



Department

**STRATEGY, ENTREPRENEURSHIP AND INNOVATION**

**Case Booklet**  
**Strategic Management**

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# Case Questions

## 1. Food retailing industry

1. Identify the environmental factors that affect the sector's development.
2. Analyze the main competitive forces in the industry.
3. Identify and characterize the main strategic positions or strategic groups.

## 2. Hermès

1. Describe the value chain of Hermès and determine its main resources and competencies.
2. Based on question 1, use a VRIN analysis to evaluate Hermès. What are the sources of its competitive advantage?
3. Hermès' financial results are remarkable, with a 20% increase in operating income. Is this growth compatible with the claimed sustainable model? Hermès claims to have a sustainable and responsible model (see the 2023 Annual Results document, p. 3). What actions are highlighted?

## 3. Mini-Case: Clothing Sector and Low-Cost Aviation

1. Identify the competitive strategies implemented by the main players in the clothing industry. What resources are these strategies based on?
2. Analyze the causes of H&M's difficulties.
3. Analyze H&M's pro-environment policy. Is it sufficient at this stage to improve its differentiation strategy?
4. Is the low-cost aviation model sustainable? What Key Performance Indicators (KPIs) could these companies use to reduce their environmental impact?

## 4. SpaceX :

1. Characterize the SpaceX Group's diversification strategy over the course of its history by examining the following dimensions: type of diversification, objectives, benefits sought and risks.
2. Characterize the SpaceX group's integration strategy over the course of its history by examining the following dimensions: type of integration, objectives, benefits sought and risks.
3. Discuss more specifically the success or failure of the various attempts at diversification and integration made by SpaceX over the course of its development to achieve its objectives.

## 5. Netflix

1. Characterize and analyze Netflix's internationalization strategy (type and pace), particularly in Europe. Explain the reasons for these strategic choices.
2. What do you consider to be the main limitations of this strategy?

## 6. Apple et Beats

1. Analyze the main resources and competencies of Beats. Applying VRIN analysis, determine the basis of its competitive advantage in the music industry.
2. Analyze Apple's acquisition of Beats. Can you identify the path/type and mode of growth that this strategy represents? What are the advantages and limitations of this strategy?

## 7. Asmodée

1. Describe the major stages of Asmodee's evolution and define its strategic mission.

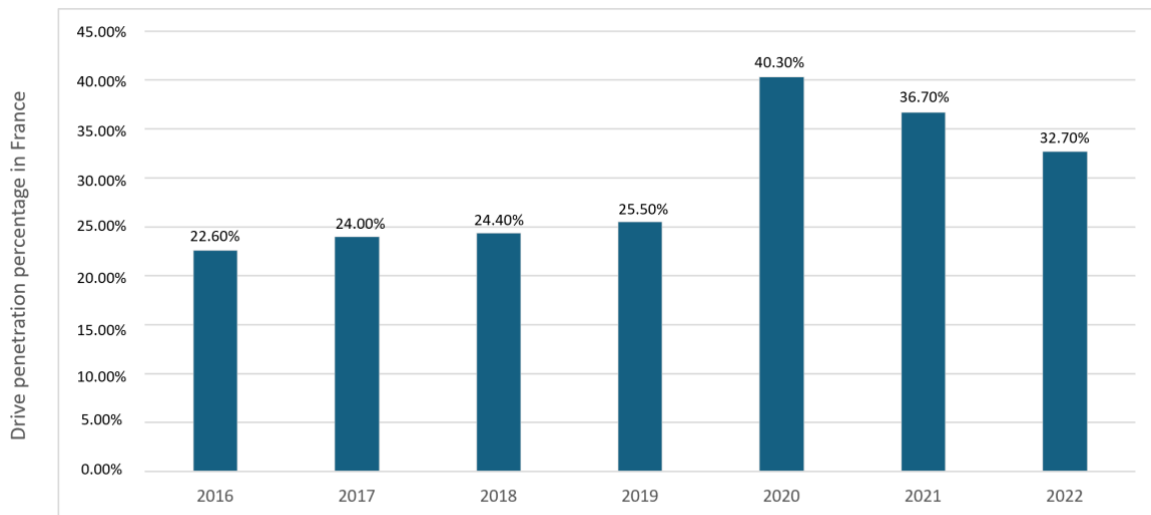
2. Analyze the environment in which Asmodee operates (the macroenvironment of the toy and game industry and the competitive structure of game publishing) to determine the key variables, competitive forces, success factors, and strategic groups
  3. What is Asmodee's competitive advantage based on?
  4. Analyze and discuss Asmodee's growth choices (types and modes).
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# The food retailing industry in France

*Adapted from: F. Brulhart, Ch. Favoreu, S. Gherra – Stratégie – Dunod, 2015*

The French food retailing industry, which assembles a network of distribution shops whose revenues are mostly generated by the sales of food, generates annual sales of more than 180 billion euros for the six top French retailers.

Sales by large food retailers increased 6.3% in 2020, a trend that has continued into 2021. Online sales of consumer products experienced unprecedented growth in 2020 (+41.2%). Drives and home delivery have emerged as favourite ways to avoid going to the store and limit the risks of exposure to COVID-19. However, this turnover only increased by 1% in 2022, which considering inflation shows a significant drop in their sales in volume (-4.9% for FMCG FLS), even if it has been continuously increasing in value since 2014. This partly explains strategic changes such as the Carrefour group's choice to currently favor the development of its Carrefour Sprint express delivery service, developed in partnership with Uber Eats and Deliveroo.



Description : This statistic shows the penetration rate of drive services in large-scale retail in France from 2016 to 2022. Over the entire period measured, the drive penetration rate in France increased by ten points. This success is notably explained by the health context resulting from the COVID-19 pandemic, which led to a rapid surge in e-commerce activities in France, including drive service

**Figure 1 : Drive penetration rate in France (2016-2022)**

**Source :** Editions Dauvers ; Kantar Media France

In addition, two years after the opening of the first E.Leclerc Occasion space, the majority of players have positioned themselves on the second-hand market. The Casino, Auchan, and Carrefour groups have unveiled new concepts dedicated to second-hand products in the first quarter of 2020 as well as “corners” and “shops in shops” (with brands such as Darty, Decathlon, or Boulanger). Retailers

have also embraced “quick commerce” for express deliveries (less than 15 minutes) with “Carrefour Sprint” and a partnership between Casino and Gorillas for instance, both launched in 2021.

The main part of sales comes from sales of food, but grocers often also sell other types of products (furniture, apparel, etc.). In the French food retailing industry four types of formats can be identified, characterized by their size and product range (see Table 1). In addition, the new format of “drives” that combines online ordering and pick-up of groceries by car or by foot from dedicated warehouses, has been quickly growing during the last ten years.

Format	Size	Assortment	Implantation	Brands
Hypermarket	> 2 500 m <sup>2</sup>	Food and non-food 40 000 references	Suburbs Malls	Leclerc Carrefour Auchan
Supermarket	Small: 400 – 1 000 m <sup>2</sup> Big: 1 000 – 2 5000 m <sup>2</sup>	Food and non-food 5 000 – 10 000 references	Small: residential districts, towns Big: Suburbs	Intermarché Carrefour Express SuperU
Hard-discount	Average: 600 m <sup>2</sup>	700 – 1 000 references	Suburbs Residential districts City center	Lidl Leader Price Aldi
Minimarket	120 – 400 m <sup>2</sup>	2 000 references	Residential districts Towns	City Carrefour Petit Casino

**Table 1 : Characteristics of different sales formats**

The food retailers dominate with around 73% of total sales coming from food-related products in 2022 which explains a strong impact on the turnover. However, this dominance is under siege due to the growth of small supermarkets (minimarkets) and local stores (local supermarkets, butchers, bakeries, etc.) and development of online sales.

In addition, the sales of non-food products have been dropping. This is mainly caused by the rapid increase in the number of big specialized stores for electronics, furniture, etc., and big e-commerce platforms such as Amazon. Several grocery retailers have partnered with existing specialized stores to manage their non-grocery products. For example, Géant Casino and Carrefour have created corners in their stores for Cdiscount and Darty.

Grocery retail business model relies on large volume, attained through the large number and size of shops. This volume strategy relies on economies of scale, which increase grocers’ bargaining power with suppliers. Volume strategy allows to offer a large range of products at affordable prices. The similarity of products offered by the different competitors makes differentiation difficult, and leads to competition based on prices and aggressive promotional campaigns.

The implementation of health restrictions since the beginning of the COVID 19 crisis in March 2020 has disrupted household food consumption. Extended restaurant closures, the rise of work from

home, and curfews and lockdowns have resulted in an unprecedented shift from meals taken outside the house to in-home consumption. Food sales thus increased 6% in 2020. Consumer interest in bio products and proximity stores increased (although stifled by recent rise in inflation). After 40 years of continuous growth, the hyper- and supermarket formats seem to have come to maturity. The average net margin of the sector is 1.24 % (in decline over the last five years). The average net margin in the sector is 1.2% and has decreased on average over the past 5 years, and will be around 0.4% in 2022.

The French food retailing market is subject to an important number of regulations, which have been increasing over the last 30 years (the Galland law, the Raffarin law, the Royer law). These regulations try to limit the expansion of hypermarkets by limiting entries from foreign competitors and expansion of incumbent market players. Relations between food retailers and their suppliers are also heavily regulated in order to protect suppliers. The "food law" came into force on February 1, 2019. This law aims to rebalance the commercial relations between grocers and their suppliers. In particular, it prohibits discounts below 34% of the reference price and limits the quantity of discounted goods to 25% of all the goods carried by the store.

With the improvement of the quality of life, the relative part spent by French households on groceries has dramatically dropped. People move spending from groceries to spare time activities and health. During the last two decades cultural, socio-economic and demographic mutations (aging of the population, reduction in the number of people in each household, reduction in time spent on shopping, price sensibility, development of single households, urbanization...) have affected the way in which people consume. The time spent on shopping, simplicity, search for proximity for saving time, reduction of car dependence (both for environmental and economic reasons) are important factors for consumers. This influences and challenges some types of food retailers' strategies (in particular, the expansion of big suburban hypermarkets). The rejection of hyper consumption, the search for authenticity and quality products (especially seen after several food scandals), better transparency of suppliers' supply chains, and a will to develop a more reasoned and sustainable consumption threatens the tradition model of food retailers. However these habits are challenged by the recent rise in inflation that leads customers to look for cheaper alternatives to maintain their purchasing power.

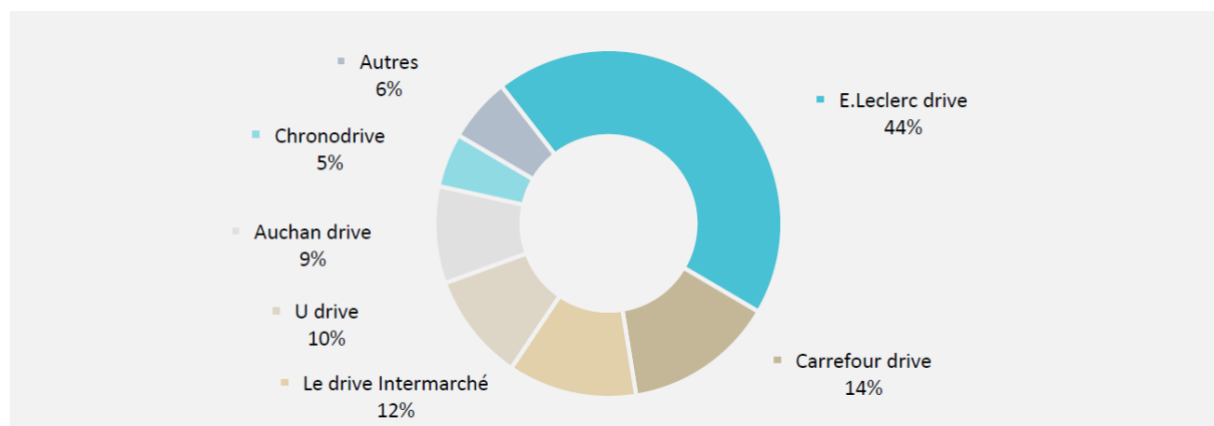
In France, several market players are present, and they are divided between big integrated chains (Carrefour, Casino, Auchan), hard discount specialists (Lidl and Aldi), and independent groupings (Système U, Intermarché, E. Leclerc). The two leaders represent around 42% of total industry sales. E. Leclerc, Carrefour and Intermarché are the top three food retail groups in France, with 22%, 19.5% and 15.7% market share in 2020, respectively 22.7%, 19.8% and 15.9% market share in 2022. However, Auchan and Casino group are the only brands to decline between 2020 and 2022 in market share in France. However, E.Leclerc and Intermarché are the only brands to grow between 2018 and 2020. For the majority of the players, internationalization, development of minimarkets and drives, or what is known as the multichannel strategy combining physical and virtual retail, seems to be the best ways to obtain growth.

Auchan and Casino are continuing their restructuring, penalized by the economic difficulties of their hypermarkets. The former has announced a voluntary departure plan for 517 jobs in France in January 2020, followed by the elimination of 1,088 jobs in September. The latter has continued its vast asset disposal plan with the sale of almost all of its Leader Price supermarkets to Aldi in November 2020 in order to reduce its debt burden. Furthermore, the board of directors of Casino gave the green light to the takeover of the group by the trio composed of Daniel Kretinsky, Marc Ladreit de Lacharrière and Attestor, on July 27, 2023. This resulted in an exit of 180 stores from Casino to the benefit of Intermarché within three years.

The characteristics of the main industry players are summarized in tables below.<sup>1</sup>

	<b>World sales (billions of euros) 2022 (2020)</b>	<b>Evol. 20/22 en %</b>	<b>Sales in France (in billions of euros)</b>	<b>% Sales outside France 2022 (2020)</b>	<b>Evolution Sales outside France 2020/2022 (%)</b>	<b>Market share in France en 2022 (2020) (%)</b>
<b>E.Leclerc</b>	55,6 (48,2)	13,3	55,6 (48,2)	0 (0)	+0	22,7 (22)
<b>Carrefour</b>	90,81 (70,7)	21,2	42 (42)	53,7 (41)	+23,6	19,8 (19,5)
<b>Mousquetaires (Intermarché &amp; Netto)</b>	44,13 (46,3)	-4,9	39,3 (33,9)	10,9 (26,7)	-60	15,9 (15)
<b>Système U</b>	30,9 (26,8)	+13,2	30,9 (26,8)	0	+0	11,4 (11)
<b>Auchan</b>	32,89 (32)	+2,7	16,67 (21,0)	49 (34)	+4,45	9,2 (10)
<b>Groupe Casino</b>	31,99 (31,9)	+0,3	14,2 (17,2)	55,6 (46)	-17,17	7,4 (11)

**Table 2 : Sales and market share of top 6 retailers**



**Figure 2 : Market share by the « drive » format in 2022 in France**

Source : Edition Dauvers (2022)

<sup>1</sup> Sources : Xerfi 2021

2020	Hyper	Super	Proxi & others
E.Leclerc	70%	25%	5%
Carrefour	51%	32%	16%
Intermarché	17%	72%	11%
Système U	13%	71%	16%
Auchan	30%	61%	9%
Groupe Casino	21%	17%	62%

**Table 3 : Estimated Revenue Breakdown by Format (France)**

The suppliers in the food retailing industry come from different industries and are of different sizes. At the one hand one finds small local producers of fruits and vegetables, on the other big agro-agricultural companies like Nestlé and Danone. Other suppliers are big multinationals such as Unilever and Procter & Gamble. The industry's suppliers thus have very different profiles.

In France, the majority of suppliers in the food retailing industry are small and medium enterprises (SMEs): 2/3 of suppliers are French SMEs and SMEs constitute 93% of total suppliers, foreign suppliers included. However, they only represent 29% of the range of products and 55% of sales. If we compare, the foreign suppliers that represent only 2.5% of the suppliers in the French food retailing industry, represent 45% of sales and 48% of the range of products. The sales volume for each SME is very low.

Since 2010, the big brands have seen their margins, and their profits, increase, (+14% since 2008 for the big brands, -13% for the SMEs). Their net margin, in 2020, was at around 10,1% (with for example 14% of net margin for Unilever and 18,7% for Procter & Gamble in 2020), against 1,24% net margins for the grocers. These players, which have a tendency to concentrate (through mergers and acquisitions) have created global brands (Lesieurs, Nutella, Coca-Cola, Pampers...) and local brands that the retailers are obliged to have on their shelves. The difference in profitability between suppliers and retailers is explained by the price of merchandise, which again is determined by the bargaining power of the group purchasing organizations. However, since 2010, a stricter regulation, and the establishment of quality channels and partnerships between agricultural producers and distributors (especially in the market that increasingly values the traceability and quality of products), have improved the conditions of smaller suppliers (SMEs).

The food retailing industry has a substantial number of clients with a high level of diversity. The majority of the distributors offer the same national- and international brands to their clients at the same prices. It is thus difficult to create loyal relationships with clients. Technological evolutions, like the development of the mobile Internet, the development of comparative web sites and comparative advertisements increase clients' level of information, which again leads to more volatile purchasing behavior. In addition, customer loyalty to brands pushes the distributors to carry those brands on

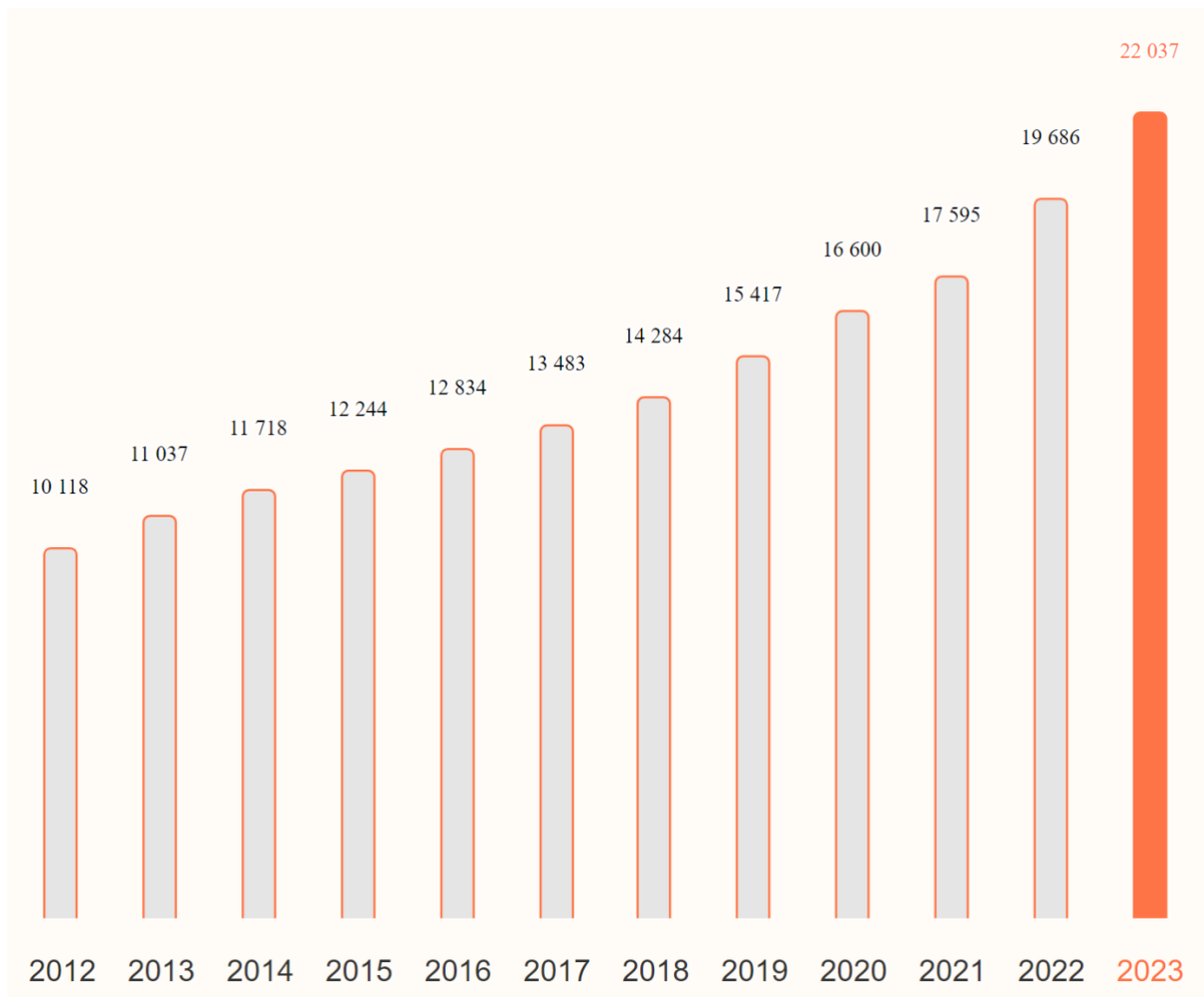
their shelves, which increases grocers' dependence on big brands. In order to avoid a competition only based on price, the distributors try to develop a more differentiated offer with a higher value added. This is mainly based on:

- Exclusive products and brands
- Interior installation and specific services
- Reinforced customer relations management (CRM) and data analytics
- A rationalized range of products (products that correspond to clients' specific expectations and their way of life, i.e. local brands and products, organic products, private labels).

# Hermès: a craftsman facing the giants of luxury

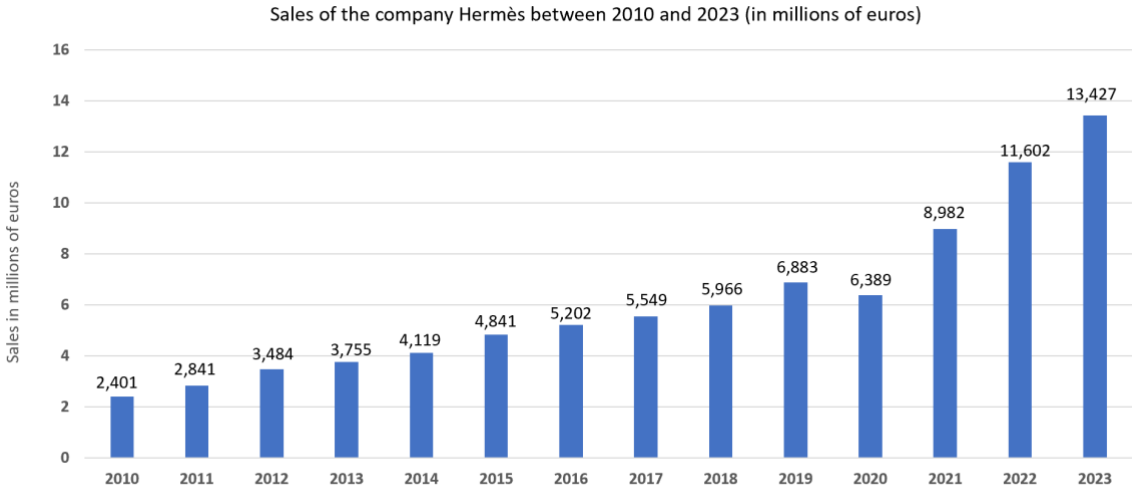
*Adapted from: F. Brulhart, Ch. Favoreu, S. Gherra – Stratégie – Dunod, 2015*

Hermès, as a result of its size, strategic position, and management philosophy, plays an increasingly important role in the luxury sector. As of December 31, 2023, 66.6% of Hermès International was owned by the Hermès family. The group employed 22 037 people at the end of 2023, 62% of whom were employed in France (including 7 513 craftsmen compared to 5,617 craftsmen in 2020) and just under 12% in the rest of Europe. The group is present in all luxury segments (leather goods, saddlery, women's and men's ready-to-wear, shoes, belts, gloves, hats, silk and textiles, perfumes, watches, tableware, home decor, jewelry, furniture) and has 294 shops worldwide. Hermès generated, in 2023, a turnover of 13.4 billion euros for a net profit of 4.311 billion euros (profitability of 32.1%). These latest figures were up 48% compared to 2020, just after the COVID19 pandemic.



**Figure 1 : The evolution of Hermès International's employees**

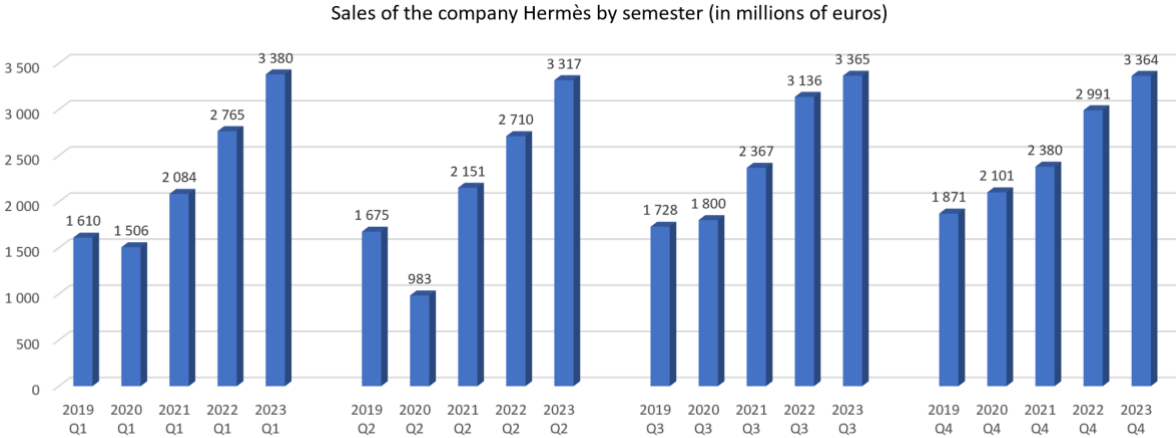
We can see a strong increase in turnover since 2020 while it was in decline between 2019 and 2020.



**Figure 2: Sales of the company Hermès International**

Unit : millions euros

Source : Hermès Annual Report



**Figure 3 : Hermès International consolidated sales by quarter**

Unit: million euros

Sources : Hermès International

This sales volume seems relatively low compared to its main competitors LVMH, Kering and Richmond, whose turnover stands at 86.2 billion, 19.6 billion and 19.95 billion euros respectively in 2023. However, Hermès outperforms its competitors in terms of profitability in 2023 (its operating margin is 42.1% compared to 26.4% for LVMH and 24.3% for Kering (luxury division)).

Hermès has even suffered less from the COVID19 crisis than several of its competitors, with a decline in its operating margin to 32.4%, ahead of its compatriots Kering (25.2%), L'Oréal Luxe (22.4%) and LVMH (18.6%) in 2020.

This could explain its steadily rising share price between 2018 and 2021.



**Figure 4 : The evolution of the stock price steadily increasing between 2023 and 2023**

Source : ABC bourse

After 2019, Leather Goods-Saddlery, the main contributor to Hermès' turnover (€) decreased its contribution from 50.2% in 2020, to 42.7 in 2022, and 41.3% in 2023, while the Clothing and Accessories division, 2nd contributor to turnover business, increased from 23% in 2020, to 27% in 2022, and 28.9% in 2023 which makes this last division the one with the highest growth rate. This is all the more positive as the group suffers from too much dependence on its main activity, Leather Goods and Saddlery (division which lost the least turnover following the pandemic: -6% in 2019 and 2020, compared to -10.5% for Clothing and Accessories).

<i>In millions of Euros</i>	As of Dec. 31 <sup>st</sup>		Evolution /2022	
	2023	2022	Published	At constant exchange rates
Leather Goods and Saddlery <sup>(1)</sup>	5,547	4,963	11.8%	16.7%
Ready-to-wear and Accessories <sup>(2)</sup>	3,879	3,152	23.1%	28.2%
Silk and Textiles	932	842	10.7%	15.6%
Other Hermès sectors <sup>(3)</sup>	1,653	1,371	20.5%	25.8%
Perfume and Beauty	492	448	9.8%	11.7%
Watches	611	519	17.7%	23.2%
Other products <sup>(4)</sup>	313	306	2.2%	5.2%
<b>TOTAL</b>	<b>13,427</b>	<b>11,602</b>	<b>15.7%</b>	<b>20.6%</b>

**Table 1 : Revenue distribution at Hermès by divisions**

Unit : Millions euros

Source : Hermès International

Established in 1837, Hermès manages a legacy and a deep-rooted know-how in craftsmanship since nearly 182 years. This large experience is not without shortcomings, the brand's attractiveness has generated increasing problems with counterfeits causing damages to the brand image.

#### INFORMATION BY GEOGRAPHICAL ZONE <sup>(a)</sup>

<i>In millions of Euros</i>	As of Dec. 31 <sup>st</sup>		Evolution /2022	
	2023	2022	Published	At constant exchange rates
France	1,274	1,064	19.8%	19.8%
Europe (excl. France)	1,818	1,536	18.4%	20.2%
<b>Total Europe</b>	<b>3,093</b>	<b>2,600</b>	<b>19.0%</b>	<b>20.0%</b>
Japan	1,260	1,101	14.5%	25.7%
Asia-Pacific (excl. Japan)	6,273	5,556	12.9%	19.1%
<b>Total Asia</b>	<b>7,533</b>	<b>6,657</b>	<b>13.2%</b>	<b>20.2%</b>
Americas	2,502	2,138	17.1%	20.5%
Other	299	207	44.4%	44.0%
<b>TOTAL</b>	<b>13,427</b>	<b>11,602</b>	<b>15.7%</b>	<b>20.6%</b>

**Table 2 : Revenue distribution at Hermès by geographies**

Unit : Millions euros

Source : Hermès International

The company follows the strategy of differentiation through the production and marketing of unique and high-quality products, manufactured according to high hand-crafting standards. For instance, each bag is handmade by a single craftsman or woman and the manufacturing requires nearly 20 hours of manual labor. Hermès applies high levels of quality control in all activities related to the leather goods business.

The group practices high prices enabling it to absorb increasing commodity prices and changes in exchange rates. For instance, the price of one of the group's flagship products, the *Kelly bag*, ranges from 2,000 to 12,000 euros depending on the model (more than 40,000 euros for some of them at the auctions). The brand's values derive from its craftsman origins. The two following slogans summarize the philosophy of the company: "Pursuing value, not volume", "Quality over quantity". For Hermès, product excellence is more important than costs involved. The company's family ownership allows it to keep perfect control of the brand and to favor long-term positioning, while sacrificing short-term results: for instance, Hermès abandoned one of its very profitable bag models judged inconsistent with the brand's image. The company cultivates and sells the image of luxury "made in France". This differentiation relies on controls and important investments in a number of key activities: supply of skins, tanning, production, marketing, selling. Hermès controls 100% of tanning (which ensures the purchase, tanning, dyeing and finishing of skins intended for high-quality manufacturing of leather goods, clothing, and watchmaking) and invests in it through numerous acquisitions (four in less than two years). In addition, in order to secure its supplies and access to the leather market, Hermès buys entire livestock farms: it has recently acquired three crocodile farms in Australia. The company is currently negotiating exclusive partnerships with cattle farms in France. In the context of raw material scarcity (leather, silk, cashmere), reliable supplies play a key role in ensuring success in the luxury industry.

Hermès owns 52 production sites, of which 41 are located in France (78%). More than two third of products are entirely manufactured in-house. In recent years, Hermès started a strategy to strengthen the production capacity of its main businesses: leather goods, textiles, and watchmaking. Thus, the group focuses on expanding two new manufactures (in Isère and Charente-Maritime) and the creation of a new workshop in Franche-Comté. In the textile sector, Hermès has acquired a modern site for dyeing (Atelier d'Ennoblement d'Irigny) in the French commune of Irigny. Regarding the watchmaking division, the group acquired in 2012 Natéber, a factory of high-quality dials. Thus, Hermès follows a strategy of "made in France," which ensures more than 80% of its production in France. In addition, Hermès has acquired several subcontractors (leather merchants, perfumers, porcelain makers, glove makers). The company has also increased its recruitment rate: the number of employed craftsmen has risen from 250 in the 1990s to nearly 5 617 in 2020. Despite this increasing trend, Hermès struggles to meet demand: its shareholder structure, management philosophy, and technical constraints (long periods needed for craftsmen training) explain stock shortages, which generate customer dissatisfaction.

Hermès has established long-term relationships with its suppliers and partners in order to secure supplies and protect specific know-how; the company is thus committed to a rigorous policy of best

supplier selection. In 2011 a sustainable development department has been created to control production conditions (implementation of carbon offset strategy, construction of high environmental quality buildings, control of waste generation...)

Hermès puts employees' training at the forefront of its priorities. The Group devoted 391,737 hours to training in 2020, of which 237,300 in France (more than 60%). For this, the group has its own training structure and programs (leather school, textile school, Hermès school of merchants, Hermès Asia North Academy). For example, the *École du Cuir* trained 515 people throughout the year 2020. A network of internal trainers and mentors has been established to identify craftsmen who could potentially train and help current employees to reach excellence.

The investments made in recruitment and training activities have allowed to develop, perpetuate, and preserve a unique craftsmanship know-how. In 2013, Hermès inaugurated the *cit  des m tiers*, located at its headquarters, to consolidate and enhance its expertise. These structures also allow to develop a very strong corporate culture centered on producing arts and crafts.

Design is the main strength of Hermès. Combining tradition, elegance, innovation, and modernity, the company has constantly renewed its collections (two-thirds of the articles are renewed every six months through tonal and leather variations) while maintaining the spirit of Hermès. Although new products are being constantly developed, the company also relies on cult or mythical products (the Kelly bag was created in 1935 and the Birkin bag was developed in 1984) that are revisited and modernized over time.

Nearly 85% of Hermès's sales originate in exclusive stores, located on all continents, which are either branches (219 own stores) or franchises. These stores ensure the commercialization of more than 50,000 references. In order to control quality of products and service, the company focuses on the branch model and provides in-depth training to all sales staff. Different services are offered to customize products according to customers' expectations and desires. Indeed, a workshop dedicated exclusively to special orders, involving five craftsmen, was created by the company. Marketing of products relies on exclusive distribution channels. For a long time, Hermès has heavily invested in the acquisition around the world of conveniently located and highly-coveted shops. In recent years, the group has been focusing on the development of its sales network through enlargement and renovation activities. Shops are characterized by an image of discreet elegance in a family atmosphere.

In line with the values held by the brand, Hermès's communication focuses mainly on handicraft and products' unique character, rejecting ostentations marketing. In fact, the company's communication campaign involves recognized photographers or famous designers rather than muses (ambassadors) and promotes partnerships with artists. In addition, communication strategies rely on exhibitions and prestigious events, for instance: the equestrian competition "Saut Hermès" held in the Grand Palais, "Le Festival des M tiers" organized in seven world metropolis including Beijing, London and Toronto, the "Leather Forever" exhibition held in Madrid.

Moreover, distribution activities are centralized and managed by the subsidiary “Hermès Sellier,” which manages the distribution network for all products. In a similar way, logistic activities are centralized in a single place in Paris, where inventories and quality control process for all products shipped worldwide are carried out.

# Mini-case: the clothing sector and low-cost aviation

## Strategies in the Clothing Sector

### The European Apparel Market

The apparel market is characterized by very short product life cycles, especially with the rise of fast fashion (Zara, H&M). The expansion of physical stores has slowed as brands focus more on online sales and customer experience. Zara and H&M still dominate, but face competition from Primark, Zalando and Uniqlo. China is losing ground to other Asian countries due to rising costs. Social networks are driving sales through influencers. Finally, the pandemic has led to store closures and an average decline in sales of 25-30% by 2020 (-28% for Inditex, -16% for H&M, -24% for Primark).

### Why Primark makes H&M tremble<sup>2</sup>

Three euros for a T-shirt, nine euros for trousers, six euros for pajamas, but what are the secrets behind the Irish chain's ability to offer its customers such low prices? Answer: no advertising, discounted rents, but above all clothes imported directly from factories in Bangladesh, where workers earn no more than 80 euros a month. A seemingly indecent procedure for a company that wants to develop a responsible business.

When asked what the brand's secret is that allows it to offer such prices, the answer from a Primark communications delegate is unequivocal:

"We keep our costs down and do virtually no advertising. Our margins are lower than other brands and we place large orders with our suppliers to benefit from economies of scale. We order our best-selling products well in advance so that our suppliers can give us the best possible prices, and we rarely cancel our orders. What's more, we pay our suppliers promptly. As a result, they want to work for us and offer us good terms.

Who's better than Primark? Not many these days. Primark first made a name for itself with its ultra-low prices. Born in Dublin in 1969, the brand only arrived in France in December 2013. On the opening day of its first store in Marseille, nearly 3,000 customers made the detour.

Primark's reputation has been built entirely by word of mouth, as the company has never spent a penny on advertising.

This success is based on "an infallible triptych: low prices, an attractive brand, and the massification of the model," says Olivier de Panafieu, a partner at Roland Berger who has studied the phenomenon closely. Primark is imposing a new price scale that is around 35% lower than that of its competitors. A real slap in the face in an already ultra-deflationary market.

"Its costs are nothing like those of its competitors," notes Olivier de Panafieu, reminding us that Primark is not a marketing brand: it doesn't spend a cent on advertising, on contracts with muses (star models), or on an e-commerce site, but it plays the volume card more than ever and has built up an efficient logistics tool that enables it to turn around collections quickly and obtain reliable replenishment in stores. Its offer is simple: the depth of the range is limited. "The arrival of Primark is comparable to that of the hard discounters in the food sector thirty years ago," summarizes Olivier de Panafieu.

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<sup>2</sup> Challenges.fr, published 28-03-2014

### **H&M forges ahead**

H&M is under increasing competitive pressure. Primark is attacking it on basic products, Uniqlo on the quality of materials and Forever 21 on fashion trends. As a result, H&M's sales growth has stagnated, driven only by the expansion of its store network.

#### **Zara<sup>3</sup>**

Inditex caters to all target groups with Zara, its generalist brand, as well as Massimo Dutti for the high end and Bershka for teenagers. Zara is well established, renewing 15% of its collections each week, and benefits from efficient logistics.

While a third of the products on offer are basics made in Asia or Latin America, the rest follow the fast-fashion model (the fastest possible renewal of clothing fashion collections, essentially low-cost products that the buyer is expected to wear for only one season) and are subject to maximum responsiveness. As soon as there's a craze for one product, the sales manager asks the designers to come up with another, very similar in style. Only three weeks elapse between the product's peak sales and the arrival of the new stock, including production (in Spain, Portugal, Morocco, Turkey or Eastern Europe). The brand's relatively upscale positioning has allowed it to increase its prices by more than 20% in three years, reports our journalist Sophie Lécluse.

Recently, Inditex unveiled a new plan to accelerate its digital transformation with the aim of increasing online sales to more than 25% by 2022 (in 2019, this figure was 14%).

### **H&M: Growth but declining profitability**

Inditex is first and foremost a manufacturer that guarantees the quality of its products, while H&M outsources all its production and positions itself at the lower end of the market. This makes it more vulnerable to discounters like Primark, which offers jeans for €10 and tops for €6. H&M is growing fast, but quality is declining as wages rise in Asia and cheaper materials are used. Its strategy of collaborating with stars and designers for mini collections costs about 4% of sales. Finally, the strong dollar is cutting into margins, as 80% of the items are produced in Asia.

H&M relies entirely on third-party suppliers for its goods and has no factories of its own. The company outsources manufacturing to about 850 independent suppliers. Although the relationships are good, there is no guarantee of continuous supply, stable prices or access to new products. This dependence makes H&M vulnerable to delivery delays and quality problems.

In terms of speed, H&M has not been able to keep up with its rival Zara, as most of its products are sourced in Asia, rather than in Europe like Zara. H&M has also long neglected its e-commerce activities, focusing instead on opening physical stores.

### **The Swedish giant is testing new, more profitable concepts<sup>4</sup>**

For the time being, most of them are undressing its bottom line.

Their names are Primark, Forever21, Zara or Asos (online). These are the competitors that are making life difficult for H&M, the world's second largest clothing retailer after Spain's Inditex. In recent months, Britain's Primark and the United States' Forever21 have stepped up their store openings in Europe. H&M CEO Karl-Johann Persson admits that against this backdrop of increased competition, "the clothing market in Europe remains very difficult."

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<sup>3</sup> Capital.fr 06/08/15

<sup>4</sup> L'Opinion.fr, March 27, 2014

H&M is surrounded on all sides. And if its sales continue to grow, this is reflected in its results, which are comparatively weaker than those of Inditex. Or rather, according to H&M, it shows the implementation of a reaction. The group explained that the erosion of its margins was due to high IT investments and the adaptation of online services. H&M, which has been largely overtaken by its Spanish competitor in Internet sales, has launched a major investment plan to catch up. This will entail high technology expenditure, which is likely to lead to an increase in operating costs.

According to analysts, the development of emerging markets is contributing to H&M's declining profitability. Despite entry-level prices, H&M has to adjust them to local purchasing power, which poses a greater profitability risk than for Zara with its slightly higher prices.

To maintain profitability, H&M is torn between low prices and quality. The Swedish giant is developing high-end brands, with more expensive, better-cut clothes sold in more elegant boutiques. But these initiatives remain costly and marginal to the company's bottom line.

### **Primark or ever-cheaper ready-to-wear<sup>5</sup>**

Zara remains the leader in fast fashion, with more than 18,000 styles a year produced in about three weeks. Many see Primark as a threat. Conlumino's Maureen Hinton highlights its winning formula: cool clothes, attractive stores and, above all, ultra-low prices. In the UK, between May 2014 and May 2015, the average price of women's clothing at H&M was £10.69 (\$16.37), compared to £3.87 at Primark.

"Consumers shop differently at Primark than they do elsewhere," says Bernstein's Jamie Merriman. "They think mainly in terms of volume."

According to Bernstein, H&M sells an average of £3,400 [€4,654] worth of clothing per square meter in the UK each year, while Primark sells £5,300 [€7,254].

The lack of an online sales site could be a problem for Primark. Its prices are too low to justify the shipping costs of e-commerce. If consumers in America and elsewhere decide in large numbers to buy via social networks and messaging services, for example, Primark could be left behind.

There are other challenges facing Primark and its competitors. Disposable fashion worries environmentalists. In 2013, Americans threw away 11.1 million tons of clothing and shoes, or 4.4% of the country's waste, more than double the 1990 figure. The conditions under which these cheap clothes are made are also a cause for concern. In the same year, a building collapse in Bangladesh killed more than 1,100 people, including Primark workers. The company paid \$14 million in compensation to the families.

### **H&M is pushing sustainability hard, but not everyone is convinced<sup>6</sup>**

By 2030, H&M wants to use only recycled materials or other sustainable sources, and by 2040 it wants to be 100% climate-friendly. The world's second largest clothing retailer (by sales), whose brands include Cos, And Other Stories, Weekday and Monki, currently sources 35% of its materials from recycled and sustainable sources.

Outside the H&M store in Stockholm's northern Sollentuna shopping mall, whose glass windows have been covered in red sale posters in recent weeks, Måns Flodholm, a 15-year-old student, was less convinced. He didn't go to the store. "I don't buy clothes at H&M - ever," he declared.

Was it the merchandise? Was it the merchandise? "No. Didn't you know they burn the clothes they don't sell?" he asked.

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<sup>5</sup> The Economist, published 10/09/2015

<sup>6</sup> Forbes April 14, 2018

Last year, a Danish documentary, Operation X, accused H&M of burning 12 tons of unsold but usable clothing. Bloomberg also reported that H&M burns used clothes with wood and recycled waste at the Västerås power plant, which it aims to make fossil fuel-free by 2020.

According to Greenpeace, the incineration of used clothing is common practice worldwide. I asked H&M if it was true that it burns usable clothes. It replied: "It is very rare for H&M to send its products for destruction, and when we are forced to do so, it is always as a last resort and only for garments that cannot be reused - including donations - or recycled. For example, products that have failed certain chemical safety tests or have been affected by mold during transportation and therefore cannot be safely reused or recycled. As we said, this happens very rarely.

Clothing is the second largest consumer industry in the world after packaged food. But if it's so important, how much more clothing do we need? And most importantly, how do we convince a sustainability-minded, eco-conscious teenager to buy a T-shirt? Today, retail is about understanding data and reacting quickly, but tomorrow it may be much more about understanding the minds of teenagers |

## **Case Study: Low-Cost Air Transport**

*This text is mainly based on the book "Le Transport Aérien" by Paul Chiambaretto and Emmanuel Combe, published by "La Découverte". It echoes many of the points made in Chapter 4.*

**Author:** D. Lacoste, TBS Education

### **The rise of the low-cost airlines**

Founded in 1971, Southwest Airlines began by operating flights within Texas. On the verge of bankruptcy in 1974, it was forced to reduce its fleet from 4 to 3 Boeing 737s and take a bold gamble: offer the same schedule with one less aircraft. To accomplish this, the company reorganized its business model, reducing stopovers to 20 minutes, checking tickets on board, and reducing passenger service. Thanks to the deregulation of the American skies in 1978, the company experienced rapid growth. By 2022, it served 120 destinations with a fleet of 730 aircraft.

Southwest is considered the world's first low-cost airline. In the U.S., a number of low-cost airlines were founded, but the bankruptcy rate was high. Today, the North American market is dominated by 6 companies.

In Europe, low-cost air travel began in 1985 with the creation of the Irish airline Ryanair. This segment developed rapidly from 1993 with the deregulation of intra-European airspace. Easy Jet was launched in 1995. Today, low-cost carriers account for one-third of the European air travel market.

### **The business model**

The low-cost model is based on a minimalist redefinition of consumers' needs, so that they only pay for what they use. The coherence of the model is based on the redefinition of needs and the simplification of the offer.

A low-cost airline reduces the quality of the basic service and eliminates many peripheral services. For example, a low-cost airline :

- Offers only point-to-point flights,
- Usually uses secondary airports,
- Offers only one class of service,
- Dense seating capacity,
- Allows online booking only,
- Does not include checked baggage and meals in the base fare,
- Does not include in-flight newspapers,
- Does not offer loyalty programs.

Simplifying the product significantly reduces unit costs and improves aircraft turnaround. A turnaround takes 30 minutes instead of an hour for a traditional airline, and an aircraft flies 12 hours a day compared to 9 hours for a traditional airline on a medium-haul flight.

What's more, these airlines tend to use only one type of aircraft and outsource many sources of costs: aircraft maintenance, staff training, ground services, etc. Flight crews fly more than one type of aircraft. Flight crews fly more hours per year than in a traditional airline, and the proportion of variable compensation is high.

These factors make it possible to reduce and vary unit costs<sup>7</sup> and thus lower prices, which in turn increases demand, in particular through the induction effect (attracting customers who did not fly before). What's more, low-cost airlines generate around 30-40% of their revenue from ancillary services.

### **The two types of low-cost carriers**

A distinction should be made between middle cost and ultra low cost<sup>8</sup>. Middle cost differs from ultra low cost mainly in the following characteristics: use of main airports, business and leisure customers. In fact, ultra low cost carriers (which benefit from more airport subsidies) have lower seat kilometer costs, lower fares, are less competitive with traditional airlines (and often have a monopoly on their destinations), and have lower frequencies. They generate more traffic and ultimately higher profitability.

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<sup>7</sup> The cost per seat kilometer offered (number of seats multiplied by the number of kilometers flown) is 2 to 3 times lower in a low-cost airline than in a traditional airline for the same distance.

<sup>8</sup> Examples of ultra low-cost carriers: Ryanair, Wizz Air, Pegasus, Spirit Airlines.  
Examples of middle cost: Easy Jet, Transavia, Vueling

# "Ultra low cost, the big winner of the recovery"

Emmanuel Combe and Paul Chiambaretto

L'Opinion - 9/10/2023

For the European air transport industry, 2023 will probably see a return to normal, i.e. to pre-crisis traffic levels. In addition to a sort of return to normal, this recovery can be explained by a phenomenon that some call "travel revenge": passengers are making up for all the flights they were unable to take in recent years. Flights for both leisure and affinity reasons.

But while the recovery in Europe is definitely underway, there's no guarantee that it will last. It's too early to tell. Let's not forget that passenger traffic depends on both economic growth in Europe and ticket prices. Ticket prices have skyrocketed in recent months (+20 to 30% year-on-year) and are likely to rise further, partly as a result of environmental taxes. Similarly, the price of oil remains a major unknown: it has a major impact on companies, accounting for between 20% and 30% of costs. With the current rise in the price of a barrel of oil, the main fear is that this recovery will be temporary.

What's more, the recovery is not affecting all customer segments: business travelers are still missing out on 20% of demand. Videoconferencing and new corporate travel policies have taken their toll. Yet business travelers are the least price-sensitive, travel the most long-haul, and generate the bulk of the incumbents' margins.

It's true that the recovery has had a mechanical positive effect on airline profitability, which is now back in the black. In an industry where half of the costs are fixed, traffic is the key to profitability. However, it's important to remember that despite high volumes, air transport remains a structurally low-margin industry. For example, according to IATA forecasts, global profit per passenger in 2023 should be around \$2.25 ... half the price of a coffee in Geneva, as the IATA economist illustrates. In other words, the airlines' capacity to absorb further tax increases remains limited; any increase will be passed on almost entirely to passengers and thus to traffic.

What's more, not all airlines are equally profitable. The crisis of Covidien has accentuated a phenomenon already visible before 2020: the strong rise of low-cost airlines in Europe, especially ultra-low-cost airlines such as Ryanair, Pegasus and Wizzair. Firstly, because these airlines have a cost structure with high variable costs, they have been less affected by the various restrictions than traditional airlines with more fixed costs. Second, when travel was restricted to Europe, the low-cost network, which is essentially European, was less affected, while traditional airlines with a strong long-haul presence were more affected. Finally, ultra-low-cost carriers have a more leisure and affinity-based customer base, which now accounts for most of the traffic recovery. The Covid crisis has accelerated their rise in Europe: low-cost carriers now account for 45% of traffic.

All in all, three years after the crisis, low-cost and especially ultra-low-cost airlines are stronger than ever. Moreover, their profitability is in double digits. Under these conditions, any differentiated taxation, especially for long-haul flights or for large airports, is likely to widen the gap between the winners and losers of the crisis.

# SPACE X

*Adapted from: V. Dos Santos Paulino and M. Roux, TBS Education for CCMP*

## 1. Introducing SpaceX

After becoming a multi-millionaire thanks to the sale of PayPal, Elon Musk set himself a new challenge: Designing reusable launch vehicles to significantly reduce the cost of launching spacecraft and satellites into orbit, thereby enabling the growth of civilian space activities. By showing some disappointment over the lack of ambition of the National Aeronautics and Space Administration (NASA), Elon Musk founded SpaceX, or officially known as "Space Exploration Technologies Corporation", an American company specializing in the domain of astronautics and spaceflight. Since its creation on May 6, 2002, SpaceX has already employed more than 9,500 people (December 2023), mainly in California, and boasts several launch facilities: two at Cape Canaveral Air Force Station (Florida), one at Vandenberg Air Force Base (California), and another still under construction in southern Texas.

The SpaceX journey began with the creation of the Falcon launcher series. In 2004, Elon Musk announced to the US Senate a cost of \$9,000 per kg for low Earth orbit launches for the lightweight Falcon 1, and \$3,000 for the medium-lift Falcon 5, both of which have since been replaced by the Falcon 9. During that time, Elon Musk said that he could eventually reduce this cost down to \$1,000 per kg. These costs announced by SpaceX show a very significant reduction compared with the launch costs of its competitors, which are generally below \$20,000 per kg charged by its competitors.

To lower the cost of space launches, SpaceX planned to develop reusable launchers based on modern, reliable and straightforward technologies. Concurrently, SpaceX developed its own mega-constellation of broadband telecommunications satellites in low-Earth orbit (Starlink, see figure 2), which can guarantee the company with a large and consistent captive launch market. The company also decided from the very beginning to adopt a vertically integrated industrial approach by designing and manufacturing 70% of its launcher components internally at a single site in Hawthorne, California. In contrast, its main competitors outsourced a significant portion of their launcher construction, especially propulsion development, to industrial partners.

The Falcon 9 rocket, weighing 333 tons across two stages, standing 55 meters tall with a diameter of 3.6 meters, made its maiden flight on June 4, 2010. This success propelled SpaceX into the ranks of the two private contractors entrusted by NASA with cargo transport to the International Space Station (ISS). Shortly after, SpaceX's efficiency convinced NASA to entrust them with crewed missions to the ISS as well.

Therefore, these SpaceX's transport missions required the development of two spacecraft, the Cargo Dragon for the freight/cargo and the Crew Dragon for the passengers. The Cargo Dragon, along with spacecraft developed by other space organizations, jointly handles resupply missions to the International Space Station following the retirement of the American space shuttle (Cygnus, ATV, HTV, and Progress spacecraft). This Cargo Dragon can carry up to 6 tons of cargo to orbit and return to Earth carrying up to 3 tons of goods. Since the end period of the US space shuttle program, with its last flight on June 1, 2011, the Cargo Dragon remains the only spacecraft capable of returning such a significant amount of cargo safely to Earth.

Elon Musk also wants to expand his civilian space vision to include super-heavy launch vehicles. SpaceX has developed the Falcon Heavy launcher, capable of placing a significant larger payload of 63.8 tons into low-Earth orbit. This launcher reuses the two stages of the Falcon 9 rocket, supplemented by two additional boosters made from the first stages of the same rocket. Falcon Heavy is designed to allow the recovery of the first stage and the two boosters. After several delays, the inaugural flight took place on February 6, 2018, from launch complex 39A at the Kennedy Space Center.

While Elon Musk's ambition strives to revolutionize the space industry, his ultimate goal remains the colonization of the Moon as a stepping-stone base camp for Mars colonization. To achieve this goal, SpaceX is creating the Starship rocket, with a targeted capacity far greater than that of its super-heavy launcher. Initially targeting 100 tons to low Earth orbit, SpaceX aims to achieve 150 tons after optimizations. Tests of these initial orbital vehicles have been ongoing since April 2019 at Boca Chica Village in south Texas. The Starship program was also chosen as the sole winner of NASA's call for tenders for the Human Landing System (HLS) contract on April 16, 2021, with a total value of around €2.5 billion (\$2.9 billion). SpaceX is therefore the only American private partner selected to develop

both the crewed lunar lander for the Artemis program, using a lunar variant of its Starship, and its projected 100-150 tons payload capacity.

Finally, the Russo-Ukrainian conflict has also drawn attention to SpaceX's Starlink network, which many people might remember Elon Musk's announcement on April 4, 2022. Through this mega-constellation of low-Earth orbit satellites, which is designed to provide high-speed Internet access, 150,000 Ukrainian users can still maintain their Internet connections even there is some damage to their landlines. Recognizing a significant global demand for low-cost, high-bandwidth capabilities, Elon Musk put efforts in creating Starlink. According to the technical plan, each satellite designed and built by SpaceX has a capacity of 20 gigabits per second. These satellites orbit in circular orbits at an altitude of approximately 550 kilometers, weighing less than 300 kilograms each, and are equipped with their own thrusters to reach, maintain, and deorbit them at the end of its life (around six years) before being destroyed by atmospheric re-entry.

User terminals rely on antennas equipped with mechanical devices for height orientation. Deployed since 2019, the mega-constellation comprises approximately 4,700 operational satellites as of December 2023. By the same date, Starlink had approximately two million customers across fifty countries, including France, which authorized the company to use the necessary frequencies for the system. SpaceX developed Starlink, adapting its rockets specifically to efficiently deploy these satellite constellations, that can optimize global connectivity.



**Figure 1. Rocket launch (source: DALL-E from OpenAI)**

## **2. SpaceX's competitors**

SpaceX is competing against two main Western companies: ArianeGroup (European Union) and ULA (United Launch Alliance, United States). These two companies resulted from the merger of the space activities of existing companies.

ArianeGroup is specialized in the development and integration of launchers. Formerly known as ASL (Airbus Safran Launchers), this joint venture, equally owned by Airbus and Safran at 50%, was created in 2015 to develop Ariane 6 launchers. ArianeGroup has several subsidiaries in the space sector, including Arianespace, which is responsible for the commercialization of the ArianeGroup's launchers. Under the commercial agreements with Arianespace that led to the creation of the company Starsem, the Russian Soyuz launcher has been able to launch from the Guiana Space Centre since late 2011. Starsem's shareholders are 50% European (ArianeGroup and Arianespace) and 50% Russian (Roscosmos and TsSKB-Progress).

ULA is a US joint venture between Boeing and Lockheed Martin that manufactures and operates the Atlas V, Delta II and Delta IV launch vehicles. It has also developed the Vulcan launcher. This company, which initially employed around 4,500 people, started its operations officially on 1 December 2006. Its main customers are the US Department of Defense and NASA.

The table below summarizes the main information from SpaceX's Western competitors:

	ULA	ArianeGroup
Creations	2006	2015
Legal forms	Limited Liability Company	Simplified Stock Company
Headquarters	Denver (Colorado, USA)	Paris
Shareholders	Boeing (50 %)	Airbus Group (50 %)
	Lockheed Martin (50 %)	Safran (50 %)
Activities	Aerospace and space sector and aerospace and space construction	
Products	Atlas V, Delta II, Delta IV, et Vulcan	Ariane 5, Ariane 6
Workforce	2 500 (in 2022)	7 000 (in 2021)
Turnover	1 320 000 000 USD (in 2018)	3 100 000 000 Euros (in 2021)

**Table 1. SpaceX's Western competitors**

SpaceX also has three Eurasian competitors: CALT (Chinese Academy of Launch Vehicle Technology) (China), MHI (Mitsubishi Heavy Industries) (Japan) and RKK Energia (Russia).

CALT is the manufacturer of Long March rockets and employed 31,000 people in 2018. CALT is a diversified organization that also builds pipelines, wind turbines and industrial equipment. This company is a subsidiary of the CASC conglomerate (China Aerospace Science and Technology Corporation). Meanwhile, CASC conglomerate employs 120,000 people and develops precision munitions, as well as tactical and strategic missiles, for the Chinese Army.

MHI produces Japanese heavy launchers H-IIA and H-IIB, the HTV spacecraft, and some Japanese satellites. MHI is a diversified organization, that employed 81,631 people in 2020, and their launcher business is only a small part during that time. MHI is primarily an engineering and construction company (mechanical and electrical) that is a part of Mitsubishi conglomerate. Mitsubishi Group is an important Japanese conglomerate (keiretsu) consisting of more than 300 companies that work in

various sectors such as mining, mechanical engineering, telecommunications, financial services, insurance, construction, and real estate development.

RKK Energia is the most important Russian company in their space sector. It designs and produces a wide variety of spacecraft ranging from launchers (e.g. Soyuz, Zenit) to satellites, space probes (e.g. the Luna program) and space stations (e.g. the International Space Station). In 2017, it hired 7,700 people and generated sales of around €605 million. RKK Energia works closely with TsSKB Progress for the production of its spacecraft, in particular the Soyuz launchers. In this perspective, TsSKB is Russia's main launcher production centre (20,000 employees in 2000) and is affiliated to the Russian Space Agency (Roscosmos). Another major Russian company is Khrunichev, renowned mainly for its Proton launcher. Along with RKK Energia and Lockheed Martin, this company Khrunichev owns a stake in International Launch Services, that commercializes Proton rocket launches on the international market.

In short, the launch sector in Eurasia is more difficult to grasp due to its specific geographic context.

### **3. The evolution of SpaceX**

Thanks to its attractive pricing and the setbacks faced by Russian manufacturers dealing with reliability issues (Sea Launch, Proton), the commercial success of the Falcon 9 rocket began with its first successful launch. The launch contracts secured by SpaceX had such a major impact on the niche international commercial launch market, as well as on the US institutional market. SpaceX capitalized fully on the volume effect of the large US domestic market (NASA and the Department of Defence), causing its main competitors to revise their business offerings in depth. The European launchers are building a new, cheaper Ariane 6. Meanwhile, the main American competitor, ULA, is adopting a similar strategy. Under pressure in the institutional launch market and challenged by political tensions between Russia and the United States that threatened an embargo on the Russian engines used by the Atlas V, ULA began developing the Vulcan rocket to replace the Atlas and Delta IV.

Furthermore, more powerful than all existing operational launchers, the Falcon Heavy can place the heaviest American military satellites into orbit, allowing it to challenge the current monopoly of the American launch vehicle manufacturer ULA, which offers the Atlas V and Delta 4 Heavy. In the international commercial market, the new launcher, in its reusable version, can place the heaviest

telecommunications satellites into orbit with a carrying capacity of up to 8 tons, at a cost advertised by SpaceX at €90 million. Until now, these large satellites required the non-reusable version of the Falcon 9.

Meanwhile, SpaceX has also used its financial resources for other objectives as well. The company spent \$153 million to purchase SpaceX shares earlier this year in one of its liquidity events, where current and former employees can potentially cash out their shares in the company. SpaceX also declared that it paid \$524 million, mostly in the form of stock, in a rare deal to acquire a supplier - a satellite communication provider called Swarm Technologies in 2021. Swarm Technologies is a company that builds a constellation of low-earth orbit satellites for communications with the Internet of Things (IoT) devices, which is a new market with very high potential. Swarm Technologies gained notoriety in the industry after illegally launching its first four test satellites in 2018.

The U.S. regulatory authority responsible, the Federal Communications Commission (FCC), had denied the start-up a license because it feared the satellites were too small to be detected by space surveillance systems, which could make them particularly dangerous as "invisible" space debris. Despite this, the satellites were launched along with about thirty other payloads on an Indian PSLV rocket, resulting in a \$900,000 fine for Swarm Technologies. The acquisition of this company will force SpaceX to manage this liability and navigate a more complicated relationship with the U.S. regulatory authority, the FCC.

On the other hand, in January 2015, SpaceX announced the opening of a facility dedicated to the development of Starlink satellites in Redmond to develop and build its new space telecommunications network. During that time, the Seattle-area office planned to hire about 60 engineers, and potentially 1,000 people over the following years. In July 2016, SpaceX acquired a 740-square-meter creative space in Irvine, in the Los Angeles metropolitan area. SpaceX's job postings indicated that the Irvine office would handle signal processing, radio frequency integrated circuit design, and application-specific integrated circuit development for the satellite program. By the end of 2016, the company was operating 2,800 square meters of leased premises. In January 2017, SpaceX acquired a second 3,800-square-meter facility, both located in Redmond. In August 2018, SpaceX consolidated all its Seattle-area activities and moved to a larger facility consisting of three buildings at the Redmond Ridge Corporate Center to support satellite manufacturing alongside

research and development activities. Indeed, to achieve its commercial goals, Starlink plans to have 12,000 satellites by 2025, with the number eventually increasing to 42,000.

Elon Musk explains that he is relying on the profits from Starlink to finance his Mars colonization projects, but as of 2022, Starlink remains a challenge since the existence of a viable market is yet to be proven and established. The economic viability of Starlink is not guaranteed, as Internet from satellite is an emerging market that faces strong competition from terrestrial Internet services. The success of Starlink depends on many factors, including the cost of manufacturing satellites, the cost of user terminals, the cost of launching into orbit, the competition from Internet service providers using terrestrial networks, and the performance of the system itself. In 2020, Elon Musk aimed for 40 million subscribers by 2025, with development and implementation costs estimated at \$10 billion. According to Musk, this customer volume would generate revenue ten times greater than SpaceX's launch business, or \$30 billion (equating to \$750 per subscriber per year). Launched in 2019 and available in 40 countries, the service currently claims 700,000 subscriptions and an additional 700,000 orders, still far from the 40 million projected for 2025. With a subscription fee of around \$100 per month, the current revenue is estimated to be between \$800 million and \$1.6 billion. According to Tim Farrar (a communications consultant), Starlink's business model is questionable in a context where 5G is becoming available, underserved market operators are heavily investing in terrestrial cellular networks, and existing broadband connection prices are projected by Cisco to fall below \$0.10 per gigabyte.

In France, the monthly subscription fee for the standard Starlink service in June 2022 is €50, with an additional cost of around €300 for the purchase of user terminal. For this price, the advertised speed is 50 to 150 megabits per second. Customers can enjoy faster speed by paying a subscription fee five times higher. However, the service prices are still fluctuating, and the small antennas required for reception are currently being sold at a loss. Although priced at approximately \$600, Elon Musk admitted at the 2021 Mobile World Congress (MWC) that the antennas cost more than \$1,000 to produce. Thanks to the work of his teams, Elon Musk hopes to reduce this production cost to \$300 or \$500. This year [2022], "Starlink's revenue should cover its costs but not the investment", explains Madame Shotwell. Building a constellation is expensive: according to the consulting firm Euroconsult, SpaceX has already spent \$5.6 billion on satellite launches, relay antennas, frequency purchases, and more. Elon Musk predicted at the MWC that the company would spend up to \$10 billion "before Starlink generates positive cash flow", and \$20 to \$30 billion in the long term. Musk acknowledged

that there is still an "unlikely, but not impossible" risk of SpaceX "going bankrupt". He tweeted in mid-2021 about the challenge of overcoming a cash crunch in the coming year to ensure Starlink's viability, adding "We hope to be the first constellation not to go bankruptcy", referring to the troubles of projects launched in the 1990s (Teledesic, SkyBridge, etc.).



**Figure 2. Starlink satellites ready for deployment in space (2019)**

Starlink is not merely another endeavor in SpaceX's portfolio. As a central pillar of its business model, Starlink fuels the company's operations and embodies its CEO's dream of reaching Mars. As a privately held company, SpaceX does not publicly disclose its financial statements. But from 2015, an internal document was leaked to the Wall Street Journal that showed the scale of Elon Musk's ambitions for Starlink, which was then just a plan: with a planned launch in 2018, its revenues were expected to exceed those generated by rocket launches from 2020, and reach \$30 billion by 2025, with 40 million customers, for an operating profit of \$15-20 billion. This compares with SpaceX's forecast of just \$1.8 billion in total revenues for 2016. Gwynne Shotwell, SpaceX's number two, highlights the importance of the constellation with a quick calculation: "The global space launch market is worth 6 to 8 billion dollars a year. While the internet connection market can be estimated at 1,000 billion dollars. Let's imagine that SpaceX gets 60% of the launcher market and only 3% of the

connection market... Starlink is therefore our biggest potential source of revenue", she explained to journalists in Paris in September.

According to this scenario, launch activities (Falcon 9 launcher) would generate 4 to 5 billion dollars in revenue per year, compared with 30 billion dollars for the constellation, which is 6 to 7.5 times more. For SpaceX, growth follows the adage: it's better to have a small slice of a large pie than a large slice of a small one. According to this scenario, launch activities (Falcon 9 launcher) would generate 4 to 5 billion dollars in revenue per year, compared with 30 billion dollars for the constellation, which is 6 to 7.5 times more. For SpaceX, growth is based on the following adage: it's better to have a very small piece of a very big cake, than a big piece of a small one. "Starlink is a huge potential revenue opportunity. And we're seeing more and more synergies with SpaceX," said financial analyst Dan Ives of Wedbush Securities. In Elon Musk's view, Starlink is therefore a "key springboard" for realizing his dream of establishing a city on Mars, and a base on the Moon, as he explained to Space.com in 2019. "We think we can use the revenue from Starlink to fund Starship," he added, referring to his gigantic rocket designed to travel to the Red Planet. "If we want to take people to the Moon and Mars, we need to ensure that they can communicate there and back to Earth," Shotwell stated earnestly.

#### **4. Prospects**

Several competitors have planned to launch satellite constellations similar to Starlink, including OneWeb (which appears to be the most advanced), Amazon (Kuiper) and Telesat (Lightspeed). The growing number of objects in orbit as a result of mega-constellations is raising concerns and criticisms around the world. Beginning from just under ten thousand in 2020, the number of these objects is expected to eventually reach into the tens of thousands. The deployment of large satellite constellations in low Earth orbit by Starlink and its competitors causes three issues: (1) the large number of satellites means that astronomical observations by the major terrestrial observatories are hindered, in particular programs to identify and track celestial objects; (2) the constellations monopolize large radio frequency ranges on a global scale, which are now a hotly contested resource; (3) the increasing number of satellites launched (more than 45,000 satellites are planned) stimulates fears about the potential number of collisions in orbit, particularly because of the risks associated with the proliferation of space debris.

These collisions can occur between operating satellites, but above all with satellites that have become uncontrollable due to malfunctions. For space industry actors, there is a growing risk that the space debris generated by these collisions will make space inoperable for future generations. For example, according to data compiled by the [satellite.map.space](http://satellite.map.space) website, Starlink lost 236 telecommunications units between 18 July and the end of September. It is not known whether the 236 satellites that disappeared were deliberately deorbited because they were at the end of their life, or whether they were lost prematurely due to a breakdown.

The economic viability of SpaceX's business model remains uncertain. While its success depends mainly on the cost of manufacturing and launching satellites into orbit, SpaceX uses its Falcon 9 launchers to deploy its constellation at massively reduced costs, thanks in particular to the reusability of this launcher and the compactness of the satellites.

In addition to these economic considerations, there are political influences that may also come into play in SpaceX's development. Countries that are not allies of the United States (e.g., Russia, China) or those seeking total control over publicly available information (e.g., military regimes and dictatorships) oppose the implementation of Starlink within their national territories. Nevertheless, Elon Musk appears constrained and dependent on the success of Starlink to achieve the Mars objective.

# Netflix

*Compiled from the case on Netflix by C. Favoreu and P. Rousselot (CCMP, 2016), articles from the press and available public information by C. Gnekpe, Y. Snihur and C. Favoreu, TBS Education*

The internet television and video-streaming industry have revolutionized how people access entertainment. In the last ten years the development of mobile devices and streaming technology have progressed enough to enable worldwide reach. Today, Netflix is the world's leading streaming entertainment service with over 260 million in 2023 paid subscribers in over 190 countries enjoying TV series, documentaries and feature films across a wide variety of genres and languages. Members can watch any content as much as they want, anytime, anywhere, on any internet-connected screen, all without commercials or commitments.

Netflix's initial business model was developed in 1997 in California, USA, by the founding team led by Reed Hastings, still CEO of Netflix today. It involved a DVD rental service via the Internet. In 1999, Netflix dropped the per-unit system of ordering and payment for DVDs in favor of a flat-rate subscription starting at \$8.99/month. Netflix also built its strength on a technical innovation that enriched its service: a recommendation engine for subscribers, launched in 2000. The algorithm, which is continuously being improved through additional customer data, takes account of the subscriber's program selections and evaluations in order to make individualized recommendations. Since its founding, Netflix has refused to use additional advertising to generate revenue from its users, so subscription is the only way the company generates sales.

In 2007, Netflix's business model evolved to include an offer of unlimited streaming via the Internet, alongside its ongoing DVD rental business. Already in 2007 Netflix developed a disruptive offer by making streaming available to its DVD customers. Netflix kept several of the successful features of its DVD business model when it launched streaming, including its subscription revenue model, search functions, and the recommendation engine. These later helped focus the movie production efforts thanks to all the data collected over time about customer demographics, habits, viewing preferences, and varied tastes. This value created for the client—unlimited consumption of content, advertising-free, a highly personalized service, availability on different devices—was offered at a much lower price than that of the bundled channels offered by the cable operators (in the USA). Netflix was also the first to innovate in terms of the viewing schedule for series, offering its clients access to the entire season of a series right from the release of the first episode. This responded to an increasingly common and acceptable practice, binge viewing, whereby several episodes—or even the entire season—are viewed in quick succession. Netflix thus anticipated the emergence of and became the first mover in the streaming market in response to digitalization and changes in consumer tastes as the Internet diffused globally.

In 2009, Netflix had more than 12 million subscribers, the number jumping to 20 million by the end of 2010, the year in which it began its international expansion by launching its offer in Canada. In June 2012, Netflix crossed the symbolic threshold of one billion hours of video viewed on the Internet in one month. In April 2013, Netflix overtook its strongest competitor, HBO, in number of subscribers in the USA. Its service was now accessible on numerous devices, from connected TVs to computers, from set-top boxes to tablets.

At the beginning of 2014, Netflix announced a small increase in its subscription rates to help meet the increase in its costs and finance its big investment in producing original and, importantly,

exclusive, programming. The company also confirmed its European expansion project. It supplemented its role as content provider by starting to develop original content, acting as a developer of popular TV programs such as Orange is the New Black and House of Cards. Its first in-house series, House of Cards, produced at a cost of \$100 million, would go on to become a worldwide hit, winning three Emmy Awards, and would strengthen the company's reputation globally

Initially, and until 2012, Netflix offered a relatively big and diversified content library (mainly films and series) but consisting largely of second-hand content, constituted by older (not new or exclusive) series, films, or documentaries. For the most popular series, Netflix generally offered only past seasons, the latest ones being available only on the major TV channels. The year 2012 marks a turning point in this respect. From being mainly a distributor of content, Netflix became a content producer. The company's objective then became to enhance the customer experience by providing (1) higher quality and more exclusivity and variety of the programs on offer; (2) a better user interface and improved services; (3) a more highly personalized service. However, while important to differentiate from its competitors, the success of original programs is always highly uncertain and the production costs are also very high.<sup>9</sup> Netflix, which finances its growth mainly through debt, saw its operational margin decrease and its debt increase from \$6 billion in 2017 to \$14 billion in 2019.

In 2019, Netflix had revenues of \$20 billion and profits of \$1.8 billion (see financials in the Appendix). The company is reportedly spending around \$18 billion on new content in 2020, up from \$15.3 billion in 2019; Disney, by comparison, is projected to spend \$1 billion on Disney+ content this year. Although the streaming price wars are intensifying, Netflix insists that its main objective—to differentiate itself by producing and distributing high-quality original content—has not changed. And yet, the year 2022 has been particularly eventful for the streaming veteran. Its annual net profit fell 12% to \$4.5 billion, even as revenue rose 6.4% to stabilize at \$31.6 billion. Nevertheless, for 2023, its annual net profit grew by 20.0% thanks to its new strategies, and its revenue also increased by 6.6%, stabilizing at \$33.7 billion.

Furthermore, the number of subscribers increased from 221.84 million in 2021, to 230.75 million in 2022, and to 260.28 million in 2023. This could prove that the strategies implemented by Netflix's two co-presidents since 2023, Ted Sarandos and Greg Peters, are still effective

Competition has been growing and becoming more international rather than US-focused as in the past.<sup>10</sup> Netflix faces competition from new services such as Disney +, Apple TV+ and others. Disney appears as the most serious contender, although Reed Hasting identified Amazon Prime as the main competitor of Netflix.<sup>11</sup> Disney announced that as of May 4, 2020, Disney Plus attained an astonishing 54.5 million subscribers worldwide, a mere six months after launch.<sup>12</sup> Disney owns a number of film production studios, including 21<sup>st</sup> Century Fox (acquired for \$71 billion in 2019), Pixar for animated films, and Lucas Films, the owners of Star Wars franchise. Disney also acquired Marvel and its universe of comics heroes turned movie stars. Disney relies on the production of movies and series

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<sup>9</sup> As an example, average production costs for an episode of a series such as Games of Throne or Mandalorian are around \$15 million.

<sup>10</sup> During the first 8 years, there were only 3 competitors.

<sup>11</sup> [https://www.youtube.com/watch?v=JdtnX\\_P-4Qc](https://www.youtube.com/watch?v=JdtnX_P-4Qc)

<sup>12</sup> This means \$3.7 billion in annual revenue when taking into account the average monthly revenue per paid subscriber of \$5.63 from its second quarter earnings report.

with related storylines of different characters (e.g., Star Wars or Marvel worlds<sup>13</sup>). This differentiation strategy has been nevertheless accompanied by a low-cost entry into the streaming market in 2020 with Disney+.

Other competitors include cable operators AT&T or Comcast, which traditionally provided infrastructure for paid TV in the US. These firms decided to enter the streaming market through acquisitions. Comcast, which owns NBC Universal, bought Sky for \$39 billion and is also launching its own streaming offer. AT&T has bought Time Warner (including HBO) for \$85 billion and is creating its own streaming service. The company has taken back the licensing rights to two Netflix star series, Friends and Big Bang Theory. Netflix also lost rights to The Office, a cult series owned by CBS. While it is costly not to license to Netflix anymore—for example, Disney is going to lose \$150 million euros in licensing fees that Netflix used to pay to Disney annually for distributing Disney content on its platform—this allows new competitors to develop their own exclusive catalogues, different from what is available on Netflix. The table below summarizes the timing of market entry by various direct and indirect competitors of Netflix.

Year	Market entry
2007	Netflix
2007	Hulu (joint-venture Fox Entertainment, NBC Universal, Disney)
2011	Amazon prime Video
2015	HBO Now
2017	Facebook Watch
2018	You Tube Premium
2018	CBS All Access
2019	Disney + è Walt Disney Studio (Lucas film, Pixar, marvel, 21 <sup>st</sup> Century Fox) + Disney media network (ESPN, ABC, National Geographic)
2019	Comcast (NBC Universal, DreamWorks, Sky Uk)
2019	ATT (Warner media, HBO, Cinemax, CNN, Warner Bros, DC Comics)
2019	Apple

**Table 1 : History of market entry in SVOD market**

To face the slow growth of the US market<sup>14</sup> and increasing competition at home and abroad, global expansion is strategically important for Netflix. Netflix is trying to develop as quickly as possible a global presence and a global brand, and this for two main reasons: 1) increase in revenues from new markets, and 2) scale economies from worldwide presence. Today, the company is present in more than 190 countries.

Still, a number of analysts believe the company’s business model, strategy, and competitive advantages are not viable over the long term. Opinions are sharply divided: Some see Netflix as a steamroller, without a competitive equivalent, whose rapid international expansion continually reinforces its size advantage; others see it as a giant with feet of clay,<sup>15</sup> a company with an extremely

<sup>13</sup> As an example, Marvel characters have enabled Disney to produce 23 films and several miniseries with related storylines. Five of these are in the top-ten global movie successes.

<sup>14</sup> The US market remains the most profitable one, with margins of 32% for the US against 9.8% for the international market.

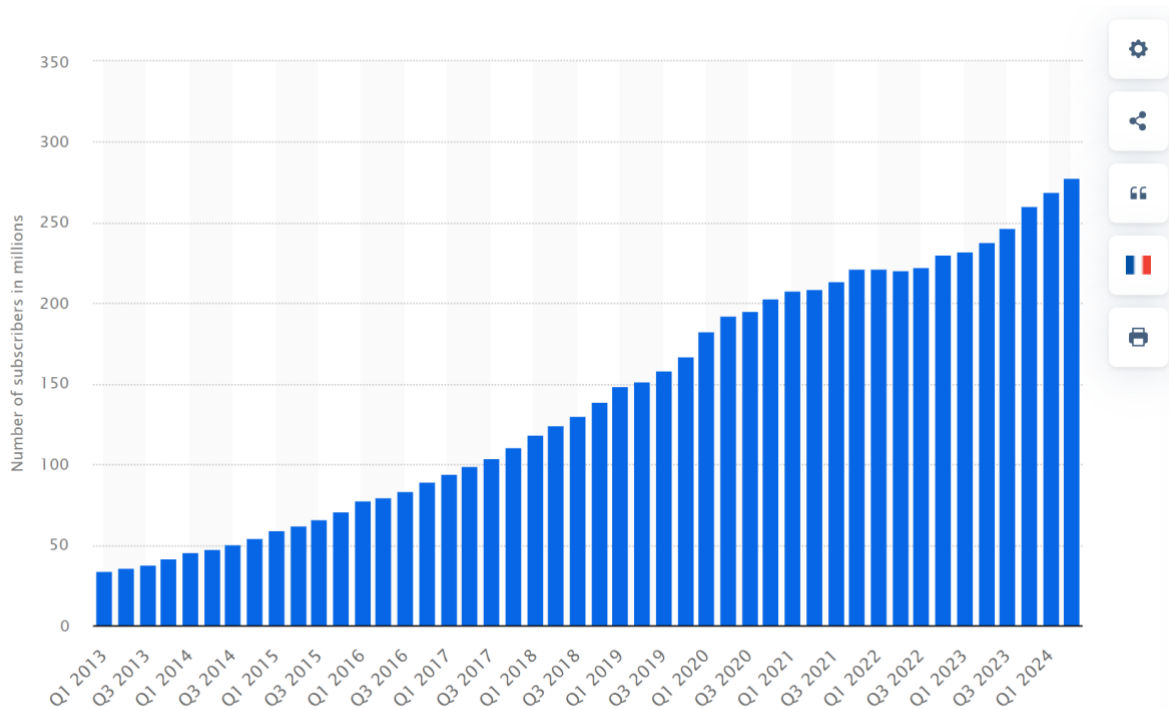
<sup>15</sup> This is due to the need to develop specific and adapted programming for local tastes, need for specific marketing different for each country, investment into subtitles and dubbing of movies etc., which are all expensive and difficult to get right easily.

fragile—even economically unviable—business model. If international expansion is a fundamental growth driver for the company, it is also an economic imperative achieved at a high cost of debt financing.

Although relatively recent (2010) and gradual (from 2010 to 2014), Netflix’s internationalization has subsequently been rapid and massive. While this strategy, which became Netflix's major growth driver from 2011 onwards, has been successful in terms of subscriber gains (+1200% since 2011) and the related revenues, it has proven to be much more problematic in terms of profitability. Indeed, we have to wait until 2017 to see the international business generate its first, and modest, profits (\$227 million). The difficulty of imposing a global offer and the need to adapt content due to cultural and linguistic differences generate extremely high internationalization costs. In addition, there are geographical differences in broadband Internet infrastructure equipment and regulations (taxation, media chronology, etc.).



**Figure 1 : History of Netflix’s expansion**



Details: Worldwide; Q1 2013 to Q2 2024; excluding free trials

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**Figure 2: The evolution of Netflix's paid subscribers worldwide, 260.28 million in 2023 (Statista)**

In international markets, Netflix generally enters with its Hollywood library and does not, at first, try to acquire or develop local content. The company focuses on markets where high-speed Internet is widely available. Its pricing policy across markets is relatively consistent, with a price close to the American one of \$8 per month. The price does vary, however, according to the prices charged by local competitors.

Europe has been a real growth accelerator for Netflix, both in number of subscribers and sales (see financials in the Appendix). The entry into the German, French, Austrian, Swiss, Belgian and Luxembourg markets in 2014 enabled Netflix to increase the number of its international subscribers by 75% in only one year and to recruit 2.6 million new members in the first quarter of 2015 alone. In 2014, Europe represented 58% of all international subscribers and 20% of subscribers overall. Today, Netflix recruits more subscribers internationally than domestically.

Netflix first set up operations in European countries that, firstly, had a favorable digital environment (a high-speed internet network and high penetration rates for connected devices) and, secondly, where the English language was not a barrier (the UK, the Nordic countries, the Netherlands). Next came France and Germany, where local language content and dubbed or subtitled films and shows were market requirements.

European market is fragmented from supply and demand perspective. Besides cultural differences and the barrier of language—which constitute the main brakes on internationalization, making geographic expansion very expensive. Other factors include:

- the lack of available content due to VoD (video-on-demand) players competing to acquire films and shows on an exclusive basis (creating a situation of scarcity);
- differences in taxation and fiscal policy;
- crucially, differences in the release windows system (the delay between a film's release date and the right to bring it out on DVD or stream it).

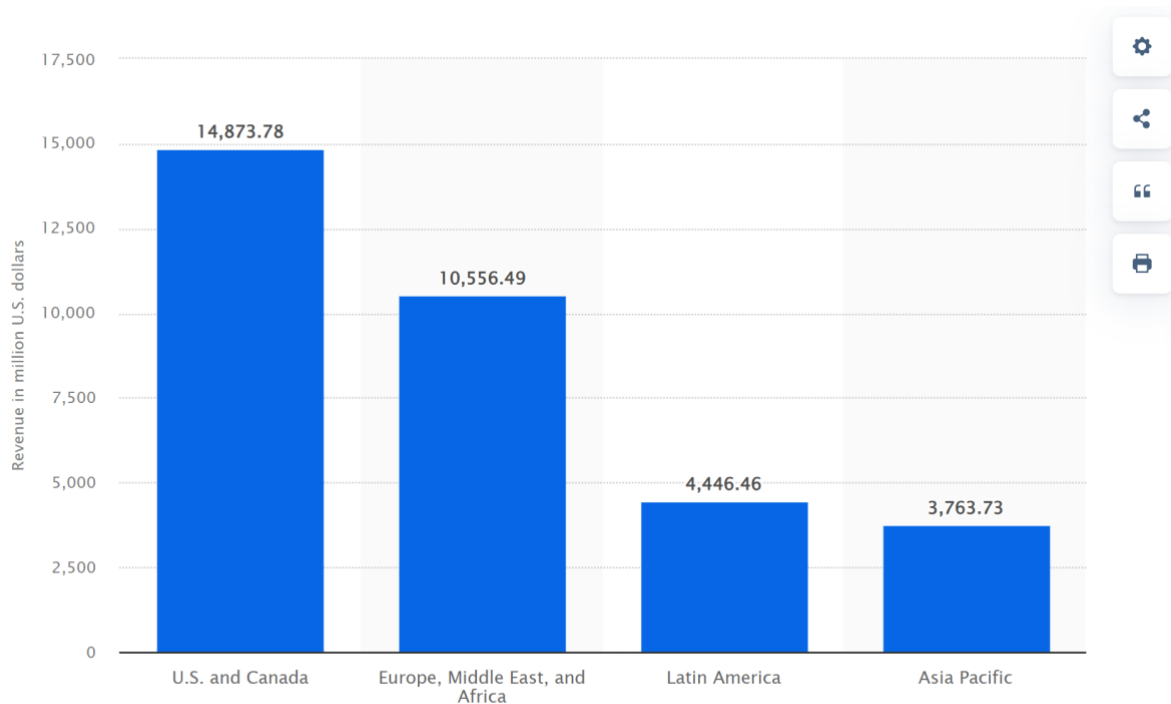
It is just as difficult, indeed inappropriate, to speak of a global streaming market as a European one. Indeed, each market is different and various elements impact the nature and volume of demand: the availability of high-speed internet and the number of connected households, the use of Internet Protocol television (IPTV), the penetration rate of connected devices (Blu-ray, games consoles, etc.), the legislation on the release windows system and on the obligation to stream local content, the habits of audiovisual consumption, and the viewing device or platform. For example, the French in their vast majority use their TV decoder (set-top box) to access VoD or catch-up programs. The content Netflix offers in Europe differs significantly from that offered in the US. For example, in the USA TV series are extremely popular (they make up 70% of the Netflix's American library), while in the UK and the Nordic countries there is a greater demand for films. Differences in regulations (especially in the release windows system), the acquisition of territory-specific (not global) streaming rights (some series can only be streamed to the US and the UK) explain this difference.

On average, local content represents no more than 15% to 20% of the Netflix libraries offered to European subscribers. Incidentally, the negotiation of streaming rights sometimes results in bizarre situations; for example, Netflix's flagship show, *House of Cards*, was not available to Netflix's French members because the rights were licensed for three years, by Netflix itself, to its French competitor, Canal+. At first, the production of original local series, in the language and with actors from the countries concerned, was marginal and aimed at developing Netflix's reputation and recruiting new subscribers within the target countries. However, the worldwide success of European series such as *La Casa de Papel* (Spain), *Dark* (Germany) or *The Rain* (Denmark) may be changing this situation and are increasingly seen as vectors of Netflix's global attractiveness.

The impossibility of acquiring global streaming rights for certain films and series<sup>16</sup> entails a number of disadvantages: (1) an increase in fixed costs, (2) the multiplication of negotiations conducted and contracts drawn up, (3) the limitation of the size and richness of the libraries for certain countries, and (4) a reduction in Netflix's capacity to generate economies of scale globally. These challenges encourage the company to develop its in-house production of original series, yet they also lead to an inflation of bidding prices to obtain streaming rights.

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<sup>16</sup> This phenomenon is only going to intensify because, as mentioned above, a number of new market entrants are buying up production studios and recovering content previously licensed to distributors such as Netflix.



Details: Worldwide; 2023

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**Figure 3. Netflix revenue in 2023 by regions (Statista)**

In France, Netflix had almost reached 7 million subscribers by early 2020 with revenues of over 700 million euros. In one year, it has doubled the number of subscribers and Netflix is now ahead of Canal + (the country's number one pay-TV group, wholly owned by media group Vivendi). The arrival of Netflix in France in 2014 caused concern not only on the part of the historical video on demand (VoD) players such as Canal+ and TF1, but also the telecom operators (telcos), internet service providers (ISPs) and the Ministry of Culture. The media uproar about the arrival of Netflix paradoxically gave the new entrant a publicity boost, increasing public awareness and curiosity about a firm that had hitherto been almost unknown in France. In July 2022, Netflix CEO Ted Sarandos was pleased to announce to have more than 10 million paying subscribers in France. Furthermore, Netflix just announced that there were more than 12 million paid subscribers in 2023 in France.

In October 2019 Netflix signed a deal with Canal + to offer Netflix on its platform. Netflix has over 20 local French productions, such as "Marseille," "Family business," and others, and it announced 20 more in development in 2020, with the announced aim of investing more than \$100 million in France this year (compared to \$200 million already invested since 2015). Local French laws actually require that the company invest a minimum of 25% of its sales in France in French and European programming.

**Netflix, Inc.**

**Consolidated Statements of Operations**

(in thousands, except per share data)

	Year ended December 31,		
	2023	2022	2021
Revenues	\$ 33,723,297	\$ 31,615,550	\$ 29,697,844
Cost of revenues	19,715,368	19,168,285	17,332,683
Marketing	2,657,883	2,530,502	2,545,146
Technology and development	2,675,758	2,711,041	2,273,885
General and administrative	1,720,285	1,572,891	1,351,621
Operating income	6,954,003	5,632,831	6,194,509
Other income (expense):			
Interest expense	(699,826)	(706,212)	(765,620)
Interest and other income (expense)	(48,772)	337,310	411,214
Income before income taxes	6,205,405	5,263,929	5,840,103
Provision for income taxes	(797,415)	(772,005)	(723,875)
Net income	\$ 5,407,990	\$ 4,491,924	\$ 5,116,228
Earnings per share:			
Basic	\$ 12.25	\$ 10.10	\$ 11.55
Diluted	\$ 12.03	\$ 9.95	\$ 11.24
Weighted-average shares of common stock outstanding:			
Basic	441,571	444,698	443,155
Diluted	449,498	451,290	455,372

**Netflix, Inc.**  
**Streaming Revenue and Membership Information by Region**

**United States and Canada (UCAN)**

	As of/Year Ended December 31,			Change	
	2023	2022	2021	2023 vs. 2022	
	(in thousands, except revenue per membership and percentages)				
Revenues	\$ 14,873,783	\$ 14,084,643	\$ 12,972,100	\$ 789,140	6 %
Paid net membership additions (losses)	5,832	(919)	1,279	6,751	735 %
Paid memberships at end of period (1)	80,128	74,296	75,215	5,832	8 %
Average paying memberships	76,126	74,001	74,234	2,125	3 %
Average monthly revenue per paying membership	\$ 16.28	\$ 15.86	\$ 14.56	\$ 0.42	3 %
Constant currency change (2)					3 %

**Europe, Middle East, and Africa (EMEA)**

	As of/Year Ended December 31,			Change	
	2023	2022	2021	2023 vs. 2022	
	(in thousands, except revenue per membership and percentages)				
Revenues	\$ 10,556,487	\$ 9,745,015	\$ 9,699,819	\$ 811,472	8 %
Paid net membership additions	12,084	2,693	7,338	9,391	349 %
Paid memberships at end of period (1)	88,813	76,729	74,036	12,084	16 %
Average paying memberships	80,928	73,904	69,518	7,024	10 %
Average monthly revenue per paying membership	\$ 10.87	\$ 10.99	\$ 11.63	\$ (0.12)	(1)%
Constant currency change (2)					(1)%

**Latin America (LATAM)**

	As of/Year Ended December 31,			Change	
	2023	2022	2021	2023 vs. 2022	
	(in thousands, except revenue per membership and percentages)				
Revenues	\$ 4,446,461	\$ 4,069,973	\$ 3,576,976	\$ 376,488	9 %
Paid net membership additions	4,298	1,738	2,424	2,560	147 %
Paid memberships at end of period (1)	45,997	41,699	39,961	4,298	10 %
Average paying memberships	42,802	40,000	38,573	2,802	7 %
Average monthly revenue per paying membership	\$ 8.66	\$ 8.48	\$ 7.73	\$ 0.18	2 %
Constant currency change (2)					10 %

Asia-Pacific (APAC)

	As of/Year Ended December 31,			Change	
	2023	2022	2021	2023 vs. 2022	
	(in thousands, except revenue per membership and percentages)				
Revenues	\$ 3,763,727	\$ 3,570,221	\$ 3,266,601	\$ 193,506	5 %
Paid net membership additions	7,315	5,391	7,140	1,924	36 %
Paid memberships at end of period (1)	45,338	38,023	32,632	7,315	19 %
Average paying memberships	41,033	35,019	28,461	6,014	17 %
Average monthly revenue per paying membership	\$ 7.64	\$ 8.50	\$ 9.56	\$ (0.86)	(10)%
Constant currency change (2)					(6)%

United States and Canada (UCAN)

	As of/ Year Ended December 31,			Change	
	2022	2021	2020	2022 vs. 2021	
	(in thousands, except revenue per membership and percentages)				
Revenues	\$ 14,084,643	\$ 12,972,100	\$ 11,455,396	\$ 1,112,543	9 %
Paid net membership additions (losses)	(919)	1,279	6,274	(2,198)	(172) %
Paid memberships at end of period (1)	74,296	75,215	73,936	(919)	(1) %
Average paying memberships	74,001	74,234	71,689	(233)	— %
Average monthly revenue per paying membership	\$ 15.86	\$ 14.56	\$ 13.32	\$ 1.30	9 %
Constant currency change (2)					9 %

Europe, Middle East, and Africa (EMEA)

	As of/ Year Ended December 31,			Change	
	2022	2021	2020	2022 vs. 2021	
	(in thousands, except revenue per membership and percentages)				
Revenues	\$ 9,745,015	\$ 9,699,819	\$ 7,772,252	\$ 45,196	— %
Paid net membership additions	2,693	7,338	14,920	(4,645)	(63) %
Paid memberships at end of period (1)	76,729	74,036	66,698	2,693	4 %
Average paying memberships	73,904	69,518	60,425	4,386	6 %
Average monthly revenue per paying membership	\$ 10.99	\$ 11.63	\$ 10.72	\$ (0.64)	(6) %
Constant currency change (2)					6 %

Latin America (LATAM)

	As of/ Year Ended December 31,			Change	
	2022	2021	2020	2022 vs. 2021	
	(in thousands, except revenue per membership and percentages)				
Revenues	\$ 4,069,973	\$ 3,576,976	\$ 3,156,727	\$ 492,997	14 %
Paid net membership additions	1,738	2,424	6,120	(686)	(28) %
Paid memberships at end of period (1)	41,699	39,961	37,537	1,738	4 %
Average paying memberships	40,000	38,573	35,297	1,427	4 %
Average monthly revenue per paying membership	\$ 8.48	\$ 7.73	\$ 7.45	\$ 0.75	10 %
Constant currency change (2)					14 %

Asia-Pacific (APAC)

	As of/ Year Ended December 31,			Change	
	2022	2021	2020	2022 vs. 2021	
	(in thousands, except revenue per membership and percentages)				
Revenues	\$ 3,570,221	\$ 3,266,601	\$ 2,372,300	\$ 303,620	9 %
Paid net membership additions	5,391	7,140	9,259	(1,749)	(24) %
Paid memberships at end of period (1)	38,023	32,632	25,492	5,391	17 %
Average paying memberships	35,019	28,461	21,674	6,558	23 %
Average monthly revenue per paying membership	\$ 8.50	\$ 9.56	\$ 9.12	\$ (1.06)	(11) %
Constant currency change (2)					(2) %

# Apple (Beats Acquisition)

*Adapted from press coverage by The Economist (28/05/2014; 08/06/2015), Le Monde (09/05/2014), Medium (21/04/2020), The conversation (24/05/2014)*



On May 28, 2014, Apple officially announced that it had made the biggest, most expensive acquisition in the company's history. But the company Apple bought was not a competitor, nor was it a traditional tech hardware or software company whose flagship products could be integrated into Apple's lineup of iPhones, Mac computers, or iPads. Instead, Apple chose to spend \$3 billion on Beats Electronics, the company started by music industry mogul Jimmy Iovine and legendary rapper/producer Dr. Dre that was famous for its popular, stylish, high-priced Beats by Dre headphones.

Founded in California in 2006 by the famous rapper Dr. Dre and producer Jimmy Iovine, Beats Electronics was originally a brand of headphones. It quickly became known thanks to the dazzling success of its line of Beats by Dre headphones, worn by teenagers as well as movie, music and sports stars. Surfing on the wave, the brand was quick to launch speakers and establish partnerships. This is how HP computers appeared, flanked by the famous "b", the Beats logo. Or even high-end HTC smartphones, also marked with the brand's symbol and offering to reproduce the sound quality of Beats.

At a time of giant acquisitions in the world of new technologies, where messaging services such as WhatsApp are selling for \$19 billion, the size of the transaction might seem less impressive. Yet it is not. Apple does not willingly agree to such sums, despite its colossal war treasure, which today amounts to just over \$150 billion. The Cupertino group is indeed more used to small, targeted and sharp purchases for a few million dollars.

It was a move that left countless Wall Street analysts and tech commentators scratching their heads while repeating the already common refrain that Apple was lost and doomed without founder Steve Jobs, who had died just three years earlier in 2011. Why would Apple spend so much money on a company whose audio products were widely derided by audiophiles and reviewers for lacking good sound quality while also being vastly overpriced? Was Apple signaling a change in philosophy away from selling best-in-class, iconic hardware in favor of fashionable, high-margin junk? Or was Apple simply confirming what critics had been saying for years, that Apple has always been about style over

substance, utilizing clever marketing to trick the vain and ignorant into spending too much for attractive but sub-par hardware that “serious” users would never touch? Before the ink was even dry on the contracts, many were already calling the deal a mistake and a failure.

When Apple announced its iTunes Radio offering in 2013, analysts thought it was only a matter of time before Apple went one step further and launched an “on-demand” streaming service to compete with the likes of Spotify. (Radio services play songs in a certain genre, whereas on-demand services let people select specific songs and are growing in popularity.) They were right. Instead of launching its own streaming service and negotiating deals with individual labels, however, Apple is buying a streaming service that is already running. Beats Music has a distribution deal with AT&T, a mobile operator, which packages the service with some of its plans.

Beats was not some startup hoping to someday turn a profit, nor were they a dying company that could be sold off for parts, patents, and intellectual property. Beats was — and continues to be — perhaps the most profitable, popular, and recognizable headphone brand in the world, capturing 64% of the market for headphones over \$100 in 2012. In 2013, Beats was estimated to have earned \$1.5 billion in revenue and had a stable of world-famous musicians (particularly rappers) and athletes as paid brand ambassadors, with even more providing free, invaluable advertising and product placement by being photographed using Beats headphones in their everyday lives. With their headphones’ vibrant colors, focus on fashion, and iconic “b” logo, Beats actually made headphones cool and aspirational. For most young people, Beats by Dre were the only headphones they wanted and the only ones that mattered. Because of smartphones and other mobile electronics, it is expected that most people today would choose a good pair of headphones over an equally (or even more expensively) priced home stereo system.

Beats succeeds not because it provides the best possible acoustic experience, but because it functions as a fashion statement that communicates coolness. The iconic headphones are worn by celebrities from music, movies, and sports. Even fashion designer Marc Jacobs had models wear Beats headphones during runway shows. The extent to which Beats succeeds at product placements with celebrities across the world is unprecedented. The genius behind Beats is creating a perception that if you want to be as cool as one of your heroes, you need to shell out hundreds of dollars to wear plastic headphones in public.

Beats’ core competency in marketing allows the company to differentiate its products from rival offerings because it is able to create higher perceived value for its customers.

If Apple had bought Beats and then left Beats to operate completely independently with no input or assistance from Apple, it still would have been a profitable investment that would have earned back the \$3 billion Apple spent for Beats within a few short years. And Beats probably would have continued to grow in size, popularity, and influence since there really isn’t another headphone company that can compete with Beats when it comes to brand recognition, cultural clout, or profits aside from Apple with their AirPods. Put together, Apple is now undoubtedly the world’s most profitable headphone company.

Apple’s Beats acquisition was leveraging the increasing importance of headphones in the smartphone era and complemented very well Apple’s own posh smartphone model, the iPhone.

Headphones have always been integral to the modern smartphone. Apple, who correctly realized that smartphones would ultimately replace their ultra-successful iPod (Apple's music player launched in 2001) product line, knew this better than anyone.

Apple gains the design and manufacturing experience that Beats brings to the audio market. Other than headsets, the audio is used in computers and other devices, such as Apple's Macintosh line of computers. Although Apple computers have good quality speakers, the audio on Macs has always been limited with no system level equalizer for example. Apple can immediately improve the quality of the headsets it ships with its phones and tablets and the audio in its laptop computers. Beats also provide another reason for (younger) customers to visit the Apple store and enter the universe of Apple products.

The deal also shows how quickly the music industry is moving away from a model of ownership toward one of accessing content. Apple helped save the music industry when it introduced its music download store in 2003 and helped turn the purchasing of portable music into a business worth billion. Now it is stepping into another musical era.

Streaming music providers give us instant access to nearly every song ever recorded; smartphone games have become a multibillion-dollar industry; video on YouTube, Instagram, Facebook, TikTok, Snapchat, etc. has become a major cultural force; and LTE networks along with dozens of video providers have made it possible to stream HD content from almost anywhere. It seems clear now that Apple knew audio would become increasingly vital to the expanding smartphone experience.

While our devices remain hidden from view in our pockets, headphones can not only signal what kind of devices we have but can also signal our values (like love of music) and be a fashion accessory by themselves.

Beats had already proven that there was a large non-audiophile market for expensive headphones, provided they had some style, personality, and good marketing. Apple knew that headphones and audio would continue to increase in importance for smartphone owners — which is basically everyone.

Wireless audio via Bluetooth was gaining momentum in 2014 and was the logical next step for personal audio, but it was still beset by high prices and connectivity/reliability issues. Apple already had ideas for how to solve Bluetooth's biggest problems (more on this later), and by abandoning the headphone jack in the iPhone 7, Apple would hasten the adoption of and market for Bluetooth headphones. This would help set off a once-in-a-lifetime upgrade cycle as consumers moved from the corded headphones that had been their only choice for the entire history of personal audio to more expensive Bluetooth ones. And when that supercycle happened, Apple would own the most popular, profitable headphone maker in the world.

It was like buying the world's most profitable hand sanitizer company right before the coronavirus pandemic.

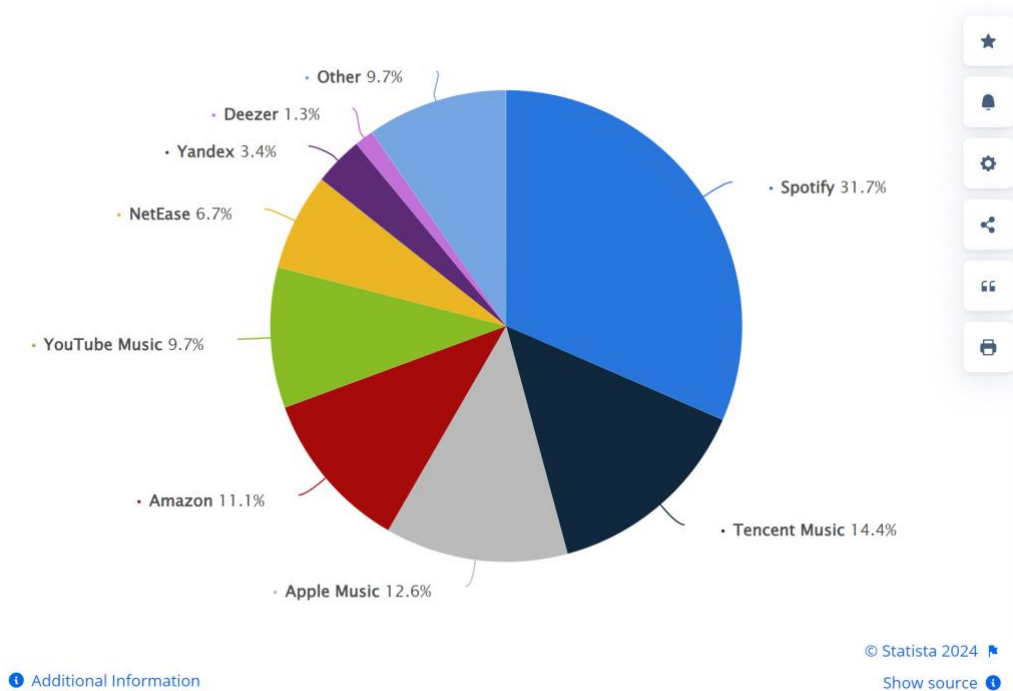
By 2014, Apple was way behind when it came to music streaming. So to make up a lot of ground quickly, Apple bought Beats, which had launched its Beats Music streaming service just a few months

before being acquired by Apple. Some have speculated that Beats Music was the primary reason Apple bought Beats in the first place, with the headphone business just being a profitable ancillary perk. According to Apple CEO Tim Cook, it was Beats Music's focus on curation and the emotional response it elicited that made it stand out from other streaming services.

Could Apple have built Apple Music from the ground up with their own engineers? Certainly. Would this have taken more time and given Spotify an even bigger opportunity to cement themselves as the one dominant streaming music service? Absolutely.

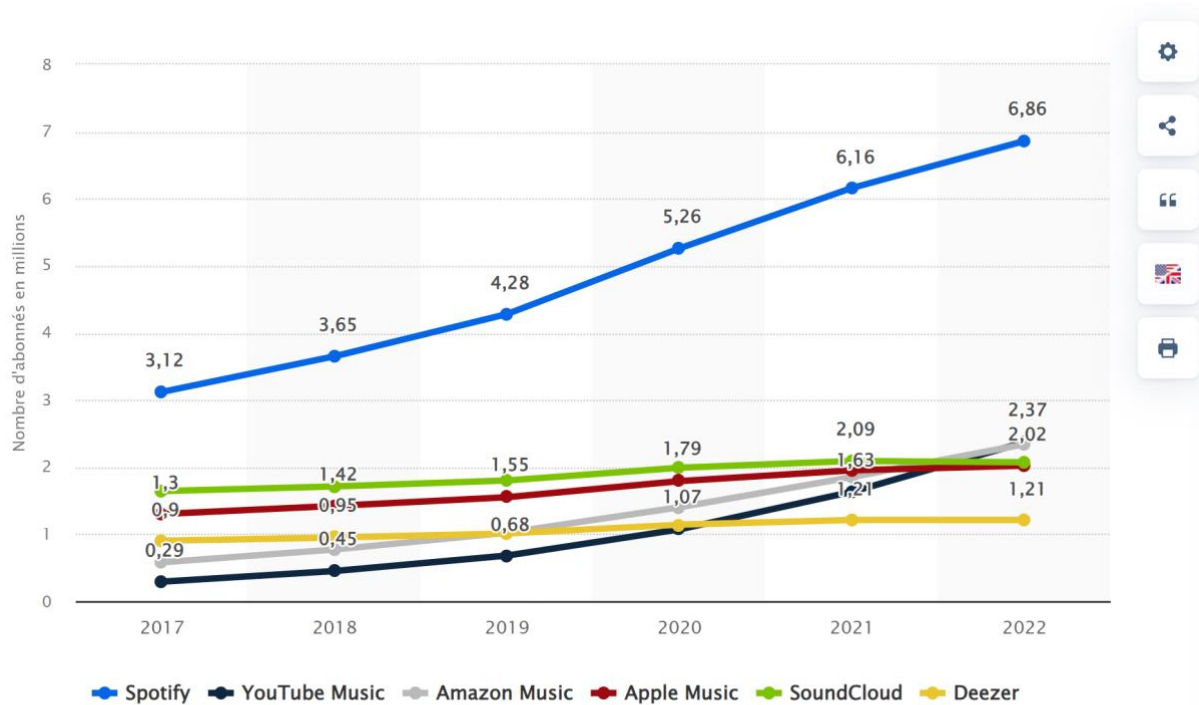
In the third quarter (Q3) of 2023, Apple Music had approximately 90 million paying subscribers, which is less than half of the 226 million paying subscribers reported by Spotify for the same period. The gap between these two music streaming giants has thus widened (Fig 1).

At the same time, a Chinese platform saw its popularity increase significantly, surpassing Apple Music in terms of market share (%) in the music streaming sector in 2023.



**Figure 1 : Market shares (%) of music streaming in Q3 2023 (Statista)**

In France, Apple Music is struggling and unable to keep up with Spotify's exponential growth, which is far ahead of the six competitors present in the country.



Détails: France; Statista Digital Market Insights; 2017 - 2022

© Statista 2024

**Figure 2: Number of Subscribers to Audio Streaming Platforms in France from 2017 to 2022 by Service in Millions (Statista)**

Currently, Apple Music is estimated to have close to 70 million paid subscribers, which is over half of the 124 million paid subscribers Spotify announced at the beginning of 2020. Considering that Spotify launched in 2008 and Apple Music started in 2015, Apple has made up considerable ground in a relatively short amount of time. It's hard to know exactly how much money Apple is making off these subscribers since a single subscription costs \$10/month, the Apple Music family plan can include up to six users for \$15/month, and Apple also offers \$5/month student subscriptions. But if we estimate that each of those 70 million subscribers is worth \$4/month, that means that Apple will make over \$3.3 billion off Apple Music in 2020 — or about the cost of buying the entirety of Beats Electronics.

Beats is also very well known for its talented cofounder, Jimmy Iovine and Dr. Dre. They are more than just two cofounders who started a successful headphone company. Iovine has been the recording engineer and producer for some of the biggest names in rock, including Bruce Springsteen, Tom Petty and the Heartbreakers, Stevie Nicks, U2, John Lennon, the Pretenders, and Patti Smith before starting his own successful label, Interscope Records. Dr. Dre is true rap royalty, starting the gangsta rap genre with his group N.W.A., pioneering the west coast/G-funk sound, founding Death Row Records, and becoming the most important and influential producer in hip-hop by shepherding

the careers of artists like Snoop Dogg, Eminem, 2Pac, 50 Cent, and Kendrick Lamar. And not mentioned by Cook was Trent Reznor, the singer/songwriter/producer of Nine Inch Nails, who was brought in to Beats as chief creative officer in 2013 to launch Beats Music along with TopSpin Media founder Ian Rogers.

All three of these men are bona fide titans of the music world that any company interested in music would be overjoyed to have on their team. But unique among all three is their deep interest and concern for how music is discovered and listened to. It was revealed that Iovine had been working behind the scenes with Apple for years to ensure that the digital compression of music files did not rob songs of their soul and emotion, and that Iovine believed that human curation, not algorithms, was the only way that consumers could get value from streaming services offering tens of millions of songs. Dr. Dre started Beats out of frustration that his children were experiencing the music he had slaved over through the tiny earbuds that came with their iPods and smartphones.

Not only do Iovine, Dre, and Reznor know the music world both as creatives and industry veterans but are also keenly aware of the issues facing the music industry today when it comes to finding great artists and connecting emotionally with music. If there is anyone who could get a streaming music service off the ground, differentiate it from its competitors, and make it truly an asset to users, it would be these guys.

This acquisition has allowed Beats to take advantage of Apple's great research and development and innovation and put it into Beats' products. It changed Beats as a company, and more importantly, the quality of its headphones.

The sums of money being paid for recent tech company acquisitions have made multi-billion dollar deals the new normal. Because of this, it is not really necessary to look for too much significance in these purchases. Whilst Apple buying Beats make sense from a number of perspectives, it is just a tiny part of its overall product strategy and is not going to distract those waiting for Apple to do the next big thing.

# ASMODEE

*Author: adapted from G.Gueguen, TBS Education for CCMP*

Beyond its "leisure" aspect, play is inseparable from every civilization. The philosopher Johan Huizinga<sup>17</sup> and the sociologist Roger Caillois<sup>18</sup> have analyzed its importance as a vector of social cohesion. This "unproductive" activity has been structured to give rise to a "productive" industry, which we will present below. While video games have enjoyed sustained growth since the 80s, more traditional games continue to exist, and are now enjoying a real revival. We're only interested in this type of game, and particularly in the so-called "board game".

The French board game market represents estimated sales of 480 million euros, and over 1,000 games are now released every year in France<sup>19</sup>. This figure should be put into perspective in comparison with its "cousin", the video game, which saw sales in 2017 (excluding hardware and accessories) of 2.61 billion euros in France<sup>20</sup>. Worldwide, more than 3,000 board games were published in 2017<sup>21</sup>. France is one of the leading countries in this industry. In France, Asmodee is No. 1 in the board game (and playing card) market and the 7th-largest publisher of games and toys. In 2016, 75% of its sales were generated internationally, with a presence in 44 countries. The company employs 750 people, with sales of 440 million euros<sup>22</sup>. Over the years, France's Asmodee has become the world's second-largest player in the generalist games market and number one in the specialist games segment<sup>23</sup>.

The company has shaken up the old leaders with successful, innovative games (for example, since 2009, 10 million copies of its Dobble game have been sold worldwide<sup>24</sup>; Jungle Speed, which Asmodee has published since 1999, has sold over 4 million copies and has been translated into 30 languages) and an effective business and corporate strategy. As a publisher and distributor, Asmodee's goal is to become the world leader in games<sup>25</sup> and to promote its creations on a variety of media. Above all, Asmodee has contributed to the revival of the board game. In fact, the term "modern board game" is used here.

According to Wikipedia, a board game *"is a ludic activity that takes place in a group, respecting a rule that defines the means, constraints and objectives to be reached during the game. The aim of this activity is to entertain participants by trying to win the game. Board games are generally considered to be intellectual games, often involving reflection, but they can also involve chance, memory, skill, observation, alertness, common sense and so on. A board game has rules and materials (board, cards, pawns, dice, etc.). The best-selling games in France are : Dobble, Monopoly, Cluedo, Carcassonne, Les Aventuriers du Rail, Catane, La Bonne Paye, Scrabble, Jungle Speed... Since the 90s, so-called "modern" board games have developed. These games reduce the role of chance, can be played in 2 or 3 hours at most, do not eliminate players, and allow you to win in a variety of ways. A game can*

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<sup>17</sup> Johan Huizinga (1951), *Homo Ludens - Essai sur la fonction sociale du jeu*, Gallimard

<sup>18</sup> Roger Caillois (1958), *Les jeux et les hommes*, Folio Essais

<sup>19</sup> Les Echos, 06/25/2017

<sup>20</sup> Syndicat des Editeurs de Logiciels de Loisirs, February 2018

<sup>21</sup> "With 3,000 games released in 2017, should Asmodee feel threatened?", 17/12/2017, website: [www.gusandco.net](http://www.gusandco.net)

<sup>22</sup> [www.eurazeo.com/fr/societe/asmodee/](http://www.eurazeo.com/fr/societe/asmodee/)

<sup>23</sup> [www.eurazeo.com/fr/societe/asmodee/](http://www.eurazeo.com/fr/societe/asmodee/)

<sup>24</sup> LSA, 12/07/2017

<sup>25</sup> LSA, 01/03/2017

mix strategy, chance, risk, investment and cooperation. The game's authors are featured prominently, and the game can appeal to different age groups. Les colons de Catane (1995), Carcassonne (2000), Les aventuriers du rail (2004), Puerto Rico (2002) are considered the most emblematic of the first modern board games.

## 1. Industry overview

The board game sector is part of a wider industry: the games and toys industry. We'll take a look at the games and toys industry to understand its main dynamics, before turning our attention more specifically to board games.

### A. The toys and games industry

The Fédération Française des industries Jouet Puériculture (FJP) estimates that the market in France (all toys and games excluding video games) represented €3.4 billion in terms of sales in 2017<sup>26</sup> (equivalent to 226 million toys), down 0.8%. The average annual expenditure per child is over €300. The industry is highly seasonal, with 58% of sales taking place between October and December, and 33% in December alone. These figures show the importance of gifts in terms of purchases.

The renewal of product ranges (new products, variations) helps to maintain this growth. Licenses are also a major selling point (24% of market share is linked to licenses). The most important licenses are Star Wars, The Snow Queen, Cars, Mickey and Friends and Disney Princesses. Fads (such as the *hand spinner* in 2016) can also boost sales. Success is therefore linked to obtaining licenses, but also to major investments in marketing and setting up distribution channels. Worldwide, the industry is led by Lego (Denmark; global sales: 5.1 billion euros), Mattel (USA; global sales: 4.3 billion euros; Barbie, Fisher-Price, Scrabble, Uno...) and Hasbro (USA; global sales: 4.4 billion euros; My Little Pony, Play-Doh, Transformers, Doctor Maboul...). The aim is to sell as many products as possible in order to benefit from economies of scale worldwide.

The industry is heavily dependent on imports, particularly from China. It is estimated that 80% of the world's production takes place in Asia. French manufacturers are maintaining their activity, helped by the fact that "*made in France*" is synonymous with know-how and quality toys. In fact, according to the FJP, French exports rose by 9% in 2016 (top customer: the USA). Indeed, as these products are aimed at the very young, buyers are particularly vigilant about quality, and European standards are highly restrictive in terms of safety and toxic substances (Directive 2009/48/EC). The news regularly mentions dangerous toys and games from Asia, and parents are particularly cautious. While part of the production remains in France, specialist companies are tracking down sources of cost, or emphasizing their delivery times, in order to remain competitive<sup>27</sup>.

In terms of place of purchase, specialist toy retailers account for 41.4% of sales, supermarkets and hypermarkets for 32.8%, Internet pure players for 16.9% and other outlets for 8.9%. Internet pure players were the fastest-growing segment in 2016 (+15%) (source: FJP).

The industry is not homogeneous in its activity and breaks down into different segments according to the FJP: 1st age toys (23%), board games and puzzles (14%), outdoor and sports toys (12%), construction games (11%), dolls (9%), artistic activities (8%), vehicles (7%), other toys (6%), action games and accessories (4%), plush toys (3%), electronic games (3%).

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<sup>26</sup> Le Monde Économie, 29/01/2018

<sup>27</sup> Le Monde Économie, 29/01/2018

## **B. The board game**

The board game has a special place in this games and toys industry, as it is particularly fast-growing. In France, the market was estimated at 383 million euros in 2014, representing 20 million boxes of games sold each year, compared with 343 million a year earlier<sup>28</sup>. According to figures from the FJP, in 2016, all games represented a market worth 480 million euros, up 6% (in 2017, growth was also 6%). Surprisingly, over 1,000 new games are published every year. There has been a real craze for board games in France over the last ten years. Adults are increasingly interested in this type of game, especially as it has been modernized, which may explain this growth. Monopoly, Scrabble, 1000 terminals and Cluedo may be old (Monopoly dates back to 1935, Cluedo to 1949), but publishers have rejuvenated the range with faster, more user-friendly games aimed at an older audience. Dobble, Jungle Speed, Les Aventuriers du Rail and Carcassonne are the new blockbusters, dethroning their predecessors in terms of sales.

Changes in the family unit (divorce, recombination) lead to an increase in the number of households, with a concomitant increase in the number of parents, and therefore potential purchasers of games<sup>29</sup>. The importance attached to the family unit can thus lead to renewed interest in activities where children share time with adults. Indeed, 36% of games and toys are bought by parents and 29% by grandparents. The importance attached to awakening the child is also evident, and will therefore lead to a selection of games and toys based on criteria that go beyond the simple immediate aesthetic aspect. Competition from games on digital media (consoles, tablets, telephones) will curb the growth in sales of physical games and toys. However, video games are often criticized for their sometimes violent content and addictive nature. In France, the use of telephones to connect to social networks is regulated in schools. Beyond games on digital media, children and teenagers find themselves sucked into television, the telephone or the tablet, and detached from social exchanges with their loved ones.

Board games can be a way of breaking this isolation. *"Contrary to what you might think, traditional games are not being cannibalized by video games, which are instead taking the place of hours spent in front of the TV. We're even seeing the opposite phenomenon: the more time we spend connected, the more we need convivial activities with family and friends..."*<sup>30</sup>. Marc Nunés, founder of Asmodee, believes in board games because *"we are convinced that people today suffer from having only virtual friends and digital connections. They need real contacts, real conviviality. That's what they experience when they get together to play a board game, which no console or online game can provide"*<sup>31</sup>. Nadine Seul, curator of the Festival International du Jeu de Cannes, develops her thoughts further<sup>32</sup>: the rise of video games has popularized a culture of play. As a result, young adults continue to play on other media, as there's a "lack of guilt about leisure activities". They play naturally, and pass on the practice to their children.

So it seems that board games are resisting the trend towards tablets, because they are unifying, family-friendly and convivial. It allows you to spend time with your parents or grandparents, as youngsters like to be with adults. In fact, whereas in the past, people were looking for educational games for the little ones (counting, reading, etc.), now they're looking for board games that allow them to interact with their children. As Stéphane Carville, current President of Asmodee<sup>33</sup>, points out, board games have an excellent time-to-price ratio: they are one of the least expensive leisure activities. Moreover, the decline in household purchasing power may explain the growth of this

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<sup>28</sup> Le Monde, 17/04/2014

<sup>29</sup> The toys and games industry, Xerfi, August 2017

<sup>30</sup> Daniel Elalouf, one of Asmodee's investors via Montefiore, Private Equity Magazine, 03/04/2012

<sup>31</sup> L'Express, 30/08/2012

<sup>32</sup> Atlantico, 24/02/2018

<sup>33</sup> Les Echos, 18/04/2014

market. As families have fewer resources to devote to leisure activities, they spend more time at home<sup>34</sup>. While toy sales are cyclical, game sales are less affected by seasonality.

Consumers want games that take less time to play. Asmodee's competitors, who initiated and profited from these faster, more user-friendly games, have followed suit. For example, Hasbro has modified its flagship games (Monopoly, Trivial Pursuit, Taboo) so that a game takes less than 30 minutes<sup>35</sup>. My Monopoly, released in 2014, is a version of the famous game for which you can print your own photos to personalize it. The 1000 terminals game (Dujardin, TF1 Games) was relaunched in 2014, with new rules and new cards enabling a game to be played in less than 15 minutes, in order to better reach teenagers<sup>36</sup>.

France is the country where board games are most successful. Creative activity has also expanded. Where two authors made a living from their activity in 2000, some twenty can be counted in 2016<sup>37</sup>. However, many see creation as a hobby. Numerous publishing houses exist, and since 2013, Asmodee has been the leader in this activity in France, ahead of Hasbro and Mattel. Once prototyped, the manufacture of this type of product seems fairly standard (depending on the complexity of the elements included, of course) and it's not difficult to find suppliers.

With steadily rising sales, Asmodee has gradually established itself as the French market leader. Thus, whereas in 2011 its market share was 11% versus 28% for Hasbro, it rose to 24% in 2013 versus 19% for Hasbro. Since then, the gap has widened; Asmodee is credited with a 2016 market share of 30%<sup>38</sup>. The market is characterized by real competition, particularly when it comes to product promotion (in-store demonstrations, trade shows, local events). However, new players (e.g. Belgium's Smartgames) are making their mark if they can develop an effective concept<sup>39</sup>.

Value creation is based on the games portfolio and intellectual property<sup>40</sup>. The board game industry is based on games with mechanisms or rules that cannot be patented. As a result, manufacturers have become publishers in order to benefit from intellectual property. Copying has always existed in this business, Monopoly being a case in point. Historic" games continue to sell, because parents know the rules and the game (they themselves played it as children). Some publishers, such as Asmodee, have become distributors in order to gain better access to customers and control outlets. In terms of the organization of the supply chain, the publisher launches the production of the game, the distributor buys it for resale to stores, and the point of sale resells it to the end customer<sup>41</sup>. From an economic point of view, a game bought in a store for €30 will have been bought by the point of sale for €15 from the distributor, who will have bought it for €9 from the publisher.

Taking an interest in games in 2018 requires us to consider the importance of the digital format. However, the question of digital is ambiguous when it comes to board games. As mentioned earlier, and to caricature, board games create links where digital isolates. However, it appears that digital is also an extension of the board game, helping to boost sales of physical games. Stéphane Carville, President of Asmodee, estimates that the digital presence of "Les Aventuriers du Rail" has boosted sales of the board game by 30%. In 2015, 5% of the sales of a company like Asmodee came from digital, and this figure is growing fast. What's more, a digital presence makes it easier to build up a customer database, create communities of players and identify influencers. A company like Asmodee

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<sup>34</sup> Business Scoot, the board game market

<sup>35</sup> Le Monde, 2/10/2013

<sup>36</sup> Le Monde, 17/04/2014

<sup>37</sup> La Tribune PACA, 02/21/2017

<sup>38</sup> Business Scoot, the board game market

<sup>39</sup> Business Scoot, the board game market

<sup>40</sup> Interview with Stéphane Carville, Magazine Décideur, 21/07/2017

<sup>41</sup> www.gusandco.net, "Asmodee takes over Millenium. Et maintenant?", August 16, 2015

also offers Asmoclub, a mobile application that provides precise information (tips, demonstrations, game rules, points of sale....) after scanning a product's barcode. This application is designed to facilitate consumer choice<sup>42</sup>. This digitalization also affects points of sale (e-commerce with home delivery or relay points, free e-reservations, click & collect or in-store kiosks, notably with specific kiosks for each supplier).

## 2. The board game industry

### A. The different players

Author, publisher, distributor, point of sale (boutique) will follow one another to ensure that the final customer can own his own board game. In terms of cost, we can estimate that the final selling price will be 6 times higher than the manufacturing cost. Thus, a game sold for 30 euros will theoretically cost 5 euros to manufacture.

With regard to the final selling price, half goes to the publisher, designer and distributor, the other half to the boutique. The following table gives an average of the share taken by each player as a function of the final price<sup>43</sup>.

**Breakdown of players by final selling price**

Manufacturing	15%
Author	5%
Publisher	10%
Distributor	20%
Store	50%

The author is the creator of the game (theme, mechanism) and proposes a prototype or model to the publisher. He receives a percentage of the sale price ranging from 5 to 10%. He may also receive progressive royalties according to the number of copies sold (e.g. +2% from 10,000 copies).

The publisher will select the games and then carry out a whole series of "adjustments": improving ergonomics and rules, carrying out numerous tests, fine-tuning game strategies. This is the developer's job. He will then find an illustrator, a graphic designer (layout of the game), find suppliers and send it to production. Illustration and computer graphics are generally fixed (according to geographical area, quantity and duration). The publishing process takes between 6 and 24 months. In the case of translation, 4 to 12 months. Greater emphasis is placed on the aesthetics of the game and on showcasing the authors. Some games are signed by their authors, as this increases the game's chances of success if it is well known. So publishers are actively seeking out the best talent. Porting games to tablets and smartphones is becoming an increasingly important part of the industry. Board games are being adapted to digital formats so that they can be played alone and/or anywhere, and publishers need to think about this portability. Some publishers seek to specialize in a particular target. For example, Germany's Haba produces games with simple mechanisms designed to awaken

<sup>42</sup> LSA, 01/03/2017

<sup>43</sup> "How publishing works" forum [www.trictrac.net](http://www.trictrac.net); "Board game professions" website [www.gusandco.net](http://www.gusandco.net)

and develop cognitive faculties. As such, its main target is young children (for example, "The Orchard"), but its "Growing Up and Growing Old Together" range is also aimed at seniors. Belgium's Smartgame specializes in self-playing logic games. There are a large number of smaller publishers (see appendix). The Philibert<sup>44</sup> online store, for example, which sells almost 25,000 game references in France, lists over 800 different publishers.

As far as manufacturing is concerned, fixed costs correspond to specific tooling, machine set-up, specific cutting, molds (we'll call in a sculptor). It's important to reduce costs (material, number of parts, etc.). Above all, the more sets you put into production, the lower the unit cost will be, since the price is degressive according to quantity. However, this will also increase the risk of unsold stock. To quantify this, we can give an example of a game sold at around €40: 3,000 copies cost €7.4/unit; 5,000 copies cost €6.5/unit; 7,000 copies cost €6/unit. It is common to call on several suppliers to produce a game (for the box, for the counters, for the cards, for the rule booklet...). Different materials are used to make a board game: ink, cardboard, paper, plastic, wood or resin. Subcontracting is the norm. Companies like Azao Games offer their services (to amateur authors or small publishers) for the manufacture of prototypes or small series of board games (printing, die-cutting, boxes, trays, tokens, etc.).

The distributor will stock, manage distribution to boutiques, distribute to other countries and canvass boutiques. The distributor's margin will vary according to his involvement and the risks taken. At the lower end of the scale, the distributor will stock and distribute to the point-of-sale network, then invoice the publisher. At the higher end, the distributor buys the game from the publisher, markets it and takes financial risks. Generally, a publisher has a dedicated distributor. Like Asmodee, a number of French players have chosen to be both publishers and distributors: Iello (sales 2016: €5.7 m), Cocktail Games / Interlude (sales 2014: €1.02 m), Paille Editions (sales 2016: €1.4 m), Blackrock Games (sales 2016: 3.67 m€), Gigamic (sales 2014: 7.2 m€), Morning Games (sales 2015: 1.4 m€), Surfin Meeple France (created in 2017)... These companies publish their own games but also distribute games from other publishers. They are clearly smaller than Asmodee. Finally, Atalia (founded 2015; sales 2016: €0.31m) focuses on distribution, claiming not to be a publisher and therefore not a competitor.

The boutique will buy the game at a recommended retail price, but may offer a lower price. Mass-market retailers will order large quantities, but will ask for higher discounts (70%), 6-month payment terms, and the possibility of returning unsold copies. As a result, only big successes can succeed in mass distribution without putting the publisher in difficulty. In terms of sales quantity, we can estimate that worldwide sales of 60,000 copies are a major success, and a game selling 10,000 copies is a game that has done well.

## ***B. Trends and developments***

The number of games published is growing rapidly, as is the number of players and authors. The creation of a board game ecosystem (game bars, toy libraries, specialized stores, information sites) is taking shape. Social networks encourage interaction between distant players, who share information and opinions. Above all, social networks help create communities of enthusiasts. As a result, companies in the sector are integrating this aspect into their marketing strategy (*community managers*, for example). In addition, specialized information media on the Internet are becoming increasingly important, as the number of games increases and it becomes more difficult to find one's way around.

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<sup>44</sup> [www.philibertnet.com](http://www.philibertnet.com)

Board games are on the rise, and with them new activities. As a result, France is witnessing the emergence of "game bars", downtown meeting places where you can play games (sometimes more than 1,000 available) and enjoy a drink at the same time. These game bars attract a fairly well-educated clientele of thirty-somethings<sup>45</sup> who come with friends or to play with partners they don't know. Game bars also sell some of these games. In addition to the social aspect, game bars can also be seen as a means of testing a game before purchasing it. At the same time, we'd like to highlight the rise of game libraries in French towns and cities, as well as game clubs, associations dedicated to the practice of these board games.

The success of a game depends very much on word-of-mouth, and media that comment on new releases and enable discussion are much appreciated. Tric Trac, a website dedicated to board games, has been around for 17 years. It boasts 40,000 members, 18,000 referenced board games and 160,000 player reviews<sup>46</sup>. It is considered the leading source of information on the world of board games, and is the European leader<sup>47</sup>. Its American counterpart is boardgamegeek.com. These sites are very important, because by criticizing games, compiling opinions and discussing them on forums, they condition the positive or negative opinion of a given game. The Tric Trac Forum, for example, is considered "*the must-read forum for all board game enthusiasts*"<sup>48</sup>. Originally, Flat Prod, the company that publishes the Tric Trac website, was 49% owned by Asmodee founder Marc Nunès. In March 2018, it was acquired by publisher Plan B Games. Plan B Games had itself been created by the former founders of Filosofia... following the latter's resale to Asmodee! Finally, Plato is a bimonthly magazine dedicated to modern board games. It is distributed in specialized stores by Asmodee<sup>49</sup>.

There are also a number of board game awards and trade fairs around the world (in Germany, the Spiel des Jahres is considered the most prestigious award for board games; in France, the As d'Or at the Cannes International Games Festival is also recognized). Winning an award is often a guarantee of commercial success. The Internationale Spieltage SPIEL or Essen Fair is the world's largest board game fair. It is held in Germany every October. In 2017, the show welcomed over 180,000 visitors on 72,000 m<sup>2</sup> of exhibition space. More than 1,000 publishers exhibit 1,200 games<sup>50</sup>. In 2017, Asmodee's presence was particularly noteworthy for the space it occupied. In Cannes, the Festival International du Jeu, Europe's second-largest game fair, welcomed 100,000 visitors in February 2018<sup>51</sup>. An "Off Night" is organized so that designers can present their prototypes in order to test their creations in life-size with gamers and professionals (within a Protolab).

As we'll see in the next section, the growing importance of a company like Asmodee is not without its worries for gamers who are rather reticent about the economic and commercial implications of their passion, where the general public will have less of an opinion. On the other hand, the vitality of new creations is real, allowing the big and the small to coexist. By seeking out information and visiting specialized sites, gamers will be able to try out new games identified as successes, but the general public will have to find ways of choosing a "good" game when the offer may appear plethoraic.

In 20 years, the number of games published worldwide has risen from 200 to 3,000 per year. The use of participatory financing (Kickstarter, Ulule, Indiegogo, for example) enables publishers (or independents) to obtain an advance of funds or to encourage the practice of self-publishing. In February 2018, for example, over 14,000 game projects were seeking funding on the Kickstarter platform.

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<sup>45</sup> Le Nouvel Observateur, 02/04/2017

<sup>46</sup> www.trictrac.net, consulted on 23/11/2017

<sup>47</sup> La République du Centre, 17/11/2013

<sup>48</sup> tribuneludique.canalblog.com

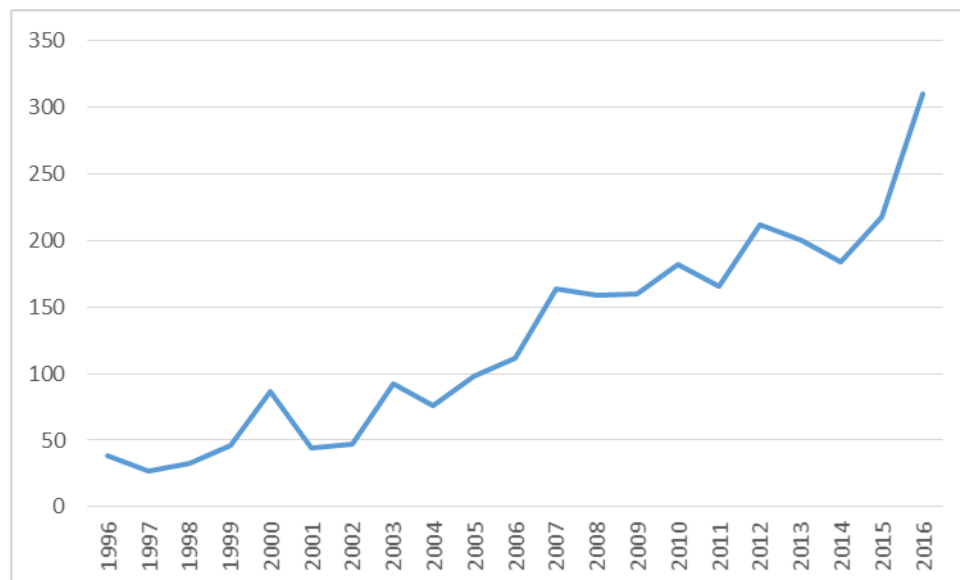
<sup>49</sup> <http://www.plato-magazine.com>

<sup>50</sup> www.spiel-messe.com

<sup>51</sup> Les Echos, 26/02/2018

The announcement of the bankruptcy of the Toys'R'Us chain in September 2017 and the effective closure of its stores in the USA in March 2018<sup>52</sup> or the difficulties of La Grande Récré (no. 2 toy retailer in France) suggest that toy and game sales are in trouble. Indeed, video and tablet games are replacing toys. However, competition from online retailers and general retailers may explain this situation. We note the rise in power of the giant Amazon, an Internet pure player, which can offer 100,000 toy and game references (compared with 8,000 for a very large store<sup>53</sup>), at lower prices, with delivery up to 24 hours. What's more, Amazon also acts as a marketplace. Publishers, distributors and stores can use Amazon to sell their products. The transition to e-commerce is therefore becoming a priority for the major toy store chains. However, the physical store is still important for publishers, who can differentiate their products through events and promotions. In addition, when the customer is not an expert, the importance of advice and even testing is paramount. On the other hand, specialist stores in city centers (game stores), run by enthusiasts, are experiencing growth. A study of the SIRENE database on games and toys retailing in specialist stores shows that there are over 3,000 active stores in France. If we look at the evolution over the last 20 years (establishments still active in 2017), we can see this growth. In addition, since 2013, Oika Oika, a French company, has been offering a different way of selling board games by organizing home events.

**Toy and game store openings in France over the past 20 years**



Publishers/distributors are also trying to innovate with new business models. Three examples illustrate this trend:

- "Print and Play" board games: the author offers files (paid or unpaid) that the user can print out himself. These files constitute the game material and can be customized. This process could see real growth with the widespread use of 3D printers and Fablabs, enabling users to make all their own materials, however complex.

- Subscriptions: in France Pelopia or le coffre à jouer offer a monthly or quarterly subscription that allows you to receive board games based on the box principle. In June 2017, in the USA, Hasbro

<sup>52</sup> Les Echos, 15/03/2018

<sup>53</sup> "Why Amazon is threatening game stores", 30/09/2017, website [www.gusandco.net](http://www.gusandco.net)

launched Hasbro Gaming Crate for a \$50 subscription. Every 3 months, the customer receives 3 games (family or adult).

- Publishers are also trying to develop *business-to-business* offers, with gaming-related seminar activities, orders for end-of-year gifts, or customization / creation of games for a company (as Cocktail Games / Interlude does). Ludocom describes itself as both a game publisher and a game-based consultancy. For example, in conjunction with an engineering school (ISAE), it has developed a game simulating the student's journey through the curriculum (the game was developed in collaboration with the school, teachers and students).

### 3. Asmodée

#### Evolution of company logos



Asmodee is a creator, inventor, publisher and distributor of board games and trading cards. Its motto is to "*dust off the classic image of the world of games*" with 4 pillars: sharing, expertise, originality and innovation<sup>54</sup>.

#### A. The beginnings and the investor takeover

*"It all started with a couple of friends in a garage, who loved games, who decided to create and sell their own games. They added other games to their list, and what started as a small game company became a fast-growing business. This is the story behind the creation of all the companies that make up our group today. We are passionate gamers who create and distribute games for all gamers. Today, with 11 development studios, 11 distribution subsidiaries and over 750 employees worldwide, We're ready to make the next 20 years even more successful for us and our partners."<sup>55</sup>*

Asmodee was founded by role-playing enthusiasts<sup>56</sup> in the Paris region. Originally (1987) called "Siroz Productions", the company was renamed "IdéoJeux", then "Asmodée" in 1995, and finally "Asmodee". Siroz Productions was created by Eric Bouchard and Nicolas Théry to produce their first role-playing game, "Zone"<sup>57</sup>. Marc Nunès, a self-taught entrepreneur, joins the founding team after working for a game publisher. Starting with 5 people, the company quickly acquired a stock of role-playing games. While the founders wanted to publish their own games, the idea was also to distribute games from other publishers, given that the industry comprised many micro-businesses. Asmodee offered them sales and logistics support.

<sup>54</sup> en.asmodee.com

<sup>55</sup> corporate.asmodee.com/about-us/

<sup>56</sup> Tabletop role-playing is "a board game in which participants work together to create a fiction through role-playing and storytelling, within self-imposed game constraints". Wikipedia

<sup>57</sup> www.legrog.org

Asmodee gradually moved away from role-playing games to specialize in atmospheric games and more elaborate board games. The company has successfully turned the corner on the mass market, promoting best-selling board games<sup>58</sup>. The games publisher/distributor model reassured, even seduced, partners, particularly financial ones. Two events were to transform the company. In 1998, the company acquired Jungle Speed. After working on marketing, the game was launched in specialized retail outlets, and was a huge success. In 2003, at a game fair in the USA, Marc Nunès succeeded in obtaining exclusive distribution of Pokémon playing cards for France. This time, Asmodee entered the mass market, selling around ten million packs a year. In 2017, thanks to Pokémon, Asmodee was several times among the top 10 toys sold in France<sup>59</sup>. But to succeed, the company needs an international presence, starting with Europe. Asmodee didn't have the money to finance its ambitions. The idea was to call on private equity through Montefiore Investment.

Montefiore Investment acquired a stake in Asmodee in 2007 through a primary LBO. The amount is estimated at between €40 and €50 million<sup>60</sup>. At the time, Montefiore Investment believed that Asmodee had a number of strengths<sup>61</sup>: a rich catalog, the ability to detect new games, marketing know-how, relationships with distribution channels and logistics. Montefiore's founding partners (Eric Bismuth and Daniel Elalouf) are attracted by Asmodee's well-balanced business model, based on publishing and distribution activities. The two men are also convinced of the future of board games, which are paradoxically in step with modern societal developments<sup>62</sup>.

Montefiore Investment's contribution will be to support Asmodee's international strategy by enabling it to make targeted acquisitions and set up offices and subsidiaries. As far as acquisitions are concerned, Asmodee will identify targets and Montefiore will negotiate and integrate the purchase. Montefiore Investment therefore takes a 60% stake in Asmodee, previously 82% owned by Marc Nunès, the founders and managers, and 18% by Nexicap (which joined in 2005 and then exited Asmodee), which did not have sufficient funds to support the company's strategic development. Above all, as Marc Nunès points out, Montefiore's contribution goes beyond the mere financial aspect, towards genuine strategic support based on real expertise<sup>63</sup>.

Montefiore will also help Asmodee broaden its distribution channels, with a view to expanding into specialized toy and game chains with major retailers such as Toys'R'Us, as well as into general retailers. Montefiore's management believes that in 4 years, Asmodee has been able to double its sales solely through organic growth based on the enhancement of best sellers, the development of new games (created in-house or by other authors) and the expansion of distribution channels<sup>64</sup>. In addition, Montefiore helps Asmodee's international development teams to avoid the mistakes made by small and medium-sized exporters.

In 2012, Asmodee sold 1.5 million games. In October 2013, Montefiore Investment announced the sale of Asmodee, in which it held a majority stake with founder Marc Nunès. A month later, Eurazéo<sup>65</sup> announced the purchase of the company, valued at 143 million euros and with 2012 sales of 110 million euros. Eurazéo carried out an LBO and invested 102 million euros to take over the share capital held by Montefiore Investment and part of that of Marc Nunes. Mattel is reportedly

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<sup>58</sup> Private Equity Magazine, 03/04/2012

<sup>59</sup> LSA, 20/09/2017

<sup>60</sup> Capital Finance, 14/01/2008

<sup>61</sup> L'Express, 30/08/2012

<sup>62</sup> Private Equity Magazine, 03/04/2012

<sup>63</sup> Private Equity Magazine, 03/04/2012

<sup>64</sup> Private Equity Magazine, 03/04/2012

<sup>65</sup> Eurazéo is one of Europe's leading listed investment companies, with over six billion euros of diversified assets under management, including one billion euros on behalf of third parties. Source : [www.eurazeo.com](http://www.eurazeo.com)

interested in taking over Asmodee<sup>66</sup>. Eurazéo takes majority control of the company. The remaining capital is held by the management and founders (see appendix). Eurazéo's stated aim is to make Asmodee a global player<sup>67</sup>. Asmodee's desire to expand internationally requires acquisitions and the arrival of a shareholder with greater financial capacity<sup>68</sup> who can also support the company in its strategic plans. Eurazéo is accustomed to supporting the digital transformation of its portfolio companies (e.g. Dessange International, Léon de Bruxelles, Les Petits Chaperons Rouges, as well as stakes in Desigual, Europcar, Doctolib, Vestiaire Collective, etc.) and providing international support. In addition, in 2016, Asmodee raised a €260 million loan to finance new acquisitions, particularly abroad<sup>69</sup>. Eurazéo sees itself not only as a financial shareholder, but also as a *business partner* promoting the development of the companies in its<sup>70</sup> portfolio. For example, Eurazéo has an in-house incubator, the "Start-Up studio", which defines the digital growth plans of all its portfolio companies<sup>71</sup>.

Marc Nunès remains a shareholder but withdraws from the management of the company, whose size requires a new management style. He prefers to concentrate on his creative and publishing activities, and in 2013 launches a game creation studio (Space Cowboys) with the historic founders of Asmodee and founders of other publishing houses. Their motivation was to return to a smaller structure that would enable them to bring more personal and daring projects to fruition<sup>72</sup>. Space Cowboys, now an Asmodee studio, publishes games such as Splendor, Sherlock Holmes Detective Conseil, T.I.M.E. Stories and the critically acclaimed *escape game* Unlock.

Stéphane Carville, who joined Asmodee in 2009 as CFO, became Chairman in 2012. His roadmap focuses on international development. He gained his experience at Vivendi Universal and in start-ups. Yves Cognard, Managing Director of Asmodee France, made his career at Hasbro as Marketing Director for France and then Managing Director of Hasbro Italy<sup>73</sup>. The organization is becoming more structured, with the introduction of country managers in 2010.

In 2018, rumors began to emerge about Eurazéo's withdrawal from Asmodee<sup>74</sup>. The investment company would like to sell its shares on the basis of a valuation of Asmodee at 2 billion euros, i.e. 20 times 2017 Ebitda. But who will succeed Eurazéo? Will it be a buyout by an industry player (Hasbro in search of a growth driver), or an IPO?

## ***B. The emergence of a leader***

Asmodee's success is based on its flagship titles and its ability to invent new ones. Asmodee defines itself as a games specialist, whereas competitors such as Hasbro and Mattel are toy generalists<sup>75</sup>. The major publishers capitalize on strong brands (Monopoly, Scrabble, Puissance 4), which are available in different versions and sold in supermarkets<sup>76</sup> all over the world. Faced with the erosion of their sales, some publishers, such as Hasbro, have decided to lower their prices<sup>77</sup>. There are many reasons for this success. "*Asmodee succeeds because it innovates with new, original games, and*

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<sup>66</sup> Capital Finance, 18/11/2013

<sup>67</sup> Les Echos, 13/11/2013

<sup>68</sup> Le Monde, 25/03/2014

<sup>69</sup> Les Echos, 14/06/2016

<sup>70</sup> Interview with Stéphane Carville, Décideurs magazine, 21/07/2015

<sup>71</sup> Les Echos, 17/03/2017

<sup>72</sup> www.spacecowboys.fr

<sup>73</sup> Les Echos Finance, 01/07/2013

<sup>74</sup> Boursier.com, 14/03/18

<sup>75</sup> Les Echos, 25/11/2015

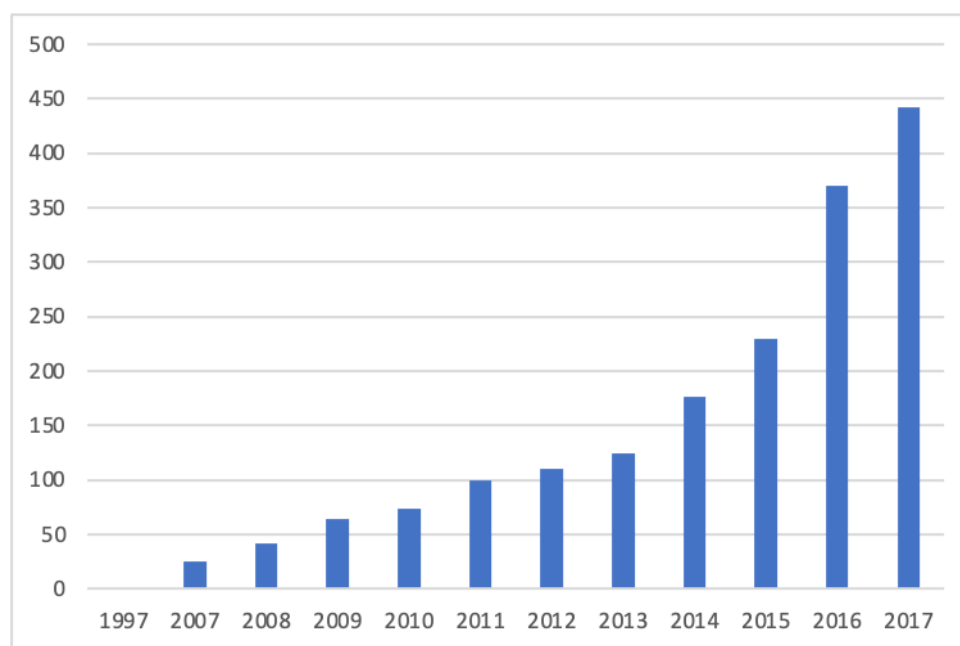
<sup>76</sup> Interview with Stéphane Carville, Décideurs magazine, 10/02/2015

<sup>77</sup> LSA, 01/03/2017

because it is close to its customers, toy libraries and retail chains: to promote a game, there's nothing like demonstrating it in-store or letting consumers try it out," comments a manager at the specialist retail chain La Grande Récré<sup>78</sup>.

The stated aim is to become the world's #1 publisher and distributor of board games. According to Stéphane Carville<sup>79</sup>, the growth in Asmodee's sales in 2016 (+40%) can be explained by both external and internal growth: "We have continued to grow our intellectual property portfolio, with world-renowned titles, so that we can continue to offer unique, innovative and high-quality games to players around the world. We also welcomed new international studios at the cutting edge of innovation, and strengthened our geographical presence in the global games market". Of this 40% growth, 18% was due to organic growth.

**Sales (in million euros - sources: Eurazéo and press)**



Asmodee's initial success was based on "cocktail" or "aperitif" games, "mood games" or "party games". The idea is to offer inexpensive games with very simple rules (3 to 5 minutes) and games based on reactivity and observation. They are aimed at young adults and are sold all year round. Games like Jungle Speed or Dobble are good examples. In 2012, sales of these games grew by 30%. On the strength of this experience, Asmodee has worked on its model to reach 15/30 year-olds with faster, more streamlined board games. By reaching 15/30 year-olds, and by mimicry, younger players are also interested.

Asmodee's strategy and ambitions are based on the observation that the "big players" in toys and games with a global presence fall into two categories: generalists (Hasbro, Mattel) who have a brand strategy focusing on a few blockbusters, and specialists (Lego, Playmobil) who are less diversified but more innovative. At the other end of the scale, we have a host of smaller, regional publishers. Asmodee's idea is that there is a place for a specialist in innovative games on a global scale<sup>80</sup>.

<sup>78</sup> Interview with Christophe Arnoult, CEO of Asmodee France, LSA, 01/03/2017

<sup>79</sup> LSA, 03/04/2017

<sup>80</sup> Investor Day, Eurazéo, 17/11/2014

Asmodee has a panel of authors and publishes their games. New releases are first launched in specialized downtown stores. These stores are frequented by enthusiasts. It's in these stores, by interacting with players, that Asmodee's teams find out whether the new game will work or not. Specialized boutiques account for a quarter of Asmodee's sales in France. The main interest of these boutiques is to reach the 15/35 and CSP+ age groups. The launch in these boutiques is accompanied by targeted marketing (e.g., organization of tournaments). If the game performs well, it will be offered in specialized supermarkets (the threshold is estimated at 15,000 copies<sup>81</sup>). The idea is to rely on positive word-of-mouth. Then, if it works, we'll move on to hypermarkets, where the clientele is younger<sup>82</sup>. Note that the price will rise, as the costs of being present in supermarkets are higher<sup>83</sup>.

The advantage of this approach is that it limits launch costs, while the success of a game is difficult to predict. Indeed, *"you can have the best publishers and the best creative minds, but it's very difficult to spot a bestseller"*, comments Eric Schaefer of Eurazeo. As a result, a new game will initially be published in quantities of only 1,000 or 2,000 boxes. Larger print runs will only be made for games that are successful and likely to reach the mass market. This marketing strategy is not unlike that of the spirits industry. Companies invest in communications at event venues to reach influencers before a large-scale launch<sup>84</sup>. In addition, game testing is crucial to the success of the offer. Indeed, several months of game testing are necessary to simplify the rules and reduce playing time (for example, a game of Splendor, the latest success from Asmodee, via its Space Cowboys studio, is estimated to take 30 minutes).

Asmodee adopts a different marketing approach depending on the distribution channel. In 2014, Asmodee was present in 400 independent stores, 500 specialist retailers and 1,200 general retailers. The breadth of the range will narrow as we move into mass-market channels. In terms of communication, there will be specific animations for boutiques, others for specialized distribution stores, and advertising spots for products going into mass distribution.

Asmodee released 20 new games a year in 2012<sup>85</sup>, 80 in 2013, 200 in 2016<sup>86</sup>. It's worth noting that board games are becoming an increasingly important part of Asmodee's offering, since in 2007 they accounted for 30% of sales, compared with 50% in 2012. In 2015, Asmodee decided to stop distributing games for children under 6, i.e. games with overly simple, plastic mechanics, as others such as Hasbro or Goliath are considered better in these niches<sup>87</sup>. Moreover, the company's ambition is to focus on the "gamer" target, with only 40% of its annual new releases dedicated to the general public. However, the company transposes its games to children (over 6) by simplifying the rules and adapting the design (for example, "Mon Premier Voyage" is a variation on "Les Aventuriers du Rail"). Asmodee considers its core business to be paper, cardboard and/or wooden games with immersive stories to develop players' imaginations.

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<sup>81</sup> LSA, 01/03/2017

<sup>82</sup> Les Echos, 12/20/2011

<sup>83</sup> Les Echos, 28/03/2013

<sup>84</sup> Private Equity Magazine, 03/04/2012

<sup>85</sup> Les Echos, 29/11/2012

<sup>86</sup> en.asmodee.com

<sup>87</sup> Interview with Christophe Arnoult, CEO of Asmodee France, LSA, 01/03/2017

## My first journey" is a variation on "Les aventuriers du rail



Les aventuriers du rail



Mon premier voyage

Asmodee is renowned for its original marketing. For example, to celebrate the 20th anniversary of its Jungle Speed game, in 2014 it organized a treasure hunt. This 5-month hunt attracted 20,000 visitors to its website and enabled 10,000 participants to search for the €20,000 reward (the overall budget for this treasure hunt was estimated at €30,000<sup>88</sup>).

Every year, Asmodee organizes over a thousand events in clubs, associations, specialty stores, specialized superstores and trade shows. This gives us 500,000 contacts. In addition, the company owns a number of former RATP buses, which have been revamped as "game buses", enabling it to tour beaches and festivals in fine weather. This adds a further 300,000 contacts to its customer base. Worldwide, Asmodee teams organize over 3,000 demonstrations a year.

### A games bus



As early as 2013, Asmodee established partnerships with Kellogg's to offer games in their cereal boxes, and with Danone. These little games are linked to the family theme and capitalize on social ties. In 2015, a collaboration was born between La Française des Jeux and Asmodee to transpose Asmodee games to La Française des Jeux<sup>89</sup>. The two companies have developed a lab at the Web School Factory that brings together researchers and students to accelerate the digitization of the<sup>90</sup> game catalog.

<sup>88</sup> Les Echos 25/08/2014

<sup>89</sup> Les Echos, 7/10/2015

<sup>90</sup> Les Echos, 24/11/2015

## The Dobble scratch card game



In 2013, Asmodee launched the Kanaï Kids brand to diversify its presence in the children's toys and creative hobbies market. Kanaï Kids sells, for example, DIY plastic bracelets (Cra-Z-Loom). In 2015, Asmodee obtains the Star Wars license for its Dobble game. That same year, Asmodee becomes a distributor of Canal Toys products (creative leisure activities previously distributed by the Lansay group), which holds major licenses (Barbapapa, Hello Kitty, Power Rangers, My Little Pony, etc.). Today, to sum up, Asmodee's strategy revolves around four main axes<sup>91</sup> :

- Maximum focus on the product (innovations, public events, etc.). The games catalog will be developed through in-house creation (studios) and by forging partnerships with creators or distributing other publishers;
- Strengthening the quality of the games portfolio and intellectual property. The idea is to invest in high-potential games in order to make them best-sellers and capitalize on them;
- Development in the USA (considered the world's largest market);
- Building a digital offering that complements the physical game. In 2017, 40 digital versions of games are planned via Asmodee Digital (the launch of a *freemium* version of Dooble on mobile was a success). The "Les Aventuriers du Rail" app has been downloaded more than six million times, while sales of the physical game have increased by 30%<sup>92</sup> .

### **C. Publisher and distributor**

The company has built an innovation and R&D model based on testing and learning from publishing to distribution. Indeed, the publishing studios and the distribution network are considered the two pillars of the company's success<sup>93</sup> . Asmodee sees itself as a "*business angel*" in the board game sector, promoting the publication, development and distribution of high-potential games by all authors.

As a publisher, Asmodee examines game concepts submitted by author-creators, selects and perfects them, designs the packaging and promotes them. Animations are carried out by non-salaried game enthusiasts, who run Asmodee<sup>94</sup> "corners" so that the public can discover and familiarize themselves with the games (beaches, music festivals).

Asmodee has outlined its 5-step publishing *process*<sup>95</sup> :

- 1- Evaluation of the concepts and rules of the game ;

<sup>91</sup> Interview with Stéphane Carville, Décideurs magazine, 21/07/2017

<sup>92</sup> Le Figaro, 21/03/2018

<sup>93</sup> corporate.asmodee.com

<sup>94</sup> Les Echos Finance, 01/07/2013

<sup>95</sup> Investor Day, Eurazéo, 17/11/2014

- 2- In-house test phases ;
- 3- Evaluation in relation to publication criteria (gamer target, originality or competition with existing games, adaptation to existing range, sales and marketing capacity with a survey of independent distributors);
- 4- Design and recommendations (theme, format, price positioning, optimization of rules with a trade-off between simplicity and interest, prototype launch);
- 5- Contract negotiations with authors.

Publishing is the business with the highest margin compared to distribution. Asmodee has 11 studios and as many distribution subsidiaries in Europe, North America and China. The number of studios is linked to the preservation of a certain independence after the takeover; for example, Pearl Game's founder comments on the takeover of his company and its integration as follows: "*Joining such renowned studios is an honor for me. The exchange of skills will enable us all to increase the quality of our games. Asmodee's resources will give my creations the best possible visibility*<sup>96</sup> ."

Asmodee's 11 studios in 2018 are: Fantasy Flight Games (USA), Days of Wonder (USA / France), Space Cowboys (France), Catan Studio (USA), Z-Man Games (USA), Plaid Hat Games (USA), Edge Entertainment (Spain / France), Ystari (France), Pearl Games (Belgium) and Asmodee Studio (France). Asmodee Digital is responsible for digital porting of the board games.

In 2016, Asmodee distributed more than 60 French and foreign publishers, compared with 25 in 2012<sup>97</sup> . Asmodee offers a range of services to digitize other publishers' games. Also in 2016, it launched Novalis, a distribution structure dedicated to specialized games in France. In 2017, Novalis took over distribution of Hasbro's Magic cards<sup>98</sup> . According to the CEO of Asmodee France, Novalis will also be responsible for identifying smaller publishers with a lighter catalog than Asmodee<sup>99</sup> .

A specialist store may have 50% of its references linked to Asmodee. Since 2014, Asmodee has offered them a new model by ensuring the return of unsold stock for certain games (Splendor, Minivilles)<sup>100</sup> . In terms of distribution, Asmodee claims four game categories<sup>101</sup> :

- Fun and atmosphere (e.g. Contrario, Jungle Speed, Dobble...);
- Gambling and strategy (Dominion, L'Auberge Sanglante...); this is the target market for "gamers" or expert players;
- Collectible card games (Pokémon...);
- Family games (Les Aventuriers du Rail, Carcassonne, Catan...)

In March 2018, Asmodee announced the creation of a new "Asmodee Entertainment" division. Its mission will be to exploit the catalog's intellectual properties to open them up to films, TV series, comic books and graphic novels. In other words, the idea is to enable board games to be extended to new media, thereby winning over new audiences. *Escape games* or amusement parks could be envisaged. Rumor has it that Sony is in talks to adapt the Catan game<sup>102</sup> . The current strategy thus suggests an evolution of the business model towards the creation of entertainment content based on the universes created in the games.

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<sup>96</sup> LSA, 10/03/2015

<sup>97</sup> Les Echos, 29/11/2012

<sup>98</sup> "Remue-ménage dans la distribution française des jeux de société", 26/02/2017, [www.gusandco.net](http://www.gusandco.net)

<sup>99</sup> LSA, 01/03/2017

<sup>100</sup> "Asmodee applies a brand new economic system to the world of gaming. Advantages and disadvantages", 04/08/2014, [www.gusandco.net](http://www.gusandco.net)

<sup>101</sup> [en.asmodee.com](http://en.asmodee.com)

<sup>102</sup> Le Figaro, 03/23/2018

#### ***D. Acquisitions and internationalization***

In France, Asmodee acquired "Jeux Descartes" (publisher and distributor) back in 2005, before the arrival of Montefiore, thus acquiring not only its games catalog but also 5 specialized boutiques (Paris, Lyon, Bordeaux). In 2010, it also acquired Abalone SA, publisher of the game of the same name (sales of 4 million euros).

Our international development began with our expansion into neighboring countries (Belgium, Spain, Germany and the UK), through the acquisition of publishers who were also distributors. International sales accounted for 25% of total sales in 2008, 50% in 2012<sup>103</sup> and 75% in 2016. Between 2007 and 2009, three companies were acquired in Belgium (Hodin; sales of 10 million euros), Germany (Proludo) and Spain (Cromola). With each purchase, new products are distributed in all countries. In 2010, Asmodee took control of 60% of Esdevium Games, the UK's leading independent games distributor. This company, with 50 employees, generated sales of 30 million euros.

In 2014, Asmodee acquired Days of Wonder, a US game publisher (founded by a Frenchman) with sales of 14 million euros. Days of Wonder publishes "Les Aventuriers du Rail", Alan R. Moon's game created in 2004, a multi-award-winning game with millions of players and three million copies sold. Since 2004, Asmodee has been distributing this publisher's games on the French and European markets. Days of Wonder has a distribution network in the USA in specialized boutiques and larger retailers<sup>104</sup>. In addition, Days of Wonder has digital skills and has transposed some of its games to cell phones. These skills were of great interest to Asmodee at the time of purchase.

In 2015, Asmodee bought Italian publisher Asterion, which had been translating and distributing Asmodee products in Italy since 2010. That same year, Fantasy Flight Games was acquired (it holds the Star Wars and Lord of the Rings licenses for board games, role-playing games and miniatures), with sales of 23 million euros. Asmodee also acquires Spot-it publishing (Dobble worldwide, i.e. worldwide publishing, exploitation and trademark rights). Shortly afterwards, Asmodee announced that Belgian publisher Pearl Games was joining its studios.

In 2016, Asmodee acquired the Canadian company F2Z, which publishes hits via Filosofia or Z-Man Games, such as Pandemic or Dead of Winter. F2Z also owns the French and English versions of the German game Carcassonne. Also in 2016, Asmodee acquired worldwide publishing, exploitation and branding rights to the English-language game Catan from Mayfair Games<sup>105</sup>. This tile-based game has been translated into 35 languages and is considered a modern board game classic. Asmodee's acquisition of the game's English-language rights was accompanied by the launch of "Catan Studio", a new studio within the Asmodee group dedicated to digital development (in early 2018, Mayfair Games announced the end of its activities and the complete transfer of its catalog to Asmodee). Also in 2016, Asmodee acquires Bergsala Enigma, the leading distributor of games and cards (including Pokémon cards) in Northern Europe, a market estimated at 240 million euros (Denmark, Sweden, Norway, Finland and the Netherlands).

In 2017, three board game publishers and distributors were acquired: Heidelberg Spieleverlag (German publisher and distributor), Edge Entertainment (French publisher) and Millenium (Spanish distributor). The aim is to foster distribution synergies from an international perspective, and strengthen the quality of the games held.

At the start of 2018, Asmodee acquires its Polish distributor, Rebel. A few weeks later, Asmodee buys German Lookout Games (publisher of Agricola). Lookout's creative studio retains its independence,

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<sup>103</sup> Les Echos, 29/11/2012

<sup>104</sup> Les Echos, 25/08/2014

<sup>105</sup> LSA, 07/01/2016

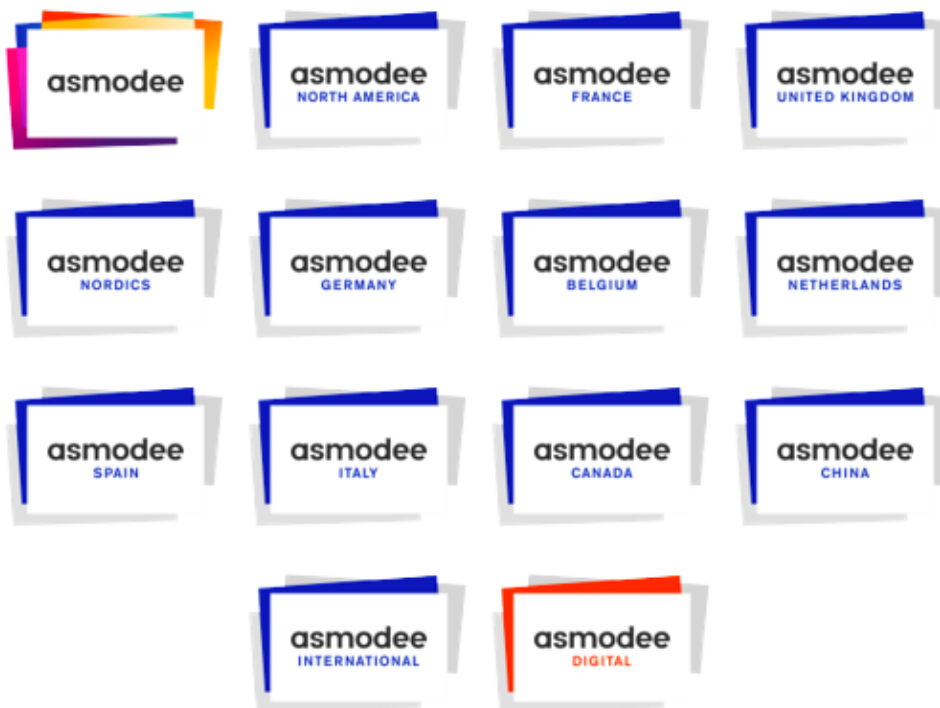
and Asmodee will be its distributor. Lookout Games' flagship game, Agricola, was published in French by Ystari and in English by Z-Man Games; both Ystari and Z-Man Games belong to Asmodee.

The USA is considered the world's largest market<sup>106</sup> with an estimated size of 1.8 billion dollars<sup>107</sup>. For Asmodee, this market represented 5% of sales in 2012, rising to 25% in 2015 and 30% in 2016. It should be noted that the American market is more difficult, as there are few independent specialist stores, and that Asmodee's recent breakthrough in the USA can be explained by the acquisition of Days of Wonder and Fantasy Flight Games. A subsidiary was set up in the USA in 2011, and Asmodee has succeeded in getting some of its games distributed at Wal Mart.

China is the 3rd largest games and toys market in the world, but it's difficult to access. Indeed, the Chinese public is not used to board games and remains attached to traditional games such as mah-jong<sup>108</sup>. According to specialists, China is a special market because it is the country of the single child and strict education. Asmodee opened an office in China (Shanghai) and a subsidiary in 2011. The main aim of this office was to understand the Chinese market and introduce games to the Chinese<sup>109</sup>. In addition, the aim is also to support other publishers wishing to establish themselves in this country. In early 2018, Asmodee established a partnership with Kingnet, one of China's leading mobile game development studios<sup>110</sup>. The idea is to take advantage of Kingnet's knowledge of the Chinese public to transpose its game catalog to mobile, transposition enabling adaptation to local tastes. Apps would then provide a gateway to physical games.

In October 2017, Asmodee decided to give each of its subsidiaries an identical visual identity.

#### Asmodée visual identity



<sup>106</sup> Les Echos, 25/08/2014

<sup>107</sup> Interview with Stéphane Carville, Décideurs magazine, 21/07/2015

<sup>108</sup> Les Echos, 24/11/2015

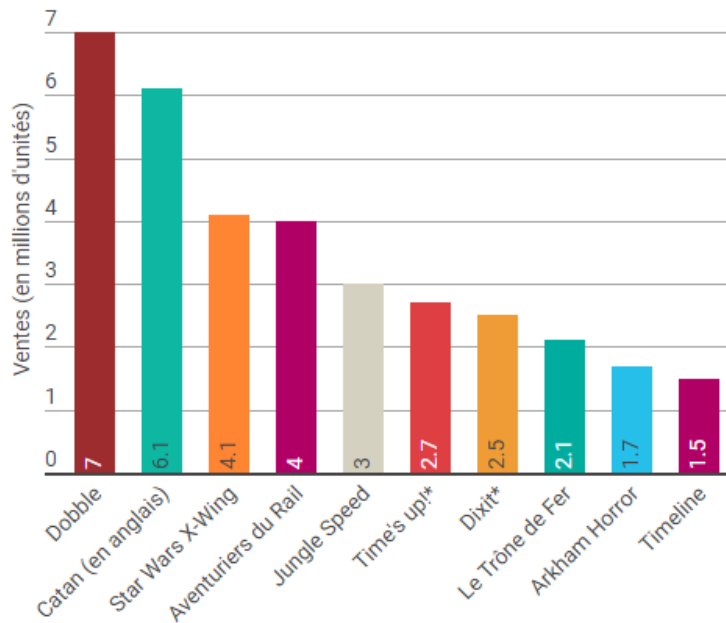
<sup>109</sup> Les Echos, 29/11/2012

<sup>110</sup> Les Echos, 2018/02/15

Examples of games published or distributed by Asmodee



### Asmodee's cumulative worldwide bestsellers



\* distributor only

Source : Asmodee / Les Echos (21/02/2017)

### Main distributors and publishers of board games distributed in France :

- Asmodee : **Asmodee\***, Bombyx\*\*, Captain Macaque, Cocktail Games, **Days of Wonder\*\***, **Edge\***, **Filosofia\*\***, Gameworks, Hurrican Games, La Haute Roche, Libellud\*\*, Ludonaute\*, Lui-Même\*, Monster Games, **Pearl Games\***, Perplexus, Plan B Games\*, Portal, Pretzel Games, Repos production\*\*, Space Buddies, **Space Cowboys\***, The Creativity Hub, Thinkfun, Wizkids, Ystari\*\*\*
- Atalia : Azao Games, Brain Games, Cranio Creations, Flatlined Games, Game Brewer, Game Factory\*, Lifestyle, Limite Limite, Lucky Duck Games, Oz Editions, PD Games, Placentia Games, Queen Games, Quined Games, R&R games, , Sit Down, Trefl
- BlackRock Games : AB Ludis, Act in Games, Ajax Games, Ankama, Bankiiz Editions, Bayard Jeux, Blam Editions, Blue Cocker, Blue Orange, Buzzy Games, Catch Up Games, Editions le Droit de Perdre, Flip Flap, Hiboutatillus, Holy Grail Games, ID&AL, Ilinx, La Boite de Jeux, Ludocom, Lumberjacks Studio, On the Go Editions, The Flying Games, Tiki Editions
- Gigamic\*
- Haba\*\*\*
- Hasbro
- Iello: Capsicum Games, Iello\*, Kikigagne, Le Scorpion Masqué, Origames, Purple Brain, Ravensburger\*.
- Intrafin: Intrafin\*
- Mattel
- Morning Games: Captain Macaque, Foxmind Games, Morning Players, OldChap Editions, Stonemaier Games, V-Cube

- Surfin'meeple: Asyncron, Matagot\*\*, The Broken Token

\*: number of As d'Or (since 2010) awarded to a publisher. In **bold**, publishers belonging to Asmodee.

### Asmodee's capital links (22/03/2018, Diane)

