Timeline Home page logo etc. **Companies Personalities** Sources/Research

The Little Crash of



3.0 Atari begins developing VCS and sells to Warner

> 1979 1980

1977

1978

1981

1982

1983

1984

1985

1986

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 \$1500 million in profits on sales of 3.5 million consoles, a ten-fold increase over 1975. Dut 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.

A programmable video unit, with its ability to create virtually any imaginable kind of visual display, has the potential to offer much more than just entertainment. It could be the first step toward a true home computer, useful as an instructional tool and as an information storage and retrieval device. As these applications are refined, the price of new program cartridges should drop, perhaps by as much as 50

All this, of course, still is some time away. Meanwhile, there are plenty of electronic games with which to occupy our leisure time. Television anyone?

per cent.



'Although the crash of

than the Great Crash of

and demonstrated how

within the industry would

by consumers, who were

looking ahead to what

technology was on the

horizon, rather than

and advance as it

Mark P. Wolf

appeared. Continuing

miniaturization and the

rapidly dropping prices." –

not necessarily be followed

becoming more careful and

adopting every new system

unbridled enthusiasm

1977 had less of an impact

1983, it provided a warning

Stella!



Clicking or hovering on these reveals source material and notes.

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

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 chequeto-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 un 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

- Navigate to other company stories
- Interactive map of events in time
- horizontal across top or bottom too.
- Timeline scrolls with user. Allows user to skim article. Could be
- - Pull quotes break up text and provide source material.
- Long quotes can also separate chapters. Animated pong reveals part of title