

Title: Atari, Sega, Nintendo plan comeback for video games
Author(s): [Steve Smith](#)
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Atari, Sega, Nintendo plan comeback for [video games](#) If Lazarus could rise from the dead, so too can the video-game business.

Basically, that is the opinion of executives with three competing companies -- Nintendo of America, Sega of America and Atari Corp. -- whose combined video game hardware shipments on the manufacturer level this year could reach 3 million, the same number of units shipped during 1984.

While this projected sales figure is a far cry from the Electronic Industries Assn./Consumer Electronics Group (EIA/CEG) estimate of what was sold during 1982 -- 8.2 million -- it's amazing these three companies are willing to commit to the category at all. Proliferation of inferior games, widespread growth of third-party software suppliers, retail and manufacturer price cutting to gain volume and market share, and overdistribution all contributed to a meteoric rise and fall during the early 1980s.

However, the three current companies in the market are not going into the video game category blindly, saying they understand past problems and the track records of game systems that failed.

Nintendo and Sega have successfully introduced their new game units in Japan this year. (In fact, Nintendo had an excellent nine-week market test in New York last fall.) Meanwhile, Atari has repackaged and redesigned its 2600 system, and in January introduced its new 7800 system, which can play games designed for both Atari systems. Atari has based its new efforts on the strong sales of its 2600 last Christmas.

All three companies fervently believe there is still a market for video games in the United States. Executives with each company, who were interviewed by HFD at the Consumer Electronics Show in Chicago, say inferior overpriced games helped kill video games the first time around and that they won't make the same mistakes.

Ron Judy, director of marketing for Nintendo, commented that during the New York rollout last fall, "We sold close to 90,000 units in only nine weeks. As a result, we went into the Los Angeles/San Diego market during mid-February. The success there was over and above our expectations." Nintendo expects to sell 1.2 million to 1.5 million units nationwide in 1986.

In both markets, Nintendo achieved 90 percent sell-through, and in New York an estimated 40 percent of area stores sold out during the Christmas period, the firm reported.

Judy commented that based on the New York and Los Angeles successes, "We sped up our national rollout plans. We began shipping to such stores as Target, Toys 'R' Us, Federated, FAO Schwarz and others during May."

Nintendo announced at CES that the national launch includes a nearly \$20 million introductory promotional budget with merchandising and promotional campaigns, and a national network advertising program, scheduled for September.

The major reason for the demise of the category during the early '80s, according to Judy, "was a fall-off in the quality of home video games during 1983 and 1984. They did not meet the standards of consumers, and business died."

Judy said that much of the blame for poor game software rests with the trend to have plenty of third-party software suppliers, and the glut of product which occurred. Nintendo will not have that problem. "Retailers won't have to deal with a software

glut because we won't allow third-party software. It violates our patents and copyrights," he said.

To get games for its system, called the Nintendo Entertainment System (NES), Judy said, "We will license games selectively. If we find a quality game from an outside source we will license it and manufacture it ourselves." According to agreements the firm has signed, and will sign in the future, licensed games will not be available on other game units.

Judy points out that Nintendo software sales in New York and Los Angeles during the first quarter "were very strong. We have four types of games: Arcade classics, action/sports, programmable games and robot games." The line ranges in price from \$22 to \$39 each at retail. He noted that prices for software have held firm, while pricing on the NES itself "is still holding in the \$139 to \$149 range" for the Deluxe Package and \$99.95 for the Control Deck package.

The Sega Master System, which has a suggested retail of \$150, will be shipped nationwide during August. David Rosen, chairman of Sega of America, said that the unit was designed, "so it could be kept by consumers on their home entertainment or A/V racks."

Bruce Lowry, president, related the initial response by buyers to Sega's brand new offering. "They rejected the category. They thought that nothing had changed. But once they saw our product, they thought it was viable. As they learned more about our system, we began to get a groundswell of support from the trade."

Lowry said that some major accounts "are still looking to replace some of the volume they had with video games," which is why many have welcomed Sega's entry into the business. The company expects to sell about 500,000 systems by the end of the year.

The Master System is being priced relatively inexpensively, Lowry said, "to get the hardware out there. We are still in the razor blade business. We will distribute the unit across the board, but will center on consumer electronics stores and departments, because they can effectively demonstrate the product."

Sega's Rosen said that the system uses 256K games, called Sega Cards, because they are the size of a credit card. The cards, along with a larger Mega Cartridge which has 1048K memory, could enable Sega "to introduce entertainment software for board games. There is much memory capability in the unit. We would hope to get licenses for such famous board games as Trivial Pursuit and Monopoly."

The company, which will spend \$9 million on advertising during the fourth quarter and January 1987, is like Nintendo in that it will select and manufacture third party software for the designers.

Atari, the granddaddy of home video game companies, expects to sell "well over 1 million" 2600 and 7800 systems this year, according to Michael Katz, president of the Entertainment Products division.

The reason why Atari is cranking up production of a refurbished 2600 and the new 7800 system is that "last fall, with no advertising or promotional effort on our part, we sold plenty of 2600s. We could have sold hundreds of thousands more if we had the production capacity. It proved to us that the industry is alive and well."

The product and promotion package that Atari is presenting is enticing. The 2600 is now priced at under \$50 at retail, while the 7800 is under \$80. New cartridges will retail for under \$10 and new Super Game cartridges will be priced under \$14.95.

Katz explained, "Atari is a great name in this business, and we have the lowest prices. In addition, for those kids not old enough at the time of the initial craze, its an opportunity. For those who were old enough, with the new software, the systems now become family entertainment."

Katz also credits the new players, Nintendo and Sega, for "getting new excitement and life back into this business." The problem for Atari is that it is competing against systems that are technologically newer. Katz stated, "Our hardware is half the price of the competition, as is our software. In addition, we have developed 7800 Super Game cartridges that have I

megabyte of memory. We should compete adequately. After all, our 7800 is less expensive at retail than Worlds of Wonder's Teddy Ruxpin (electronic animated stuffed toy)."

Unlike last year, Atari will actively advertise and promote its line during the second half.

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