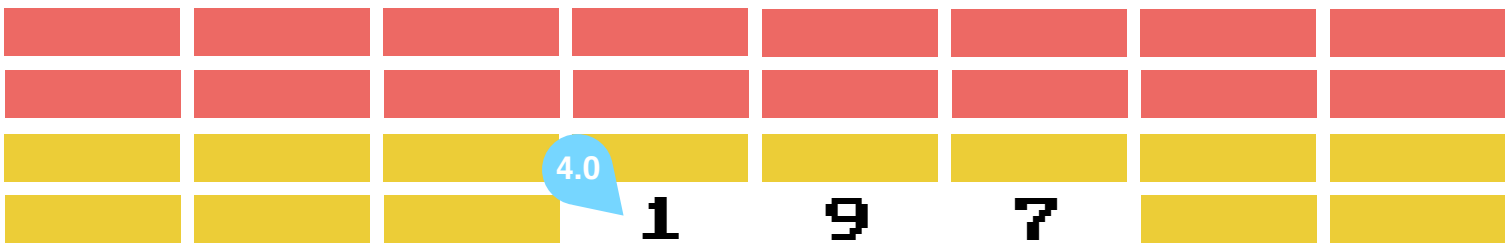


# The Little Crash of



In 1977 the sixty or seventy companies that were manufacturing two-hundred or more home video game consoles ceased production, dropped out of the business, or went bankrupt. A year earlier the home console industry had made \$1.5 million in profits on sales of 3.5 million consoles, a ten-fold increase over 1975. But in 1977, profits vanished. The primary culprit of the boom and the bust was a microchip, AY-3-8500 which had allowed manufacturers to cheaply manufacture Pong clones. Within two years of the chip's 1975 release the market was saturated with so many cheap clones that it collapsed.

A few companies lingered: Bally, Magnavox, Coleco. In Japan, Nintendo was just getting started building Pong consoles. In America, Atari had a implemented a plan for survival called "Stella."

The Little Crash of of 1977 had forced Atari to go all-in on their programmable console. It also encouraged them to take steps to avoid falling victim to the next crash. First they sold the Atari console with a narrow profit margin in order to realize a greater margin on games. Second they allowed third party manufacturers to make cartridges for the system in an effort to avoid stagnation and increase differentiation. Third they made a serious effort to innovate and stay on top of emerging technologies.

That is, until Warner showed up.



Atari witnessed their market share and revenues shrink throughout 1975-6 as the other companies entered the arcade and home game business.

"One of Atari's weaknesses was it was primarily self-financed...There were times when it was practically cheque-to-cheque and there would be a race out of the parking lot to make sure your pay cheque would be cashed." – Steve Bristow

Bushnell, always the entrepreneur, knew Atari had to pivot and create an affordable cartridge-based home console of their own or perish in the approaching collapse. He understood that the novelty which was driving Pong sales was worn out. Up to this point home game systems could only play a number of built in games. Even the cartridges for the Odyssey wet just jump switches to change between built-in in games – a switch would have changed just as well. So Atari hired some very talented engineers and started work on Stella, later named the VCS, later named 2600.

But Atari had little money to manufacture the system, let alone even finish the engineering and design. Atari had to get capital fast, Pong was over. Worse, Fairchild Semiconductor had released a programmable home system called the Channel F. The \$170 Fairchild Channel F could play an unlimited number of games programmed on interchangeable cartridges. Atari was going to be left behind.

They had a two choices: go public or sell themselves. They chose the latter.

Atari looked around for buyers for several months before they were approached by Warner Communications, known for their feature films like Jaws and The Godfather and music publishing. CEO Steve Ross, like Bushnell, was always looking ahead trying to shift his company into new industries. Atari was an opportunity for Warner to pioneer a new entertainment industry with few competitors, apart from the pong machine manufacturers.

In October 1976 Warner bought Atari for \$28 million dollars making Nolan Bushnell an overnight millionaire and securing the funding Atari needed to manufacture and market the VCS and put one in the home of every kid in America.

With Warner's investment and marketing know-how Atari would grew at an unimaginable pace doubling in size every year. By the numbers it looked like a great deal for everyone, especially Warner. By 1982 Atari would account for 60% of Warner revenues.

"Nolan Bushnell can look you in the eye when he says he was twenty-nine years old when he started Atari with \$250 of his own money and in four years had sold the company for \$28 million, of which \$15 million went into his pocket." – Scott Cohen

1.0 Navigate to other company stories

2.0 Interactive map of events in time

3.0 Timeline scrolls with user. Allows user to skim article. Could be horizontal across top or bottom too.

4.0 Animated pong reveals part of title

5.0 Clicking or hovering on these reveals source material and notes.

6.0 Tanks animate. Perhaps bullet ricochets off text to score a hit.

7.0 Pull quotes break up text and provide source material.

8.0 Long quotes can also separate chapters.