

Amazon might grow market for used games

March 17 2009, By Dan Gallagher

Investors in GameStop Corp. may have panicked earlier this month on the news that Amazon.com was entering into the used video game space, but a new study suggests that the slumping economy may help make room for plenty of competitors in the market.

On March 5, [Amazon](#) announced a new service through which customers could trade in used video games through its site, in exchange for store credit.

The news immediately caused a sharp sell-off on shares of GameStop, a Grapevine, Texas-based [retail chain](#) that specializes in [video game](#) sales and derives nearly half of its gross profit from the sale of used games. GameStop saw its stock drop more than 20 percent in the two days following the announcement.

However, according to a report Tuesday from Electronic Entertainment Design and Research, a market research firm that focuses on the video game market, GameStop is unlikely to see much of its core business threatened by the far larger online retail giant.

"Based upon our research, we believe Amazon's used program will be both successful and profitable," the report read. "We also believe that most of Amazon's new business will come from the expansion of the used video game [software market](#) rather than from stealing market share from competitors like GameStop, Game Rush, [EBay](#), or Game Crazy."

Amazon does not break out specifics of its video game business. Sales of

media products - which include books, games, DVDs and music - totaled nearly \$11.1 billion last year, more than half of the company's total revenue base.

GameStop said it expects revenue for the year ended Jan. 30 to total about \$8.8 billion, based on preliminary data announced last month. Full results are scheduled for March 26.

According to the EEDAR report, GameStop is likely to retain its advantage in the used market with core gamers, who often use the company's stores to trade in older titles to get credit on new releases when they come out. As Amazon will be unable to match that sort of "instant gratification," its own service is more likely to appeal to people seeking credit for other types of merchandise.

Amazon may also do well with customers who need to turn in games because they are tight on cash during the economic slump, the report said.

"We believe there are considerable quantities of consumers - especially in today's economy - who are low on funds, but are too embarrassed to do in-person trade-ins," the study read.

Other analysts are confident that GameStop can maintain its business against competition from Amazon and others.

"We note that Amazon (and eBay) have sold pre-owned video games for years through its third-party marketplace," wrote Colin Sebastian of Lazard Capital Markets in a March 5 note. "Importantly, we believe GameStop still offers a unique in-store value proposition for core gamers, and believe that its pre-owned business should continue to thrive."

The slowing economy also fuels retailers looking to expand their profit margins. Gross margins on the sale of used games often tops 50 percent compared to just 20 percent for new titles, the study said. Toy retailer Toys R Us has also announced plans to enter the used-game market.

The expansion of the used market is not welcome news to video game publishers such as Electronic Arts, Activision Blizzard, THQ Inc. and Take-Two Interactive. But the EEDAR study notes that until video games can move to an all-digital distribution channel, publishers will be forced to maintain good relationships with retail companies.

"The unfortunate truth for video game publishers and developers is that retailers are in the driver's seat," the report read. "With retailers commanding control of the video game retail environment, there is little that publishers or developers can do to curtail the sale of used video games in the short-term."

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