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100 outlets, compared with a total of 8,993 Radio Shack outlets worldwide. Says Gartner Group analyst Douglas A. Cayne: "They will be successful in telephones, but there is no way telephones will make a mark on the company before fiscal 1986."

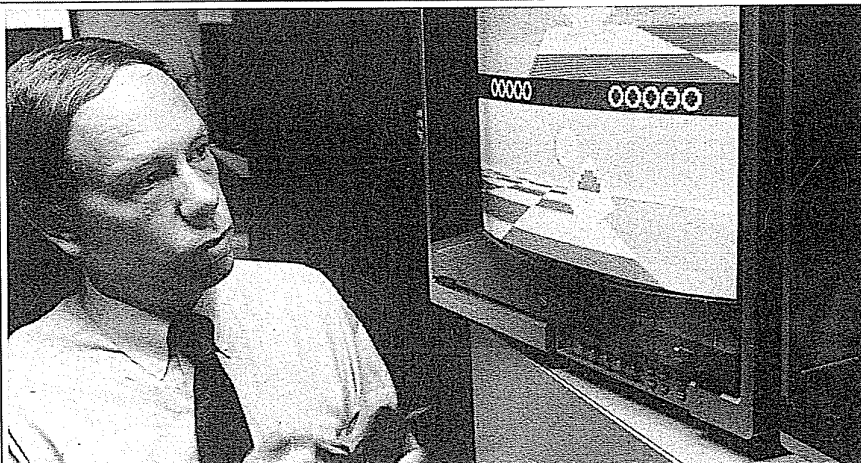
The cautious expansion proved to be justified. The consumer telephone market was saturated quickly. Inexpensive, one-piece telephones are moving now only at distressed prices, and some retailers expect offshore manufacturers to begin pushing sales of conventional telephones as well to keep their assembly lines busy. "The people offshore have to make something," says Phillip H. Ault, president of Stanwood Electronics Corp., which owns 21 phone stores.

Tandy has been trying to win small-business customers in its telephone centers but has not yet found the price-performance combination that draws

crowds. Roach promises new telephone systems later this year for small-business users. Tandy also entered into a joint venture with Mobira Co., a subsidiary of Finland's Nokia, to design and manufacture cellular radios. Moreover, Bell Atlantic Corp. has designated Radio Shack as a cellular radio agent for its four-city mobile telephone service.

Both products, particularly the \$2,000-to-\$3,000 mobile telephone, will help move Radio Shack upscale, where its image remains a handicap. Tandy also is addressing that problem. The company named its latest computer the Tandy 2000 rather than a traditional Radio Shack name. The computer was set back by parts shortages and lukewarm support from software development companies, but Roach remains sanguine. "No one plans lulls," he says. "But the sales gains will return. We have a lot of plans, and we have a lot of opportunities." ■

ATARI REFUSES TO LET THE VIDEO GAME FAD DIE



CHAIRMAN MORGAN IS BETTING ON INNOVATIVE GAMES DEVELOPED BY LUCASFILM

For more than a year, the video game industry has heard a death knell as waning consumer interest and price markdowns on cartridges resulted in relentless losses at game companies. In 1983, industrywide losses totaled about \$1.5 billion and caused Mattel Inc. and North American Philips Corp. to abandon the market altogether.

But just as the industry's only antidote seemed to be retrenchment and a shift to home computers, the most battered player of all, Atari Inc.—which lost \$536 million last year—stubbornly insists the business is not burned out. "We are going to reignite the consumer's love affair with video games," says Chairman and CEO James J. Morgan.

Atari—with Lucasfilm Ltd., its partner of a year and a half—opened its

campaign on May 8 by showing off two new games. Lucasfilm, the Marin County (Calif.) company headed by *Star Wars* producer George Lucas, designed the games, which Atari will market in July. *Ballblazer* and *Rescue on Fractalus*, as the games are called, are the partnership's first products.

POINT OF VIEW. And the games, some enthusiasts say, are among the most innovative on the market. They rely on strategy, detailed graphics, and a "point of view" visual approach. In *Ballblazer*, for example, two players driving futuristic vehicles called "rotofoils" barrel across a video checkerboard, propelling a ball towards two goalposts. On a split screen, the player sees himself from his opponent's vantage point and, simultaneously, the view from his own rotofoil.

Later this year, Atari plans to make available more point-of-view game software for its own hardware and versions for Apple, Commodore, and International Business Machines computers. It will also launch a more sophisticated dedicated video game machine, the model 7800, which will cost about \$140.

The new products spring from a recently slimmed-down Atari that was forced to reorganize in the face of mounting losses. Employment has been cut from 7,000 to about 2,500 in one year, and many of the advanced research and development efforts have been slashed to concentrate on immediate product goals. "Behind the facade of the financial troubles," Morgan insists, "this management group has gotten a focused product strategy."

Critics, however, charge that Atari's plan to continue producing video game machines and new games is risky in such a troubled market. "The pizzazz and glitter of video games is running out," notes Jon A. Loveless, marketing vice-president for Synapse Software Corp., a vendor of Atari software. "I don't think there's a market left for dedicated [video game] machines."

RIGHT DIRECTION. Although sales of video game machines have slumped to 2 million units annually from their peak of 7 million units in 1982, "there is still a continuing market," says Clive G. Smith, an analyst with Yankee Group. However, Smith warns that Atari's new model 7800 "may not be right for the market." Although it is state of the art, he says, "it is not a whole lot better than the 5200." Atari, however, expects the new Lucasfilm software to stimulate sales of future game machines while tapping an existing market of 4 million owners of Atari's home computers and 5200 game machines.

In the fast-growing home computer market, Atari still lags behind Commodore International Ltd., which has a 38% share of the market for machines under \$1,000. Although Atari's 800 XL model is selling well, the 600 XL "is sputtering along," says Smith. Atari, which views home computers as "the biggest consumer product opportunity in the country," according to David N. Ruckert, senior vice-president, plans to introduce new products this fall.

In the meantime, Atari will try to bridge the gap by maintaining a presence in video games. Michael Katz, president of gamemaker Epyx Inc., says that if Atari can produce games that emphasize "sophistication and thinking," it is headed in the right direction. Synapse's Loveless, while skeptical of the video game market, believes that joint ventures, such as the Lucas partnership, make sense: "I think Atari is charging toward higher-quality products."