

Going Backward to Move Forward? The Effects of Backward Compatibility on the Sales of Previous and New Generation Video Games

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Abstract

Backward compatibility--the property of a current generation of hardware to allow previous generation of software to work with it--is an important strategic decision for firms introducing upgrades. We investigate the effect of Microsoft Xbox's decision to make its new generation console (NGC, Xbox One) backward compatible with selected games for its previous generation console (PGC, Xbox 360) on the sales of video games for both PGC and NGC using causal modeling. Our results show that when a video game console firm makes its NGC compatible with some PGC games, the average unit sales of backward compatible PGC games decrease relative to non-backward compatible PGC games. However, the dollar sales of backward compatible PGC games increase relative to non-backward compatible PGC games due to a relative price increase effect. The results also show that sales of NGC games increase due to console upgrades and higher budget for new games for the previous owners of backward compatible games.

Keywords: *technology; upgrade; videogame*

Track: Innovation Management & New Product Development