Game Outlet

Great Games! Great Prices!

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The history of the pallet concept

How and when it all started and how the pallet concept has evolved

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The launch of the pallet concept

SSD, at the time Scandinavia's largest independent distributor, gave birth to the pallet concept in the year 2000.

Designed as a mean to handle the difficulties of overstocks and strengthen the stressed margins, the popularity of the pallet concept quickly grew and was soon the most promising part of the SSD group.

Since then, a lot has happened and the concept has evolved together with the market in general and the retailers in particular.

- Originally two different concepts, VGO (Video Game Outlet) and CGO (Computer Game Outlet)
- Launched in Sweden, Norway, Denmark and Finland in the year 2000
- Designed as a compliment and margin-strengthener for retailers involved in the gaming industry
- Shift of focus from traditional to non-traditional retailers
- Re-designed pallets, 2004 and 2009
- Various display units, from desk stands to full-sized pallet bins

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10 years of trial and error

- Originally built around SSD’s overstocks – today containing only the **best titles** for each price group
- The most **cost efficient** display solution in terms of turnover and **profit per square meter**
- Designed to be a **beacon** – the pallets will be noticed
- The **widest selection** of the market – hundreds of titles in less than a square meter

Shift of focus – non-traditionals

- **Outside the box**
- Doesn’t have the problems associated with the gaming industry
- Understands **conceptual sales** and turnover/profit per square meter
- Eager to attract **new consumer groups** and widen the offer
- Store traffic **key to success**

International approach

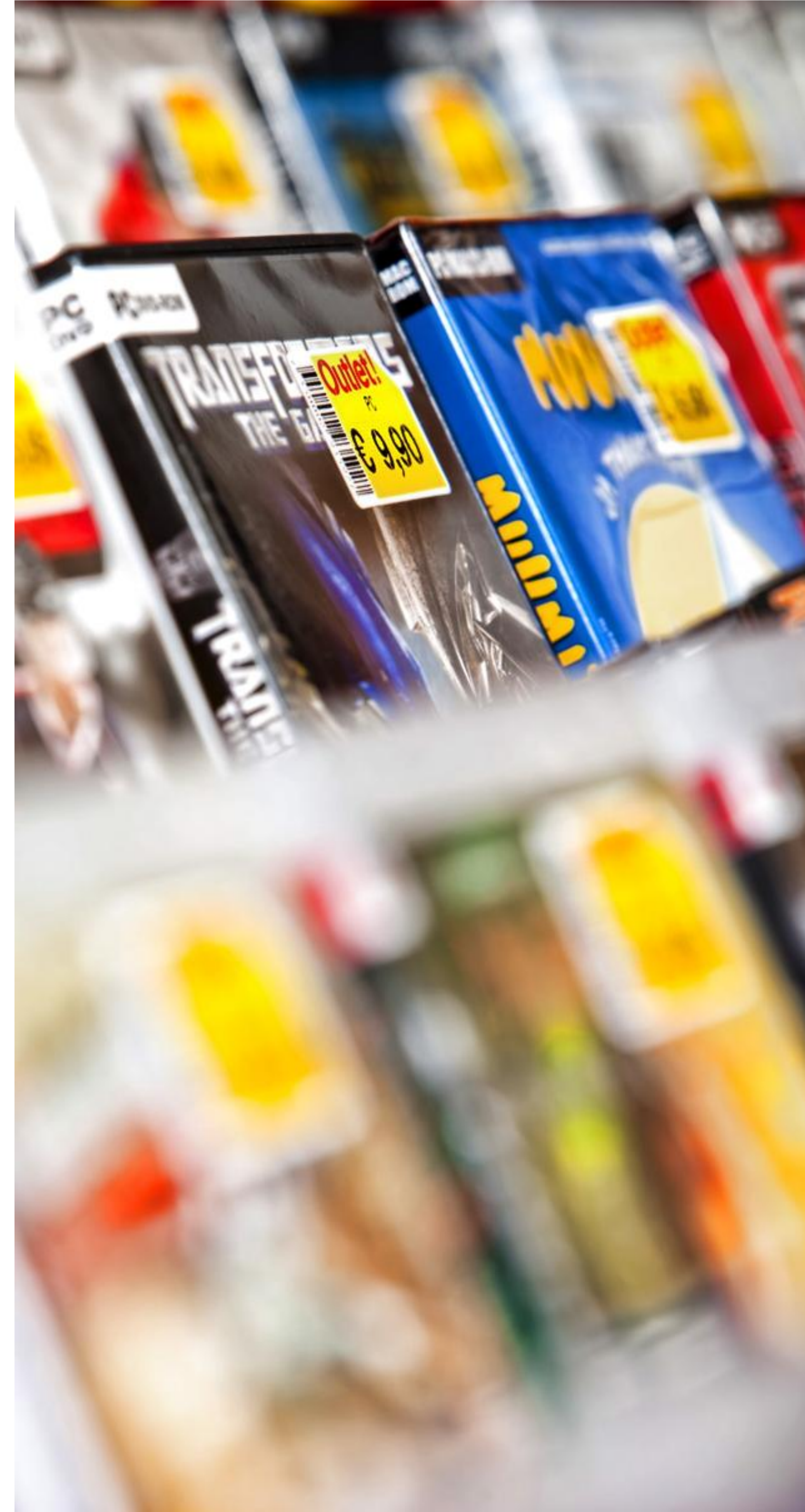
- The pallet concept is launched in various key territories **around the world**
- Strong **local distribution** channels with flexible operations and close cooperation with GOE ensures that the concept will **continue to evolve**

Game Outlet Europe

The company was founded in Karlstad, Sweden, in spring 2004 by Lars Wingefors and it's management.

Since then a substantial number of well thought-out strategies, decisions and events has led GOE to it's current position on the market:

- Game Outlet has **expanded aggressively** – size matters
- GOE's portfolio includes products from all of the **worlds leading interactive entertainment developers**
- GOE's strength is our **flexibility and simplicity,** in everything that we do
- **Focused on what we do best;** software and only software
- **We know what the consumers want** through business intelligence, consumer studies and long experience within the market
- Game Outlet supplies the market with **more than six million games annually**
- GOE generate a turnover exceeding **€ 30 million**



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The games industry

A brief look at the gaming industry and it's challenges

Consumer trends, key drivers

The global recessionary fear is affecting consumer shopping behavior. Key focus is moved from full price products toward easily accessible, high quality games at low prices.

Business trends in the interactive entertainment industry

- The gaming industry is **showing growth**
- **Major investments** are being made to develop new games and hardware
- Appeals to a **wide consumer group**
- Approximately 50 % of today's gamers are **women**
- **Impulse purchases** accounts for **40 %** of game sales *

Business trends in retail

- **Cash flow, liquidity and return on investment** becomes even more important
- A need to **avoid obsolescence**

* According to a new Canadian study conducted by The NPD Group. The study further states that a low price offer is a key driver behind the purchase descision.

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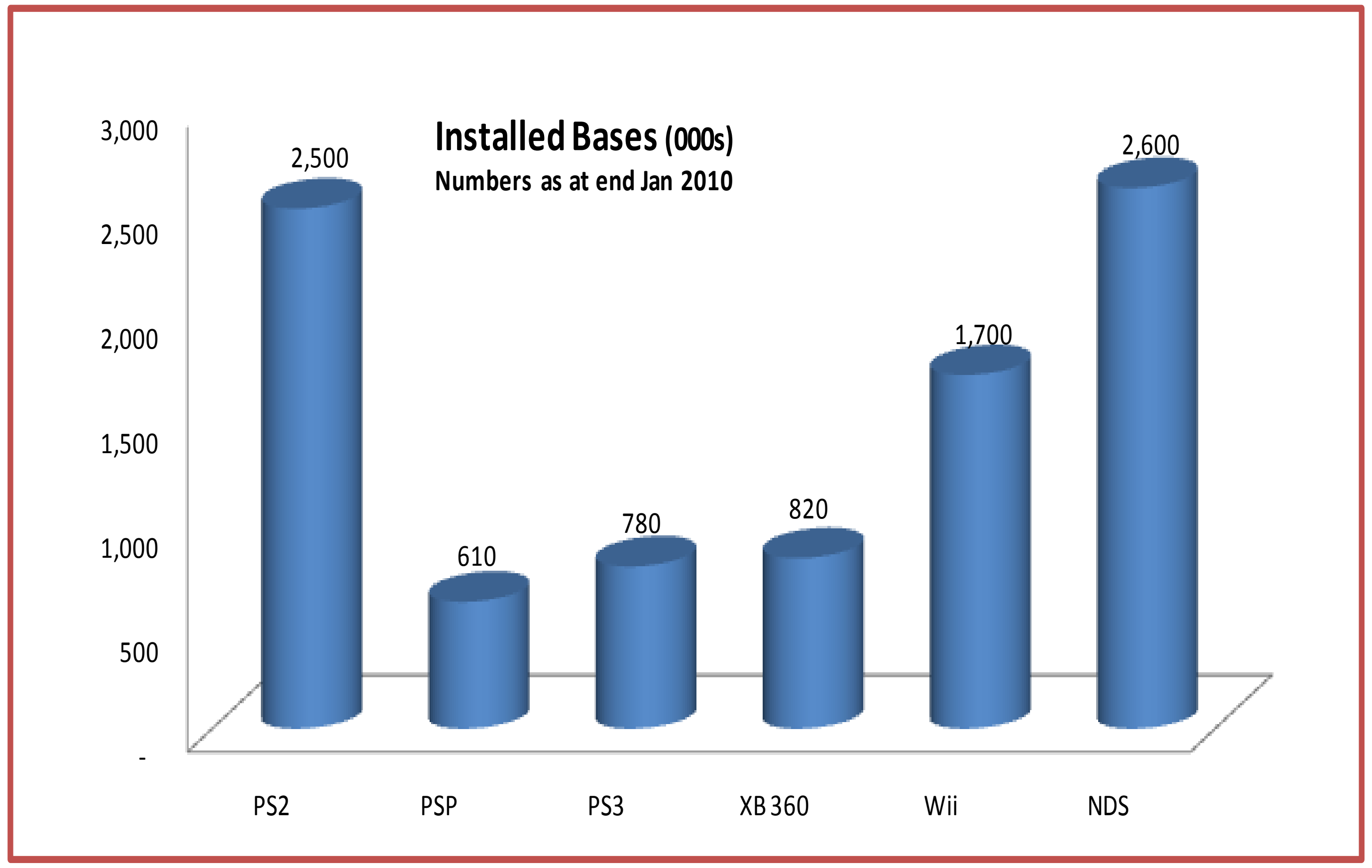
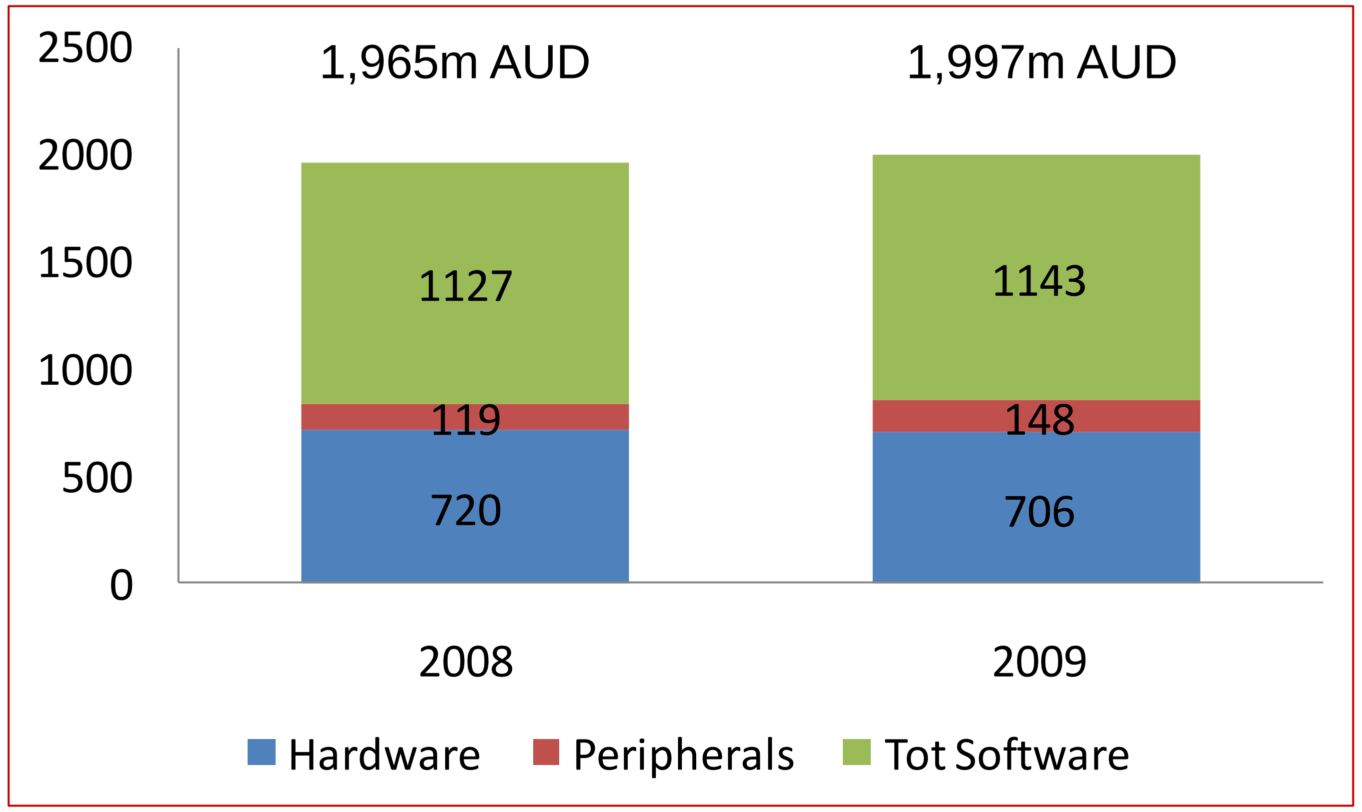
The Australian games market





- PS2 is the most successful format to date
- Xbox 360 is currently outselling PS3 on a week-by-week basis by 2:1
- NDS is outselling PSP 7:1
- The PS3 sales in the chart above includes 120 K units bought with Sony Bravia TVs (not included in Gfk stats)
- The Australian market in 2009 grew YoY by 1,6% (revenue) and 3,6% (units)
- At almost 2bn AUD the games market (HW + SW) is larger than the movie industry (1,5bn) and comparable to the toys market (2,1bn AUD)

- The most popular genres are family entertainment (30%), action, shooters and sports
- The average price dropped from 73,5 AUD to 72 AUD
- Australians are impulse buyers, hence the Platinum range and it's counterparts has been so successful
- Heavy discounting of AAA-titles by mass merchants are frequent
- Australian retailers are confident of the continued growth for the games industry

Stats from Gfk by January 2010

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The pallet concept

Here we'll take a closer look at the pallet concept in particular. We will explain how to optimize sales in store based on your conditions.

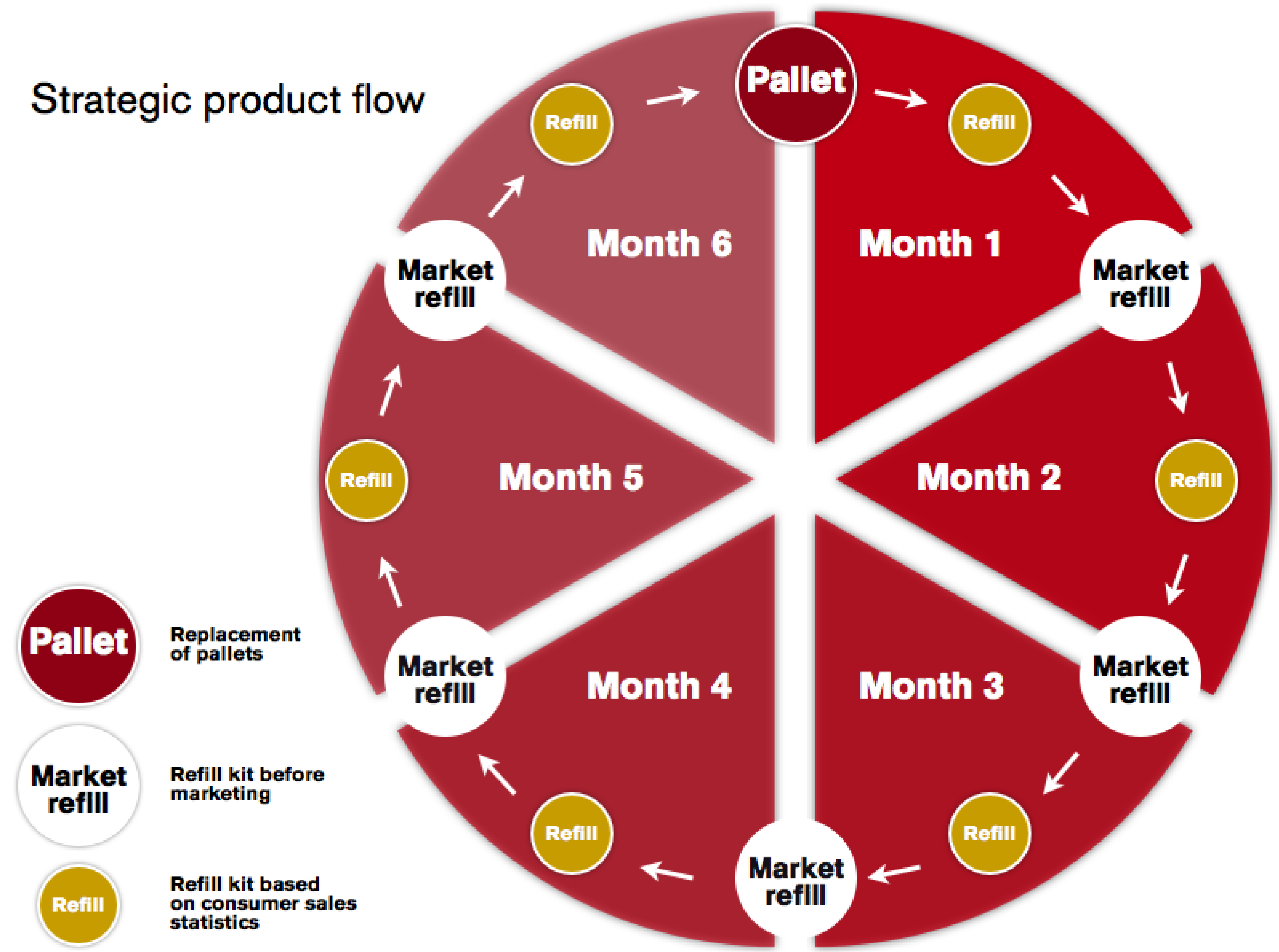
The pallet concept – the easiest there is

The unique business model of the Game Outlet pallet concept contains a number of key features:

- A concept of **ready-built pallet display units** containing a mixed selection of games
- **Flexible and adaptive** store concepts
- **High profit margins**
- Low overstock risk, **longer life span** than full price games
- **Stock rotation** – proactive handling of pallets and product replacement to keep sales momentum
- **Widest and strongest product range** on the market
- **A beacon** with low price profile attracting consumers of all age groups
- Product range with **high impulse buy-factor**
- Attractive consumer **price levels**

Refill and marketing

- A **stable product flow** is a key factor to the **success of the pallet concept**
- Special refills backed up by **marketing on a monthly basis**
- Replacement of pallets **twice/year**
- Strong titles are **marketed in catalogue**
- **Flexible campaign products**, like Buzz, SingStar and Guitar Hero



Business development model

The chart below is based on sales statistics from individual stores from two separate retail chains; one major supermarket and one discounter. All figures is based on a 12 months sales period and is an average of the chains total performances divided by number of outlets.

	Small dept 2 pallets	Med. dept 4 pallets
Turnover	$12 019	$25 641
Average net price/unit	$12,33	$12,37
Average price/unit	$20,13	$21,55
Size of department	0,96 m2	1,92 m2
Turnover / m2	$12 520	$13 355
Profit / m2	$3 945	$4 410

This is a firm offer given to the Swedish discounter. The performance of the pallet concept described below assumes full adaptation of the stock exchange program. All figures are based on a launch in 80 stores.

	Small dept 2 pallets	Med. dept 4 pallets
Turnover	$961 526	$2 051 256
Average net price/unit	$12,33	$12,37
Average price/unit	$20,12	$21,55
Size of department (chain)	76,8 m2	153,6 m2
Turnover / m2 (chain)	$1 001 590	$1 068 362
Profit / m2 (chain)	$315 625	$352 778

Terms

The agreements are both based on similar terms. In the case study of the current example they have committed to the following:

- Pallets are located in a main walkway or close to the cashier
- The pallet display units are being used
- Keep stock of 320 units (small dept) or 640 units (med. dept)
- Refill at 30 % sell-through/format & price group
- 5 or 7 (small or med. dept) titles/month in catalogue
- Refills are distributed twice/month (every 14th day)
- Full stock rotation twice/year
- Products are delivered directly to store

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Potential and possibilities

How do we proceed from here, what have we done in other markets
and what can we learn?

Agree on trial

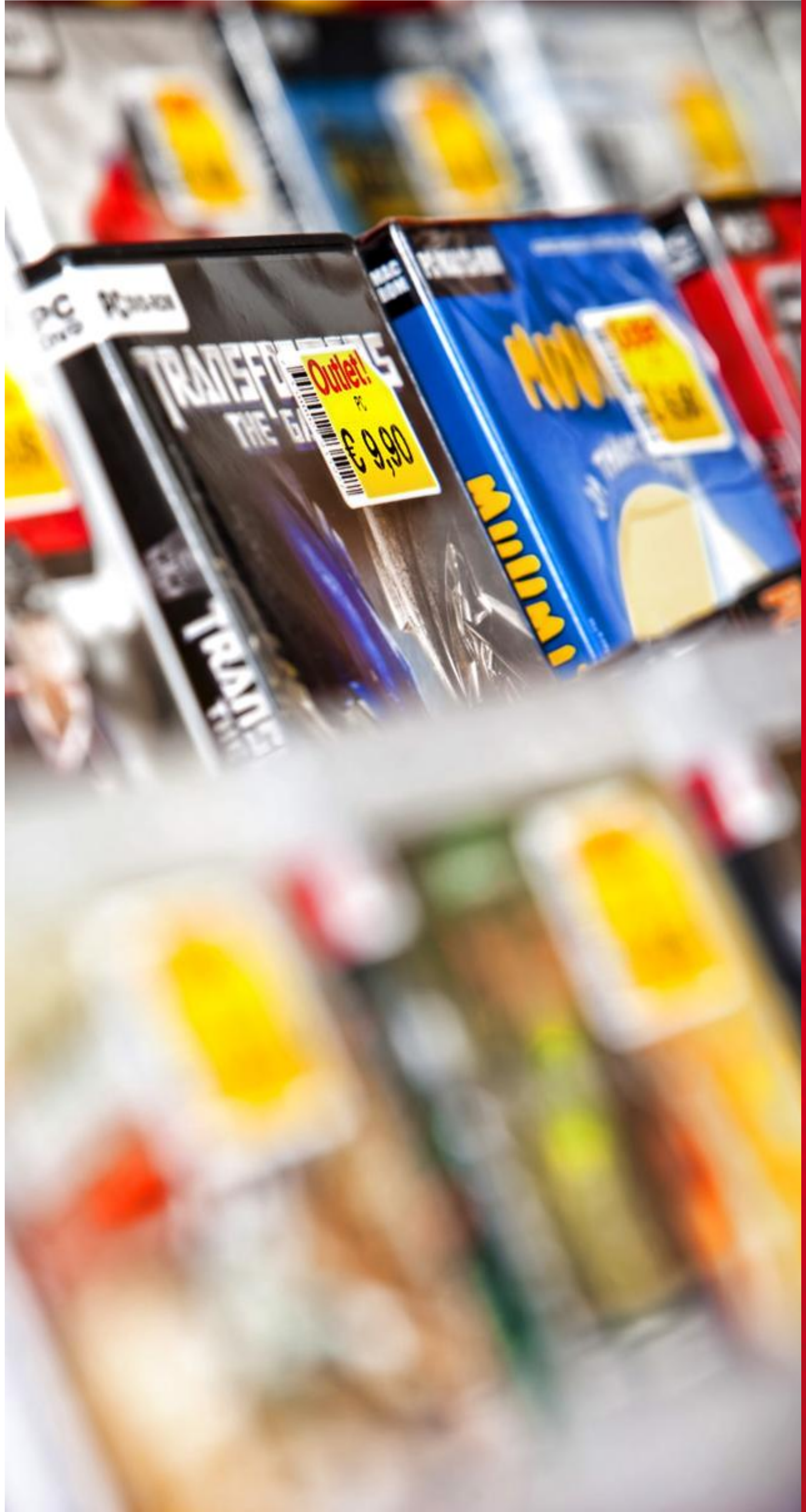
- Agree on a number of outlets **representative for your chain**, ideally 10 % of your stores or a minimum of 10 stores
- **Agree on selection**; how many pallets/displays, which platforms and which price groups?
- Agree on trial period, **ideally 2 months with 3-4 refills**
- Set **goals and targets** for the trial and agree on service level, marketing and support

Learn and evaluate

- Did the trial **meet up to the expectations?**
- What kind of **adjustments** need to be done?
- Agree on a **roll-out plan**
- How can we **improve?**

The roll-out

- Set annual **goals and targets**
- Agree on **inventory exchange dates**, ideally twice / year
- Agree on number of pallets/displays, **platforms and price groups**
- Agree on a **marketing plan** and service level



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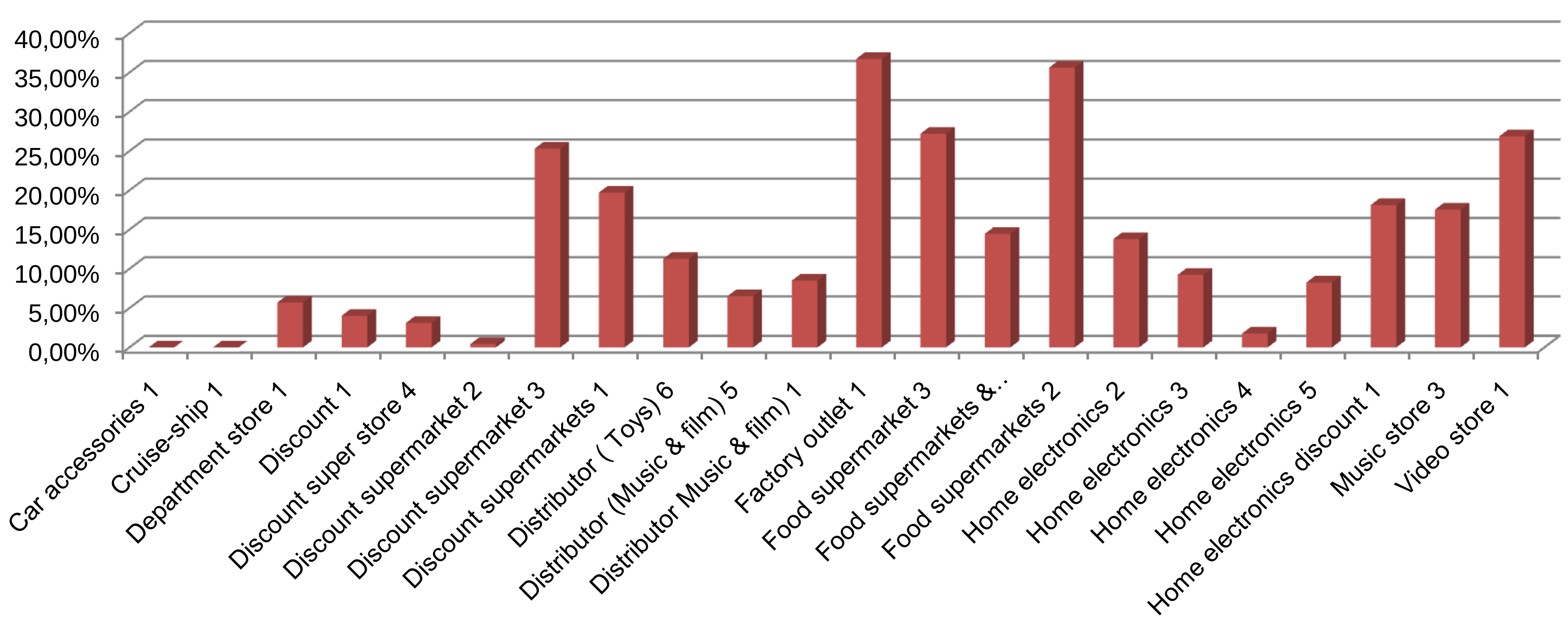
Concept or campaign?

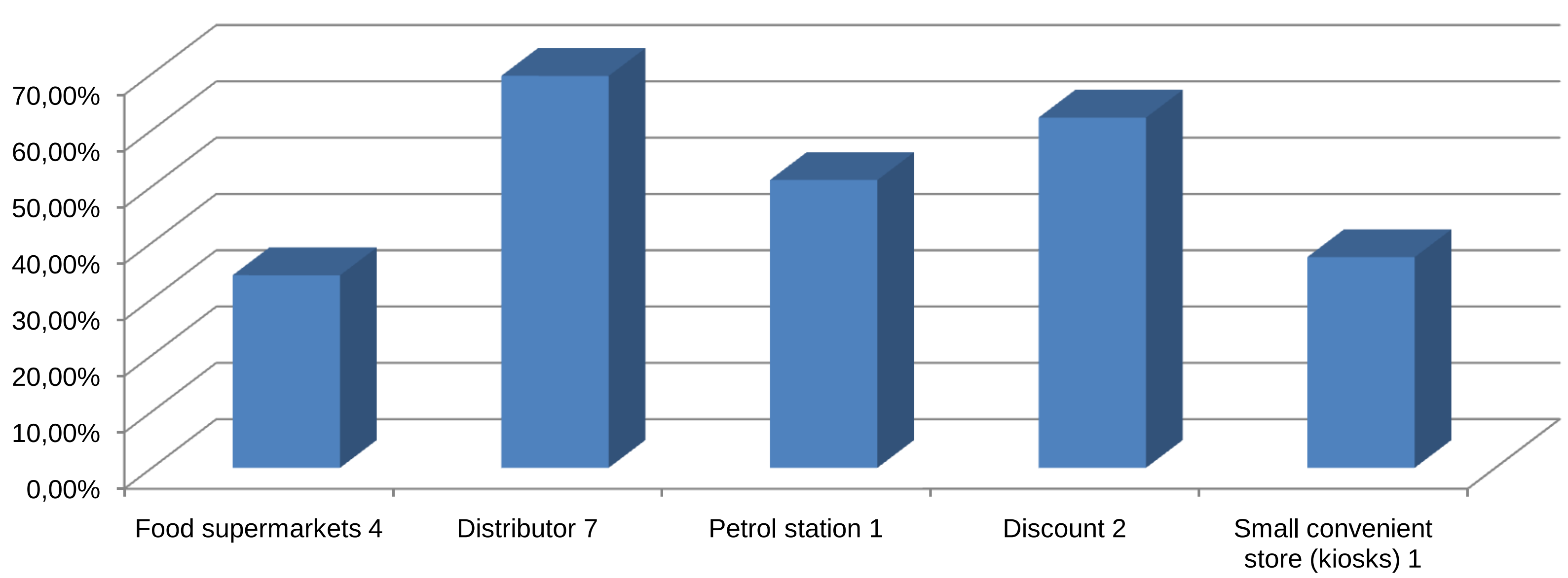
The preferred way of working with the pallets is the **concept model.**

Thorough **studies** of the **cost efficiency** of the concept model compared to the campaign model ("in and out") is conducted on a regular basis and of **particular interest** is the **comparison of return frequency:**

Return frequency, concept



Return frequency, campaigns



The **average return frequency** on a annual basis for concept customers are **13,38 %** and **50,91 %** for campaign customers.

GOE Pallet development, selected partners in Scandinavia 2006 - 2009

				2006	2007	2008	2009
Segment	Category	Counrty	Tot stores	AUS	AUS	AUS	**AUS**
Car accessories 1	Retailer	Finland	40	$0	$22 335	$93 797	**$257 786**
Computer accessories 1	Retailer	Sweden	1	$53 232	$70 831	$77 127	**$79 339**
Computer accessories 2	Retailer	Sweden	1	$29 961	$34 800	$33 570	**$26 448**
Computer accessories 3	Retailer	Sweden	1	$0	$0	$15 642	**$25 045**
cruise-ship 1	Retailer	Finland	12	$0	$53 840	$68 025	**$50 553**
Department store 1	Retailer	Sweden	76	$141 952	$209 217	$476 101	**$750 520**
Discount 1	Retailer	Denmark	25	$0	$0	$0	**$140 304**
Discount supermarket 2	Retailer	Sweden	80	$5 279	$147 292	$470 586	**$985 172**
Discount supermarket 3	Retailer	Sweden	40	$193 695	$529 229	$209 155	**$628 447**
Discount supermarkets 1	Retailer	Sweden	53	$2 653 466	$2 276 324	$2 223 192	**$3 310 802**
Distributor (Toys) 6	Distributor	Norway	150	$0	$0	$0	**$507 544**
Distributor (Music & film) 3	Distributor	Sweden	180	$0	$0	$0	**$2 576 956**
Distributor (Music & film) 4	Distributor	Sweden	120	$419 537	$593 717	$1 254 939	**$2 348 133**
Distributor (Music & film) 5	Distributor	Denmark	1	$0	$0	$0	**$148 991**
Distributor (toys) 2	Retailer	Norway	60	$0	$52 078	$184 437	**$101 349**
Distributor 7	Distributor	Norway	120	$0	$0	$736	**$213 751**
Distributor Music & film) 1	Distributor	Norway	100	$0	$39 320	$152 331	**$960 608**
Factory outlet 1	Retailer	Sweden	1	$34 057	$43 553	$33 887	**$54 710**
Food supermarket 3	Retailer	Sweden	1	$0	$862 390	$756 919	**$224 330**
Food supermarkets & hypermarket 1	Retailer	Denmark	66	-$154 881	$1 310 548	$2 348 026	**$5 053 480**
Food supermarkets 2	Retailer	Sweden	80	$709 366	$400 441	$1 014 136	**$210 312**
Home electronics 2	Retailer	Sweden	70	$0	$50 629	$408 969	**$744 179**
Home electronics 3	Retailer	Sweden	12	$0	$51 127	$159 611	**$293 341**
Home electronics 4	Retailer	Sweden	17	$0	$0	$58 849	**$224 330**
Home electronics discount 1	Retailer	Sweden	1	$0	$617 305	$657 500	**$1 015 756**
Music store 1	Retailer	Sweden	6	$0	$0	$70 497	**$57 245**
Music store 2	Retailer	Sweden	1	$26 617	$44 635	$32 517	**$48 136**
Music store 3	Retailer	Norway	23	$2 603	$21 111	$93 076	**$39 978**
Music store 4	Retailer	Sweden	1	$31 633	$22 837	$24 878	**$25 103**
Small convenient store (kiosks) 1	Retailer	Finland	220	$0	$0	$530 493	**$572 045**
Toy store 1	Retailer	Sweden	18	$217 596	$145 824	$123 489	**$140 304**
Toy store 2	Retailer	Sweden	1	$53 865	$29 758	$28 454	**$37 526**
Video store 1	Retailer	Sweden	1	$0	$0	$0	**$75 908**
Total			**Total**	**$4 417 978**	**$7 629 143**	**$11 600 938**	**$22 737 919**

Where do we go from here?

Let us know your thoughts and ideas – open discussion

What did we leave out?

- Is our concept interesting?
- How can you best benefit from the pallet concept?
- Which demands do you have?

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