of used-game programs at Best Buy or Wal-Mart.
  - “I go once to GameStop once a month now, but a year or two ago I was going two, three times a month.”
  - “I buy used games just about all the time.”
  - “I buy maybe two of three games at GameStop.”
  - “I haven’t bought any of the hardware. I’ve bought a couple of new PSPs. I could probably have got them at GameStop, but they’re worth buying new.”
  - “I use PS3 and Wii because my friends own them.”
  - “My friend will get [a motion controller] and I’ll try it, but I doubt I’ll buy one.”
“I’m not really into the whole motion thing. I’m a hold-the-controller-and-use-your thumbs kind of guy. After a while it just gets tiresome waving your arms around. I hate the Wii. I think of the motion controllers as more for kids.”

“I haven’t bought any of the digital games. I’d rather buy a game. I can always resell it. Digital just doesn’t seem like a good value.”

“I’m not all that excited about 3D games, the whole overproduction over-immersion of it. 3D is hard on the eyes. I watched a ball game on 3D TV and just got sick of it.”

“I’m looking forward to Call of Duty. But I don’t always go looking for a particular game. More often it’s ‘Let’s see what’s on the shelf.’”

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A 15-year-old male in New York City shops only at GameStop and does so weekly. He plays only on the Wii and has not tried motion controllers on other gaming systems. He thinks the Wii controller performs relatively well. He showed indifference toward 3D and downloadable games.

- “I usually just go to GameStop, nowhere else.”
- “I have the Wii. The controller is good for the most part. It gets stuck off-screen sometimes.”
- “I don’t download games or anything. I just play consoles.”

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A male in his late teens in New York City shops at Best Buy more often than at GameStop because Best Buy has better offers for trade-in credit. He does not download digital content. He expressed no interest in motion controllers or 3D games, stating that the former has issues with lag and the latter requires glasses.

- “I actually go to Best Buy about once a week and GameStop once every few weeks.”
- “I’ll do trade-ins here once in awhile, but Best Buy has better offers.”
- “I haven’t used the motion controllers. I’ve heard they’re not that good, that they lag.”
- “I play a lot of first-person shooter games like Halo and Assassin’s Creed.”
- “I’m not a big fan of 3D. You need glasses to play.”

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A middle-aged Chicago-area woman shops at GameStop for new and used games for her 13-year-old and 10-year-old sons. She is just beginning her holiday shopping and usually does not shop for video games during the summer months. She was unaware of the new motion controllers.

- “I shop at GameStop three or four times a year, but I didn’t this summer. There was nothing interesting out for my kids.”
- “I buy both new and used games. I probably will be buying more than I did last year. My kids want the Madden [Electronic Arts Inc./ERTS] and Halo games.”
- “I buy from Target and Best Buy. Target has a small selection, and as far as I know Best Buy does not have used games. I also like to trade in games.”

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**GameStop Store Employees**

Three sources said motion controllers have exceeded expectations and in some stores have sold out. The new devices are considered an enhancement to rather than a replacement of console gaming. Store personnel praised Sony’s Move for its accuracy, and said customers are lining up for advanced reservations for Call of Duty: Black Ops. Sources reported no customer interest in 3D games and downloadable games. They also reported little competition from other retailers in new- or used-game sales.

- A Pasadena store manager said used-game sales are the same as six months ago. The Sony Move has sold out. Microsoft’s Kinect is highly anticipated because of its controller-free, full-body motion sensor technology. Digital download cards are not very popular. Nintendo’s sales could spike next year when the...
company’s highly anticipated 3DS comes out. This new handheld is expected to affect console sales as well because it will allow players to watch 3D games without glasses.

- “Sony’s PlayStation Move for PS3 is doing very well. We’re sold out. People like that it has a camera that takes pictures of you while you play. It’s very popular. I expect the sales to help tremendously.”
- “We are definitely selling more motion controllers to male customers, but we are also seeing more families buying them. That was Sony’s goal with these controllers, to give families more of an opportunity to play together. The consoles don’t really do that. Wii was good at this and families jumped on it, so now you have the others coming in to do the same and it’s pretty successful. I don’t know if they’ll outperform Wii, but Sony’s PS controller has sharper reaction than Wii.”
- “Xbox’s Kinect is already very popular because you don’t need a wand or wheel. Its built-in camera system mimics your moves, which control the graphics.”
- “Console gaming will not be hurt by the new motion controllers. Kids will want the portables as long as they are there. Digitals are popular, but you can’t switch those out on your [Nintendo] DS or DSX.”
- “Call of Duty will sell out. We’ve taken reservations for about 700 so far, and we sold out last year so that’s pretty much a given. PS3’s Grand Turismo and Wii’s Donkey Kong are also really popular.”
- “Our digital download cards are essentially here for a courtesy to our customers, but they don’t really seem to be coming anywhere near replacing store sales. We know downloading is going to always be a choice, but what keeps people coming in is trading out their games for other games. That’s been our core draw so far, and that’s not changing.”
- “We don’t really have too many customers asking about 3D games right now, and I think that’s because most people don’t have the 3D TVs. We sell a couple of games with 3D glasses, but they are not that big.”
- “What might actually cut into console sales next year is the Nintendo 3DS handheld. That is going to give players the opportunity to play 3D games on a handheld player without any glasses. And you’ll be able to play your 2D games on it. I’m not sure how it’s going to be priced, but Nintendo is known for keeping their handhelds below $200.”

A GameStop associate near Chicago said Sony’s Move is exceeding expectations and has surpassed the Wii. He prefers Sony’s PlayStation system over both the Wii and Xbox. Teens and younger kids gravitate toward the Wii games while adults come in for the PlayStation games.

- “The motion controllers are unbelievably more accurate. It’s the same concept as Wii, but the motion controller is way more accurate and way more intuitive. It also is more realistic.”
- “The controllers are way more popular than anyone thought they would be.”
- “PlayStation is way better than the Xbox, too. People tend to buy it more. It really boils down to if you’re going to play games online or with friends. PlayStation also is a Blu-ray, whereas Xbox isn’t. And everything’s wireless on a PlayStation.”
“Call of Duty” will be available in the Wii as well as other systems, but the Wii version will be dulled down. It’s really for the younger kids because they take all the good stuff out. There are fun games on Wii but not good games. If you really want to play games, don’t buy a Wii.”

“Wii is good for the exercise stuff and probably the main reason people come in and buy it now. But the Xbox Kinect will be out, also with the exercise programs on it. The PlayStation will hopefully have that soon as well.”

“The GameStop Web site always has good deals on games, and we sell used systems in the store. The holidays are another time to buy because everyone releases bundle packages.”

A Boston-area sales associate is enthusiastic about motion control, but sees it as an enhancement to console gaming. He believes the less-physical Move will catch on better than the Kinect. He does not believe Best Buy or Wal-Mart can compete with the GameStop sales model, which cultivates loyalists.

“I don’t see Kinect catching on as much [as Move]. It’s just a lot more work to play the games.”

“I don’t pay attention to digital. We provide gaming, however you like it and you come to us. It’s no skin off our noses if they download it or come in and buy it.”

“Call of Duty: Black Ops is huge, with advance buys. If you were buying, I’d tell you to reserve it today. Assassin’s Creed is another big one.”

“Console gaming will never go out. Look at this list of new releases; there are dozens. You’ve got a few ‘Move Required,’ some ‘Move Compatible,’ but the rest are console-type games.”

“My friend downloaded [ZeniMax Media Co.’s] Fallout: New Vegas. Maybe it would be more fun on the PS3, but he played World of Warcraft on his PC and he’s used to it and he saved a few bucks. Digital was good for him.”

“We’ve got loyalists; Wal-Mart and Best Buy get shoppers. We’ve got guys who come in once a week, and it’s like, ‘Hey Steve! I’m trading in this. What have you got?’”

“There are just a couple of 3D-compatible games out now. You need a 3D TV to play them, so it won’t take off till 3D TV takes off.”

Best Buy Store Employees

Five sources said Sony’s Move is a popular seller, nearly sold out in some cases, and is more accurate than the Wii. Expectations for Microsoft’s Kinect are equally high. A New York store reported a 25% decrease in console sales in the last six months because of increased digital downloads and mobile gaming. Another store’s used-game business was unlikely to compete with GameStop. Still, one source’s store plans to aggressively price its used games to compete with GameStop.

A Chicago-area sales associate said the Sony Move has been popular. He recommends the Move over the Wii based on accuracy. Best Buy is in direct competition with GameStop, and offers a price-match guarantee for in-store games.

“The Move is a lot more accurate than the Wii. It’s like you are actually doing the motions in the game.”

“I personally like the PS3. I really like the games a lot better. The Wii is a lot more family-oriented. I would go with the PS3 over the Wii any day. Xbox is pretty close; they have great games. The Kinect is going to be big, too.”

“We have the same selection as GameStop, but we don’t price-match them for online purchases. They need to have it in the store if we’re going to match the price. If you bring in an ad, we will call the store to make sure they have it in. But it has to be a local store. Or if you buy a game and find it somewhere else cheaper in the next 30 days, you can bring it in for a refund.”

“It’s always better to buy online unless you are buying the system because it’ll be the same price in store as it is online. For games, you are going to be able to find better deals online.”

A sales associate in New York City said console game sales had fallen as much as 25% in the last six months because of increased purchases of downloadable content and mobile games. He said the Move outperforms Wii’s motion controller because it is almost precisely aligned with a person’s movement. NBA 2K11 from Take-Two Interactive Software Inc.’s (TTWO) 2K Sports is the current top seller but likely will lose this spot to Call of Duty: Black Ops.
“The Move is better than Wii’s controller. It’s more reactive. Wii drags a little bit. If you move your hand real fast back and forth, it doesn’t follow as quickly.”

“A lot of people who buy the Wii are adults in their 30s and 40s buying it for their kids.”

“People who buy the PlayStation are in their teens through their 30s. More of the PlayStation’s games appeal to them, like the first-person shooters. There’s just more of those on PlayStation than on Wii.”

“The number of people using consoles is shrinking. It’s probably 20% to 25% down in console sales in the last six months here. It’s definitely been that way since last year. People are less willing to spend money. Folks also are finding new ways to play games. Some of it is mobile, some of it is downloading games off their computers.”

“A lot of people who buy the Wii are adults in their 30s and 40s buying it for their kids.”

“People who buy the PlayStation are in their teens through their 30s. More of the PlayStation’s games appeal to them, like the first-person shooters. There’s just more of those on PlayStation than on Wii.”

“The game right now is NBA 2K11. That’s what people want. It has Michael Jordan on the cover, so that’s always going to be a hot seller.”

“Call of Duty will sell the most when it comes out. It’s always that way with that franchise.”

“People have their eye on 3D games. It can definitely take away from 2D games. People in this industry want the latest stuff.”

“The Nintendo 3DS will be big. People want the latest stuff.”

A section manager in the Los Angeles area reported strong sales for the Move and high expectations for the Kinect. He also reported taking more than a thousand requests for Call of Duty: Black Ops preorders.

“We are selling a lot of the new Sony controllers although we haven’t quite sold out. I expect the Kinect will also be very popular. People are interested in the interactive gaming possibilities. Wii has been pretty dominant in the past, but customers seem to want a choice. I can see how Wii might have some competition from the new controllers.”

“We are seeing more families interested in the consoles, but gaming is still pretty attractive to the mid-20s to mid-30s male customer.”

“We have reserved more than 1,400 Call of Duty requests so far.”

“We don’t sell used games in the store. We offer store credit or cash for used games, and we send those back through our Dealtree subsidiary, which resells them. I don’t think we are competing with GameStop, nor could we on that. That’s what they do. We just provide the convenience to our customers as an added feature of our service model.”

“We’ve seen some interest in 3D games, but it’s not yet a big draw for us.”

A sales associate near Boston was enthused about both the Move and Kinect as they will generate sales and provide another alternative gaming device. He does not expect the motion controllers to decimate the market for traditional console games. Best Buy’s expansion into used games and digital content has yet to affect store sales.

“We’re not trying to compete with GameStop. If we were, we’d have racks of used games here. We’ve got a buyback and you buy them online and wait a week to get them. We just don’t have the room for it.”

“Consoles are safe. They’ll always be here. Motion control is another way to play a game, and it’s exciting. You might like console gaming better and you’ll stick with it.”

“Move and Kinect will be huge for us. Every upgrade or innovation in gaming is huge for us.”

“Move and Kinect will both be big. Move is probably the next step up from the console or the Wii, and Kinect is more active. If you want to shoot a rifle or use your arms to box, you’ll want Move.
If you want to stomp around like a dinosaur or play soccer or do subtle moves on a snowboard or skateboard, you’ll want Kinect.”

- “Move is a lot like the Wii, with the two controllers, but it’s more sensitive. Wii has maybe a one-inch margin of motion, but Move is about a quarter inch.”
- “There aren’t many games yet for the Move.”
- “Wii has a niche. It has that family-friendly feel to it, with stuff like ping-pong games. I’m guessing Sony will be a bigger competitor for Wii than the Kinect.”
- “Wii customers are different. We see almost 40% women buying Wii.”
- “I don’t know if digital has touched the store sales yet. Not that I’ve noticed. Go on the site; you won’t find much of anything yet.”
- “Nobody’s asked for a 3D game yet, or even said ‘is this 3D compatible?’ It’ll take off, but not now.”
- “Call of Duty has always been my biggest seller. There was a rush on [Lucasfilm Entertainment Co. Ltd.’s] Star Wars: The Force Unleashed 2. I’m surprised we have any left.”

A sales associate in New York City believes the Kinect will change the way gamers view motion controllers. Their hands will be free, leading to a more intuitive connection to games. Once the store begins to sell used games, it will set aggressive price points in an attempt to claim some business from nearby GameStop stores.

- “It’s hard to say on whether motion controllers can help consoles. Social gaming has yet to prove itself to the hardcore gamer.”
- “Kinect is going to change everything. Now you don’t need a controller. Your hands are free.”
- “The Wii is more family-oriented, so you see parents buying those.”
- “The PS3 is not teens. It’s people a bit older, mid-20s, 30s; that age range that buy the system.”
- “NBA 2K11 is the most popular game. Fable is also popular here.”
- “When we do sell used games, we’ll see how it goes. We plan on having aggressive price points.”
- “People aren’t waiting on 3D. They’ll take some titles and see how it goes.”

**ADDITIONAL SOURCES**

Six secondary sources revealed that the Move and Kinect are both in high demand now and are expected to be sought after this holiday season. However, an NPD survey forecast an overall decline in holiday video game sales. Our search uncovered discussion of GameStop’s launch of a digital distribution storefront and Electronic Arts’ belief that the current video game business model is becoming obsolete.

- An Oct. 27 TheHDRoom.com article stated that the Kinect is already a hot holiday. Preorders on Amazon were completely filled, making GameStop an important location to purchase the device. [http://www.thehdroom.com/news/Xbox-360-Kinect-Already-Hot-for-Christmas/7682](http://www.thehdroom.com/news/Xbox-360-Kinect-Already-Hot-for-Christmas/7682)
  - “Is Microsoft’s Xbox 360 Kinect peripheral the ‘must have’ electronics item for this holiday season? It very well could be based on the availability of pre-orders at several large retailers.”
  - “Currently the Kinect Sensor with Kinect Adventures! pre-[order] is sold out at Amazon.com’s United States, Canada, Germany and United Kingdom websites. Best Buy is also no longer accepting pre-orders having already blown through whatever their allotment is. Granted both have been available for well over a month but that’s a lot of pre-orders for a $150 package most
of the purchasers likely know little about. And Walmart.com will let you pre-order Kinect but only bundled with an additional game for $200.”

- “If you missed the Amazon.com and Best Buy boat for the core Kinect package then your next best shot is at Gamestop.com. The site where more hardcore gamers get their product versus the casual audience Kinect is targeting is currently still pre-selling Kinect and are claiming a November 4 ship date. They are, however, warning purchasers with the following notice, ‘Quantity will be limited; so orders will be shipped on a first-come first-served basis.’”

- “It’s still early in the holiday shopping season but it sure looks like Kinect is going to be one of Santa’s most difficult items to procure and deliver. I hesitate to use the term ‘shortage’ but it may be the best [description] for Kinect come late November and early December.”

A Sept. 30 PlayStationLifeStyle.net article reported strong sales for Sony’s Move and retailers’ difficulty in meeting demand for the motion controller.


- “The PlayStation Move debuted a little less than two weeks ago. Sony themselves said that they didn’t expect huge sales initially, but that over time the product would pick up speed and start to take command of the motion controller market.”

- “To some gamers’ surprise, PlayStation Move is a hit, and selling out not only at online, but across several brick-and-mortar retail chains around the country as well. Stores such as GameStop and Best Buy are experiencing significant shortages, while the bulk of available controllers are apparently in-stock at places like Toys R Us and K-Mart.”

- “We went ahead and checked several stores in our area as well, to find that this is, in fact, true. Most of the GameStops and EB Games had a limited supply, with some stores here and there showing slightly more, this varies of course. This is not something that Sony could have predicted, so it’s not only a win for gamers, but a win for the developers as well.”

- “Can the PlayStation Move maintain this momentum going into the holiday season? More importantly, will this be enough to counteract Microsoft’s Kinect? Only time will tell. But if quality is anything to go by, and we definitely think it is, Sony shouldn’t have a problem.”

An Oct. 7 article on Gamasutra.com discussed an NPD report that fewer consumers plan to buy video games as holiday gifts.


- “Market research company The NPD Group found that only 15 percent of surveyed consumers intend to buy video games and consoles as holiday gifts this year, a noticeable drop from 20 percent last year.”

An Oct. 31 Joystiq.com article discussed GameStop’s plans to open a digital distribution storefront soon on its Web site, confirming online digital distribution’s increasing importance.


- “GameStop recently pulled away a bit more of the veil covering its Store of the Future initiative, releasing a whole mess of details on how its digital distribution storefront functions. A new page on the retailer’s site explains the purchasing process for the site’s downloadable PC games (of which there are currently over 2,000), as well as a handful of free trials and, in the near future, add-on content.”

- “The page also reveals that XBLA content will soon be sold through the website, which gives the purchaser an unlock code which they can input into the Xbox Live Marketplace to retrieve their content. It’s pretty straightforward stuff, but we’re still looking for the page that explains how we can trade our downloaded games in for store credit.”
An Oct. 8 Gamasutra.com article highlighted an analyst’s expectations for GameStop to generate over $200 million in digital revenues this year.

http://www.gamasutra.com/view/news/30872/Analyst_GameStop_To_Generate_Over_200M_In_Digital_Revenues_This_Year.php

- “GameStop will generate more than $200 million in digital-related revenues this year from Xbox Live Arcade/PSN/Wii point card sales, downloadable content, and its Kongregate service, according to estimates from Lazard Capital Markets analyst Colin Sebastian.”
- “Sebastian, who says ‘digital revenue streams [are] on the cusp of contribution’ for the company, believes the retail chain will be able to take advantage of digital opportunities through in-store merchandising, trade-in credits, and a loyalty program to promote its offerings.”
- “Earlier today, Gamestop revealed that pre-orders for CoD: Black Ops are outpacing those for 2009’s CoD: Modern Warfare 2, which set a record for the most game reservations ever at GameStop. The chain also named Gran Turismo 5, Fable 3, Fallout: New Vegas, Assassin’s Creed: Brotherhood, and Medal of Honor as key holiday releases.”

An Oct. 19 Blasteroids.com article detailed EA Sports president Peter Moore’s belief that the traditional video game business model is a sinking ship.

http://www.blasteroids.com/news/news_item.cfm/19987/traditional_videogame_business_model_is_sinkin_g_ship_says_ea_sports_boss

- “Electronic Arts Sports president Peter Moore, speaking at the PLAY Digital Media Conference this week, made some interesting comments as to the future of disc-based games, going as far as to call the current business model a sinking ship.”
- “‘Look at the platform we’re on, it’s a burning platform,’ Moore stated, via IGN. ‘As a concept, do you stay on the platform and face certain death, or do you jump into the water and face probable death? Most of you would choose probable death, so you start moving towards a hybrid model of digital distribution.’”
- “‘He continued: ‘I’d say the core business model of video games is a burning platform. Absolutely. We all recognize that, and we’ll recognize it 10 years from now when we tell our grand kids. We’ll tell them we used to drive to the store to get shiny discs that have bits and bites on them and we’d place them in this thing called a ‘disc tray,’ and it’d whirl around … and they’ll go ‘What?’ So, the concept of physical packaged discs and the core business model that is video games as it currently stands is a burning platform.’”
- “‘As an industry, I still think we may be as many as a decade away from saying goodbye to physical discs,’ Moore added. ‘The important question is, what does the next console look like? Does it actually have a disc drive?”

NEXT STEPS

Blueshift’s next report will focus on the adoption of GameStop’s digital storefront on its Web site and its effect on its stores’ new- and used-game sales. We will continue to pursue GameStop’s place in the transition to digital content. We will also get an update on the potential growth of 3D games and the upcoming release of the Nintendo 3DS.
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