Evolution of the X-Box Supply Chain

SAM C 450- Prof. Alan J. Stenger

Samuel Abraham Shampain
10/14/2009
1. The video game console market is extremely challenging. The competition is fierce between Microsoft’s Xbox and Sony’s Playstation. Nintendo turns high profit margins with its console, the Nintendo Wii, however it competes virtually in its own market, pursuing the casual gamer. Microsoft and Sony lose money on sales of their consoles, and make up the profit on the games. Microsoft was not extremely successful with its development of the original Xbox, and made some essential changes in their gaming strategy to make the introduction of the Xbox 360 more profitable. The two important changes Microsoft made were repositioning the release date and changing the product offering.

One of the biggest problems with the original Xbox was its release date. This problem was fixed with their second generation console. With video game consoles the release date is highly correlated to market share. First of all, when the Xbox was released, the Playstation 2 already had a predecessor with market share. “In Q4 1999, when the PS2 was launched, Sony sold 1.1 million PS1 consoles, and 1.4 million PS2 consoles.” (“Evolution of the Xbox Supply Chain.”) This brand presence was further established when the Playstation 2 was released 12 months before the Xbox. Customers who wanted to move onto the next generation of gaming bought the PS2, choosing not to wait a full year for the Xbox. “Microsoft did not have the established base of games and gamers that Sony enjoyed, and Sony continued to dominate the market (“Evolution of the Xbox Supply Chain.””).”

One of the failure’s of the original Xbox has become a success for Microsoft with the Xbox360. Xbox did not have to worry about being a newcomer into the market anymore, the problem with their first console. Not only that but now they were doing exactly what Sony did. They chose to release their console over a year earlier than the PS3 taking advantage of the early adopters. In fact Xbox planned to sell 2.75-3 million consoles within 90 days of their launch. Microsoft switched the tables on Sony, a very prudent part of their improved gaming strategy.

Microsoft’s most important change in their gaming strategy with the Xbox 360 was how they adjusted their product offering. The original Xbox was differentiated from the PS2 on the basis of technology and features. The Xbox “processed 116 million polygons per second, compared to 66 million for the PS2 (“Evolution of the Xbox Supply Chain”).” The Xbox also had a better DVD player and overall better technology. This was a strategic move for Microsoft, and forced them to prolong the introduction. “A 2000 launch would force the company to use technology that did not offer a substantial improvement on Sony’s PS2, (“Evolution of the Xbox Supply Chain”).”

Once again the tables were switched with the Xbox 360. The graphics processor and microprocessor would both be more powerful than that offered by the Xbox 360. The PS2 had a Blu-Ray player while Microsoft installed
a HD-DVD player. Clearly the PS3 has better technology but was that the right move? Xbox UK boss Neil Thompson said, “Sony is now making people pay an extra few hundred pounds for a Blu-Ray DVD drive which we don't know is going to be the standard in the next-generation DVD formats ("Microsoft execs slam Sony Blu-Ray strategy").” This is important point because Sony is investing all of their money in Blu-ray technology. It will probably be the right move, but Xbox may be able to find a way to still compete, and still save precious manufacturing costs. Another product offering adjustment made by Microsoft is that they are trying to attract the casual gamer like Nintendo did. “Roping in the casual game fan will be a number of game show releases that promise to expand the console's limits beyond its rather traditional hardware (Dimmel).” A partnership with NetFlix will also help pursue the casual, residential consumer.

2. With the original Xbox many of the supply chain initiatives were to reduce costs. This is an essential piece of making console sales profitable. Microsoft was not very successful reducing costs on their processing and graphic chips, as well as overall manufacturing costs with product design. Microsoft improved this with the release of the Xbox 360.

   For the original Xbox, Microsoft purchased the graphics chip from Nvidia and the microprocessor from Intel. For the second generation Microsoft changed its method. “Microsoft contracted with chip companies so that it owned the designs of the critical Xbox 360 chips ("Evolution of the Xbox Supply Chain.").” This was a strategic move aimed at reducing costs, and giving Microsoft more leverage with suppliers. This had a great impact on the manufacturing and purchasing aspects of the supply chain.

   The second supply chain improvement was in the Xbox360’s actual product design. For the first generation the Xbox was big and bulky and required specific parts such as the controller to be ordered against the Microsoft contract. The second time around, “Microsoft brought its existing Xbox manufacturers into the design process so that design production could be optimized ("Evolution of the Xbox Supply Chain").” It is always a brilliant supply chain move to work with your suppliers on product design. Optimized manufacturing always minimizes overall supply chain cost.

   Conclusively, Microsoft made significant supply chain changes with their chip design and product design. These process improvements minimized supply chain costs, and overall supply chain costs.

3. Microsoft’s new change to their supply chain is a strategic move to cover up one of their worst manufacturing decisions. The structural differences between the Xbox360 and Playstation 3 are that the Playstation
has a built in Blu-ray technology, and the Xbox runs inferior technology, HD DVD. HD-DVD lost the battle to Blu-ray for the next generation of DVDs, creating a huge manufacturing problem for Microsoft and their supply chain. Should Microsoft redesign their console, with Blu-ray technology?

According to Brandon Dimmel a writer for Geosign, “Microsoft has announced a partnership with Netflix, the online-based DVD rental company… The downloads are an alternative to switching HD support from HD-DVD to Blu-ray (Dimmel).” This partnership is a way for Xbox to strategically change its technology without changing their manufacturing costs or overall process, a great move.

It seems that some of Microsoft’s best manufacturing moves are choosing to not change anything at all. While some of the other consoles may have to change their design to keep up with the improving techno-science market, Xbox360 will not. They are taking advantage of their extremely successful online access and partnering with other social networking sites. According to a 2009 New York Times article, “Microsoft announced new relationships with the social networking giants Facebook and Twitter as well as Sky, the big British satellite television provider (Scheisel).

While this doesn’t seem to be a change in Microsoft’s supply chain it essentially is. Applications for the IPhone, are a part of their product offering and downloading them is a distribution channel for their supply chain. The Xbox 360 has superior internet access to PS3’s because of the willingness for their customers to pay. Microsoft knows this so they are using the downloading ability to expand the product offerings and provide effective distribution channels. This will expand the overall profitability of these machines, because as we already know, you lose money on the consoles and make money on the games and other products.

This also helps Xbox360 challenge its other competitor, the Nintendo Wii. The Wii is for the casual gamers, not the hardcore gamer as the Xbox is. The NY Times reports, “Reaching out beyond hardcore video game players to everyday consumers… Microsoft outlined an entertainment strategy on Monday for making the company’s Xbox 360 game console a gateway for movies, television and social networking.” (Scheisel). This is another winning strategy for Microsoft.

Microsoft always seems to significantly improve their products by the third generation as they did with Windows, and it seems that they are at it again. Microsoft should stay on this course and continue to expand their products by utilizing their top of the line internet access. It seems that they are already doing this and will continue with their new social networking initiatives.
"Evolution of the Xbox Supply Chain." Stanfor Graduate School of Business GS.49 (06). Print.

