

# **SEGA - Rise and Fall of a Gaming Company**

**Harsh Pratap Singh, Yashasvi Sharma, Devendra Shankar Gaud**

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**Prof. Dr. Sergei Schreider**

**Rutgers Business School**

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## Ice-breaker



Fig 1: Icebreaker

Among fans in the gaming industry, there's something called the "console wars." Today it's a battle between Nintendo, Sony, and Microsoft to see which gaming console makes fans want to spend the most money. But before Microsoft entered the fray with the first iteration of the Xbox in 2001, there was another company that completed the holy trinity of gaming.

With the early buzz around the Genesis Mini (the Mega Drive Mini for those outside of the U.S.) being extremely positive coupled with strong reviews for Sonic Tag Team Racing, Sega is having a good moment right now. We won't talk about the Sonic movie, as that isn't entirely their fault.

Unfortunately, Sega is a company that is known for extreme ups and downs, and never was that truer than during the '90s when the company went from ruling the video game world to almost disappearing from it completely. How does that happen? How does a company go from having the #1 console in the world to having to leave the console market altogether? How did the name "Sega" go from being synonymous with quality to being a punchline? This list details the major events, decisions, and disasters that led to one of the mightiest falls in the history of gaming.

## Introduction

*Would you believe that **Sega or the Sega Games Co., Ltd.** was once an American company?*

Today, Sega Corporation (株式会社セガ Kabushiki-gaisha Sega), styled in all-caps as **SEGA**, is a Japanese multinational video game and entertainment company headquartered in Shinagawa, Tokyo. Its international branches, Sega of America and Sega Europe are headquartered in Irvine, California, and London.

Sega was founded by American businessmen Martin Bromley and Richard Stewart as Nihon Goraku Bussan on June 3, 1960; shortly after, the company acquired the assets of its predecessor, Service Games of Japan. Five years later, the company became known as Sega Enterprises, Ltd., after acquiring Rosen Enterprises, an importer of coin-operated games. Sega developed its first coin-operated game, Periscope, in 1966.

Sega was sold to Gulf and Western Industries in 1969. Following a downturn in the arcade business in the early 1980s, Sega began to develop video game consoles, starting with the SG-1000 and Master System but struggled against competitors such as the Nintendo Entertainment System. In 1984, Sega executives David Rosen and Hayao Nakayama led a management buyout of the company with backing from CSK Corporation.

Sega has produced several multi-million-selling game franchises, including Sonic the Hedgehog, Total War, and Yakuza. It is one of the world's most prolific arcade game producers, with long-running series such as Virtua Fighter and Initial D Arcade Stage. Its name and branding are used for affiliated companies that operate amusement arcades and produce other entertainment products, including Sega Toys; however, these are largely separate ventures. Sega is recognized for its video game consoles, creativity, and innovations. In more recent years, it has been criticized for its business decisions and the quality of its creative output.

## History Of Sega



*Company logo until 1975*



*Company logo since 1975*

Fig 2: Sega Logo

### **ORIGINS AND ENTRY INTO THE VIDEO GAME MARKET (1940 – 1989)**

Sega is an abbreviated version of the original name of the company called Service Games that was situated in Honolulu. The company was set up in 1945 by Irving Bromberg, and his son, Martin Jerome Bromberg (who changed his name to Martin Bromley) in partnership with James L. Humpert. Their business is to manufacture and distribute coin-operated devices and slot machines mainly to U.S. personnel stations in Asia. Within a year, the new company released a submarine-simulator game called **Periscope** that became a smash-hit worldwide.

When slot machine operations on military bases within the U.S. territory were banned in 1951 by virtue of the Gambling Devices Transportation Act of the U.S. Congress, the company was forced to look for other markets. In 1952, Richard Stewart, a salesman for Service Games and a mechanic, Raymond Lemaire, were sent to Japan to explore the market. The trip led to the establishment of Service Games, Japan.



Fig 3: Sega Diamond 3 Star

In just a few short years, factories to produce different types of coin-operated machines were established in Southeast Asia to cater to the U.S. military servicemen stationed in Asia. The company also aggressively marketed their products in Europe, thereby getting a major slice of the slot machine market.

Due to notoriety arising from investigations by the US government into criminal business practices, Service Games of Japan was dissolved on May 31, 1960. On June 3, Bromley established two companies to take over its business activities, Nihon Goraku Bussan, and Nihon Kikai Seizō. The two new companies purchased all of Service Games of Japan's assets. Kikai Seizō, doing business as Sega, Inc., focused on manufacturing slot machines. Goraku Bussan, doing business under Stewart as Utamatic, Inc., served as a distributor and operator of coin-operated machines, particularly jukeboxes. The companies merged in 1964, retaining the Nihon Goraku Bussan name.

### ➤ *Separation Of Sega, Japan*

Service Games, Japan was liquidated in 1960, splitting the company into two entities. Martin Bromley and Richard Stewart founded **Nihon Goraku Bussan** to handle Sega distribution, while another company, Nihon Kikai Seizo handled the manufacturing side of the business. Nihon Goraku Bussan was enjoying success as a major distributor of jukeboxes in Japan and released the Sega 1000 jukebox, its first original product.

### ➤ *Merger*

Former American serviceman and businessman, David Rosen returned to Japan and started his own business, Rosen Enterprises, which was originally engaged in the art export business before discovering the viability of importing coin-operated photo machines from the United States. When Japan's economy began to stabilize, Rosen imported electro-mechanical games from the U.S. and ventured into the arcade game business.

In the late 60s, Rosen Enterprises was acquired by Nihon Goraku Bussan, and he renamed their company as **Sega Enterprises, Ltd.** It also developed **Periscope** in 1966, its initial coin-

operated game, which became an instant hit. Sega Enterprises saw the potential for additional revenue and continued the production of electro-mechanical arcade games. It later ventured into arcade gaming center operations around Japan.

### ➤ *Acquisition By Gulf Western*

On May 3, 1969, Sega Enterprises, Ltd. was acquired by Gulf Western, allowing it to venture into other arenas. It started with importing pinball tables made in the United States. By 1972, Sega was manufacturing its own pinball tables, starting with the release of Winner.

Sega became an American company once again in 1974 after it offered stocks to the public. Sega Enterprises, Inc. became the head company, with Sega Enterprises, Ltd, remaining as a Japanese subsidiary.

In the video game arcades, Sega was known for games such as **Zaxxon** and **Outrun**.

### ➤ *Video Game Importation And Development*

In the early part of the 1970s, **Atari** was having so much success with the game **Pong**. Noting that it's another revenue earner, Sega turned to video games, initially importing video games before developing them on their own, forming an alliance with Gremlin Industries. The company found success with games such as Zaxxon and Turbo. They also distributed Frogger in the U.S. In 1978, Sega was able to acquire Gremlin Industries and in 1982 became known as **Sega Electronics**.

### ➤ *Financial Difficulties For Gulf Western*

Sega Electronics was sold in 1983 by Gulf Western to Bally Midway due to financial troubles. As there is so much potential for the Japanese arm of the company, it was bought from Bally Midway by a group formed by David Rosen, Hayao Nakayama and Isao Okawa in 1984.

Isao Okawa was the chairman of CSK Corporation, a Japanese company that produces software and offers IT services. With the buyout Sega became a CSK subsidiary, making Sega a Japanese company again.



Fig 4 : S1000 Console Launched in 1982 and 1984

### ➤ *Downturn In The Arcade Business*

In the early 1980s, Sega's revenue hits \$214 million; Sega released its first video game console, **the SG-1000**, the first 3D arcade video game, **SubRoc-3D**, which used a special periscope viewer to deliver individual images to each eye, and the first action-based laserdisc arcade game, **Astron Belt**. the mass appeal of arcade games suffered a downturn, which prompted Sega to venture into the development of video game consoles, targeting home consumers. However, Sega faced stiff competition from competitors like the Nintendo Entertainment System, which became its biggest rival.

In the same year, Sega was hit hard by the American video game crash. Losing money, Gulf + Western sold the U.S. assets of Sega to famous pinball manufacturer **Bally Manufacturing Corporation**. The Japanese assets of Sega were purchased for \$38 million by a group of investors led by Rosen and Hayao Nakayama, a Japanese businessman who owned a distribution company that had been acquired by Rosen in 1979. Nakayama became the new CEO of Sega, and Rosen became head of its subsidiary in the United States.



Fig 5: Master system released in North America in 1986 and Europe in 1987



# SEGA AS A MAJOR CONSOLE MANUFACTURER (1990 - 2001)

## ➤ *Video Game Consoles*

By the time Sega released its video game consoles for the home, Nintendo Famicom already had a stranglehold in the market. Sega continued to stay afloat through its arcade games consoles. The company was able to release SC-3000 in New Zealand, Australia, and some parts of Europe. They also made money in the toy market in Japan with the release of Robo Pitcher. They had a better break in the United States when they released the Sega Master System, competing directly with the Nintendo Entertainment System.

The U.S. release might not be a big hit, but Sega Master System enjoyed huge success in other markets not penetrated by Nintendo, such as Brazil and Western Europe. It even edged out Atari Corporation and its console, Atari 7800. Finally, Sega managed to become the world's second most popular home system.

## ➤ *Still A Master In Arcade Games*

Sega was still the master when it comes to arcade games, releasing games such as After Burner, Outrun, Space Harrier and Hang-On. By 1987, Sega had 40,000 coin-operated machines used in 2,000 places worldwide.

In the game console business, Sega released the **Sega Genesis**, which is known as **Mega Drive** outside the U.S. in 1988, becoming a success in 1991. The Sega Genesis has blast processing. Super Nintendo doesn't.



Fig 6: Sonic the Hedgehog 1991

Sega's reputation as a cooler, more adult version of Nintendo started to resonate with fans. For example, because of internal restrictions, the Mortal Kombat series on Nintendo couldn't show blood. But on Sega.

In order to truly take the gaming crown from Nintendo, though, Sega had to come up with a mascot that could rival Mario, one that could easily appeal to American audiences. The company tasked artist Naoto Ohshima with the job, and he came up with a little guy named Sonic The Hedgehog. Sega's Sonic games featured a much faster-paced, action-oriented experience that a lot of Americans favored over the slow-moving Mario platformers. The boom in sales came when Sega decided to drop the price of the Genesis and include a copy of Sonic with new purchases. This tactic led to an additional 15 million units sold.

By 1992, Sega had matched Nintendo in sales in the US. From 1989 to 1993, Sega went from \$800 million in sales to \$3.6 billion. Sega solidified itself as a top contender and a force to be reckoned with.

Sega still offers multi-million-selling game franchises such as **Yakuza**, **Total War**, and the iconic **Sonic the Hedgehog**. It likewise remains strong in arcade game production and continues to operate several amusement arcades. It is into the production of various types of products for entertainment such as the **Sega Toys**.



Fig 7: SC-3000 Gaming Console

## SHIFT TO A SOFTWARE VENDOR (2002 - 2005)

### ➤ *Failure In Game Consoles*

The succeeding game consoles released by Sega, such as the 32X, Sega Saturn as well as the Dreamcast games consoles all suffered commercial failures. They failed to upset the reigning game console giant, Nintendo. .



Fig 8: Sega Dreamcast Console

Sega also released the **Sega Master System** and the first **Alex Kidd** game, which became Sega's mascot until 1991 when **Sonic the Hedgehog** took over. While the Master System was technically superior to the NES, it failed to capture market share in North America due to highly aggressive strategies by Nintendo and ineffective marketing by Tonka. However, it did dominate the European and Brazilian markets until Sega discontinued the system in Europe in 1996, and in Brazil in 2000

Because of these major financial losses, Sega announced in 2001 that it would stop production of game consoles. Instead, the company will concentrate on being a third-party game developer and publisher.

In 2004, Sega was acquired by Sammy Corporation, a Japanese company that develops and sells **pachinko** and **pachislot systems** for the Japanese and South Korean markets.

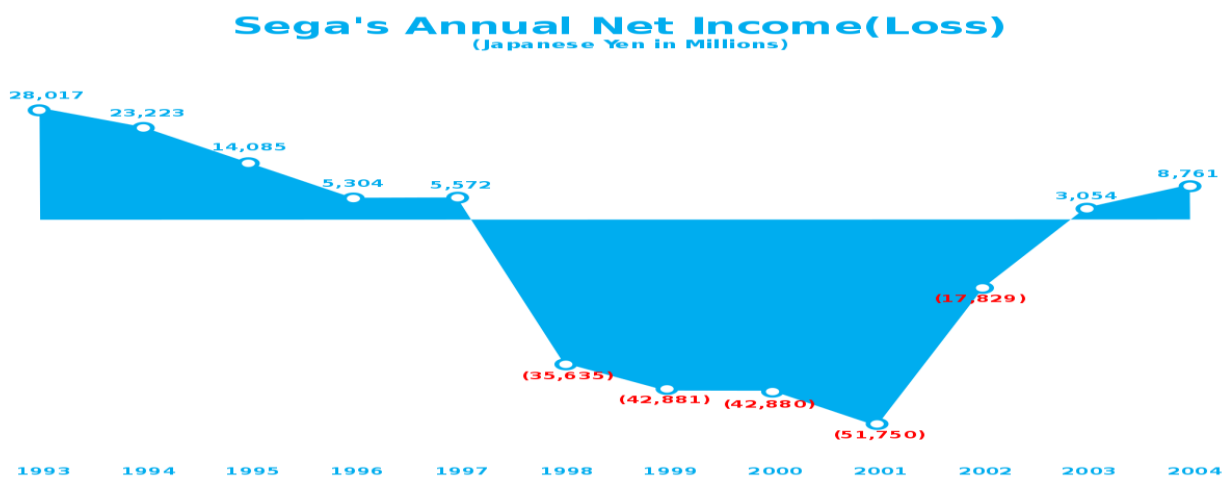


Fig 9: Sega's Financial Trouble in the 1998-2002 period

## ➤ *Video Game Creation And Production*

Although Sega failed to take off like Nintendo, it still is a brand that is known in many parts of the world primarily because the name is synonymous with arcade games. Still, Sega is now busy creating video games for different platforms, including **Nintendo, Game Boy, PlayStation, Xbox 360, Wii, Windows**, and its own game consoles.

Sega's published games include:

- After Burner
- Alex Kidd
- Altered Beast
- Bayonetta
- Beyond Oasis
- Blazing Heroes
- Bug!
- Border Break
- Clockwork Knight
- Columns
- Condemned
- Crazy Taxi
- Daytona USA
- Derby Owners Club
- Dinosaur King



Fig 10: Games Published by SEGA

## Several more games released by Sega

- Fantasy Zone
- Football Manager
- Ghost Squad
- Hero Bank
- House of the Dead
- Let's Go
- Out Run
- Shining
- Valkyria
- Herzog and Thunder force series (games from Techno soft)

When Sega started, it was a very viable company, but it wanted more, and rash decisions made the company fumble. When it ventured into the development of video games, many criticized it for focusing on quantity instead of quality. It still holds a place in the entertainment industry and the video game industry, despite its failure to become a top video game console producer as well as a video game creator and publisher. Sega remains profitable, despite the odds.

## ➤ *Take Your Video Games To The Next Level*

Sega's problems arose from rash corporate decisions. However, as a producer and publisher of video games, it can create more traction with players around the world with localization. Video game localization is the next step to gain worldwide success because it allows gamers to play games in their own language. For example, Baraksha, a Hebrew speaking gamer and hacker took it upon himself to localize Sonic the Hedgehog into Hebrew. He and his team localized everything, including the Sega logo in the splash screen.

## ➤ *Releasing A 2D Powerhouse During The Rise Of 3D Gaming*

When screenshots for the next generation of consoles after Genesis and SNES started showing up in gaming magazines at the time, the buzz was around how games were going to transition into 3D. It seemed obvious that 3D was soon to become the standard and where the industry was headed.

Obvious to everyone except for Sega, it seems, as the company designed its Saturn primarily to excel at 2D. And to that end, it succeeded, as Saturn is home to some of the most beautiful 2D games ever made prior to the HD era. But the Saturn couldn't really handle 3D that well as a result, and any 3D games that ran decently on the Saturn took a lot more work than they did for the PlayStation— which made most companies not want to bother.



## OWNERS

- Gulf + Western (Owner, 1969 — 1984)
- CSK (Largest shareholder, 1984 — 2004)
- Sega-Sammy Holdings (Parent, 2004 — present)

## Gaming Companies

Name	Location	Assets	Acquisition
Amplitude Studios	France	<i>Endless</i> series <i>Humankind</i> <i>Love Thyself: A Horatio Story</i>	2016
Atlus	Japan	<i>Catherine</i> <i>Etrian Odyssey</i> series <i>Megami Tensei</i> series <i>Devil Children</i> series <i>Devil Survivor</i> series <i>Last Bible</i> series <i>Persona</i> series <i>Majin Tensei</i> series <i>Shin Megami Tensei</i> series <i>Power Instinct</i> series <i>Radiant Historia</i> <i>Trauma Center</i> series	2013
Career Soft	Japan	<i>Elthlead</i> series <i>Growlanser</i> series <i>Langrisser</i> series (Formerly)	2001 (By Atlus)
Creative Assembly, The	United Kingdom	<i>Alien: Isolation</i> <i>Spartan: Total War</i> <i>Stormrise</i> <i>Total War</i> series <i>Viking: Battle for Asgard</i>	2005
Go Game	Singapore	<i>Chain Chronicle</i> <i>Dragon Project</i> <i>Hokuto-Revive</i> <i>League of Wonderland</i> <i>Legend of Gods</i> <i>Revolve8</i> <i>Shin Megami Tensei Liberation Dx2</i> Mobile ports of SEGA games <i>Three Kingdoms: Domination</i>	2015

Megasoft	Japan	<i>Aa Harimanada</i> <i>Battle Golfer Yui</i> <i>Mahjong Cop Ryuu</i> <i>Shinobi III: Return of the Ninja Master</i> <i>Space Harrier</i>	1991
No Cliché	France	<i>Quake III Arena</i> (additional work) <i>Toy Commander</i> <i>Toy Racer</i>	1997
Play Heart	Japan	<i>Gold Rebellion R</i> <i>Last Legion</i>	2015
Relic Entertainment	Canada	<i>Company of Heroes</i> series <i>Homeworld</i> series (Formerly) <i>Impossible Creatures</i> <i>The Outfit</i> <i>Warhammer 40,000: Dawn of War</i> series	2013
Renovation Products	United States	<i>Beast Wrestler</i> <i>DJ Boy</i> <i>Elemental Master</i> <i>El Viento</i> <i>Gaiates</i> <i>Jennifer Capriati Tennis</i> <i>Sol Deace</i> <i>Valis</i> <i>Vapor Trail</i> <i>Whip Rush</i>	1993
Sports Interactive	United Kingdom	<i>Eastside Hockey</i> <i>Manager</i> series <i>Football Manager</i> series <i>Out of the Park Baseball</i> <i>Manager</i> series	2005
Technosoft	Japan	<i>Herzog</i> series <i>Thunder Force</i> series	2016
Two Point Studios	United Kingdom	<i>Two Point Hospital</i>	2019



## **Massive Growth and International Expansion**

### **(2013 – Present)**

In 2013, SEGA acquired Atlus, Career Soft and Relic Entertainment. Ever since, the company has been growing at an unprecedented rate, delivering several successful games, buying out a steady number of studios, and garnering more of a global presence, reporting \$3 billion in revenue anno 2021.

But all was not lost for the company. An infusion of cash—as well as a deathbed investment from ailing investor Isao Okawa—kept Sega solvent and facilitated their transition from hardware manufacturing to software publishing. Today they are responsible for some successful titles, and the company turns a handsome profit. But the days of Sega as a console powerhouse on the global stage are long gone, never to return **AGAIN**.

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