

Content Insider #72

Short Game, Long Game, No Game...Gone in 60 Sec.

"I have money, I have taste. But I'm not on anybody's "A" list, and Saturday night is the loneliest night of the week for me." – **Memphis (Nicholas Cage), *Gone in Sixty Seconds* (2000)**

While videogame boxes have been a yawn for 60+% of the population in the Americas for the past year.

For the rest? They are **the** "A" list of lust.

For MS, Sony and Nintendo the Xbox, PS3 and Wii are about percentage points. And bragging rights...serious bragging rights!

But Sony drew the line in the sand. They said..."the console war doesn't start till we say so..."

Like Nicholas Cage in **Gone** saying he was going to steal 50 cars in one night. Great chest thumpin' but who cares?



Photo 1 – So what do you like best? Playing videogames? Stealing cars? Having sex? **Photo courtesy Buena Vista**

For the PS3 and Wii (and last year's introduction of Xbox 360) it really was...gone in 60 seconds.

People camped out in front of stores for days waiting for their chance to get one of the first units.

Some didn't get their box so they punched out, pistol whipped or used other persuasion to make their "purchase."

A lot of the PS3 winners threw theirs up on eBay for a couple of grand.

People...it's a game!

You may have money. You may have "taste." But come Saturday night you're sitting there with your lowly console staring at a screen.

We didn't bother with the frenzy.

We dusted off our old favorite...the Atari Lynx.



Figure 1 – Still one of the best video game systems around (IMHO), the Atari Lynx had brilliant color, great play "feel," sleek lines and even reviewer acclaim. Just didn't have the Nintendo games and marketing muscle.

We played while the news folks covered the launches of the PS3 and Wii.

For folks who remember the Lynx, it was cool – still is! (Even our son says so).

Nintendo still outsold the Atari Lynx, Lynx II and Jaguar.

It wasn't about the computer inside or dazzling screen.

It was the games, the personal fun...and Nintendo's marketing machine.

Nintendo defined the market.

Hell they made the market.

With the Wii a lot of overzealous experts snicker and say Nintendo took a wrong turn.

The gamer psychotics compare the Wii with the Xbox and PS3



Figure 2 – Today's big three contenders from Microsoft, Sony and Nintendo (l-r) Xbox 360, Playstation 3, Wii.

and define the level of excitement, enjoyment consumers want...expect...need.

Folks...look at the #s first:

- Japan's videogame market is on the decline – 8% over the past three years according to CESA (Computer Entertainment Supplier's Association)
- Japan's sale of hardware/software off 20% according to CESA
- U.S. market hasn't budged past 36% for the past decade (Odyssey Research)

Video Game and Interactive Entertainment Industry Revenues Worldwide, 2005 & 2011 (billions)



Note: includes video game hardware and software, dedicated portable system hardware and software, PC games, and online PC and console games
Source: DFC Intelligence, September 2006

Figure 3 – The videogame market is respectable but it won't even double over the next five years. And it includes the total market – online, offline, home, on the go. **DFC Intelligence**

True the videogame industry did hit \$29 billion last year and it's forecast to go to \$44 billion by 2011.

That's respectable. But:

- they are selling to the same people over and over and...
- sales cover more than just consoles

US Video Game Retail Revenues for Console and PC, 2002-2005 (billions)

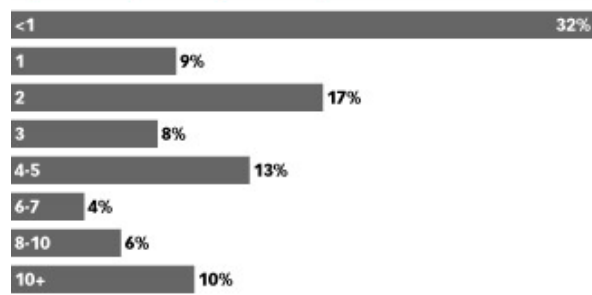
	2002	2003	2004	2005
Console*	\$10.30	\$10.00	\$9.90	\$10.50
PC	\$1.40	\$1.20	\$1.10	\$0.95
Total	\$11.70	\$11.20	\$11.00	\$11.45

*Note: *includes console and portable hardware, software and accessories*
Source: NPD Group, 2006; eMarketer calculations, February 2006

Figure 4 – Microsoft and Sony ignore the fact that millions of people play games on their (gasp!) computers. But the biggest potential market simply doesn't have the time or interest ... at all! **NPD Group**

- every console sale costs the respective company money...obviously they make it up in volume ??
- players can only spend so many hours home alone with their game system.

Number of Hours per Week that US Video Game Players* Spend Playing Computer or Video Games, April 2006 (% of respondents)



Note: *adults who play games on a computer or game console
Source: Ipsos commissioned by The Associated Press and AOL Games, May 2006

Figure 5 – Even the most dedicated (addicted) gamer takes a break now and then to enjoy the finer things offered by the real world. **Ipsos**

- That doesn't change much no matter how sweaty palmed the games or how big their virtual universe
- at some point, someone has to say to management what Ray Cairti's said in *Gone.*, "Time's up Atley. Bring me the kid and we'll settle this."

It might even be Microsoft and Sony shareholders.

Both firms wrap \$300 bills around every console they sell.

PS3's **may** be profitable in 3-4 years.

Microsoft just keeps throwing money at the "opportunity." For them the Xbox is a rounding error.

Nintendo's initial loss per unit is much less. They expect the Wii to be profitable within a year.

The sweet spot for videogamers is 15-30. That portion of the U.S. consuming public isn't even 50% of the total.

U.S. Population: 2005 by Age

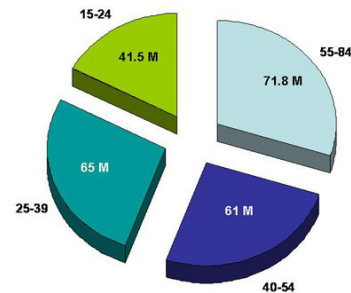


Figure 6 – For more than a decade the video game market sweet spot has been the 15-30 year-old male. They not only represent less than half of the total potential adult market, 50% of the folks in their age group are female who aren't that interested in the game systems or games. And, fifty percent of that number is female (not a huge portion of the core game market).

Both Sony and MS contend their new game systems are key components of the home entertainment system. To prove it they offer super cheap blue disc players – Sony - BD, MS - HD DVD.

The fact that others in the Sony and MS organizations say the PC is the center of home entertainment doesn't seem to bother anyone.

To make the Sony game console more compelling they give you a BD movie in the bundle (they do own content...ya know!!).

Sony sends along a copy of Will Ferrell's *Talladega Nights*. Who knew hardcore gamers were NASCAR fans? Maybe it's just Sony's way of clearing all those discs out of the warehouse ??

Why not *Pirates*? Ooppss...that's only on DVD.

To support their blue disc platform, MS announced their HD DVD player add-on and saw a boost in their sales.

Maybe that's why Nintendo added a DVD player connector. What the heck, adds a few cents to their cost and 85% of the U.S. homes already have a DVD player.

Why reinvent the wheel?

The Sony and MS boxes are supercomputers in disguise. But at the end of the day they are game consoles.

That thrills gamers (a stagnant market for the past decade).

Nintendo's Wii with roots deep in gaming is less powerful.

And it costs less than the muscle cars Sony and MS offer.

It doesn't handle the brilliance of the gamers' fantasy girlfriend. You know... her 11-inch waist, 30-inch upper torso, flaming red hair and Uzis on both hips.

Nintendo's took a different road. The first games off the production line take advantage of their cool new controller – tennis, golf, baseball, bowling. Fun stuff for folks not interested in sex, drugs, rock 'n roll.

In addition, while Nintendo has a long history of developing their own games, they have made a concerted effort to reach out to other developers.

With muscle car game development costs now approach the cost of Hollywood's productions, the idea of doing less expensive, plain old fun games interest a lot of game developers and their shareholders.

After all, the 20-year-old gamer of a decade ago is now...aahhh 30.

His eye-hand coordination is going.

He's got maybe 1.2 kids.

May not want his kids to enjoy the same violence he grew up with.

Angelina Jolie (***Gone's*** Sway) might have been right when she said, *"I've discovered that you have to work twice as hard when it's honest."*

This target market already has a couple of TV sets and PCs at house. Millions are struggling to network these devices (as challenging as the most thrill-seeking game you can play) to share photos, videos, music, stuff.

The game system is a nice add-on but it isn't the center of their entertainment universe.

They have other things to do:

- rip and download music
- put it on their iPod
- timeshift the latest ***Lost*** TV segment to put on their portable player to watch on the train or plane or during class
- sort, file, share family photos
- edit, produce, copy personal videos
- watch ***The Da Vinci Code*** on regular DVD
- eat, sleep, study, work...bathe!

The 117-year-old Nintendo has reinvented itself a number of times since it started playing cards.

Dealing to new players at the table who already have so much going on in their lives and already have so many toys, is a lot easier than playing with street-smart kids.



Photo 2 – Instead of playing endorphin pumping video games, some folks just want to have fun. **Photo courtesy Buena Vista**

If they increase their present 15% of the gaming market **and** pull in even 10% of the 64% of the buying public that doesn't play with videogame consoles that would be huge.

Doing it while making money on each sale could be a helluva smart business move.

Consumers might repeat Memphis' statement to MS and Sony... ***“For the next 24 hours all your decision making privileges have been revoked!”***

Andy Marken

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