

*What will happen when the computer makes it way into the romper room?*

## Quaker Oats meets Pac-Man

By Jonathan Greenberg

**T**HOUSANDS OF BUYERS move eagerly from suite to suite at the 80th annual American Toy Fair in New York City. Smiling presenters for Coleco, Mattel and Parker Brothers walk a steady stream of clients through sophisticated displays of their latest game cartridges. Tucked away down a quiet hallway, behind the elevators on the top floor of the attached annex building, Quaker Oats' U.S. Games video cartridge subsidiary occupies a tiny, shabby office.

John Belden, vice president and general manager of U.S. Games, displays his wares on a bare desk covered with a plastic tablecloth and chats with the only customers: three jovial young Australian businessmen who seem more interested in playing the games than listening to the sales pitch. Is this any way to run a company?

It is if you're Quaker Oats. Last year the \$2.7 billion foodmaker decided to buy this insignificant, unprofitable factor in the high stakes video game industry for a paltry \$2 million or so. "Larger acquisitions would have been grossly overpriced," says Quaker Oats President and CEO William Smithburg. "I'm glad I didn't make some of the bigger gambles that others made last year." Is Warner's Steve Ross listening?

U.S. Games employs only 20 people in its Silicon Valley base, but that's the point. Quaker's venture in electronic games is a defensive move, not an offensive one. The dramatic changes that microelectronics are bringing to the toy business could potentially shatter the jewel of Quaker Oats' subsidiaries, Fisher-Price toys.

Since the company acquired Fisher-

Price in 1969, it has used its impressive marketing strength to capitalize on Fisher-Price's quality name in toys for the preschool set. Sales have increased from \$40 million to nearly \$400 million last year, with earnings growing at a similar clip—until the latest recession hit. But darkness looms over Toyland. Video games and



*Quaker Oats CEO Bill Smithburg  
Someday, a talking teddy?*

home computers are taking an ever-increasing share of the consumer's disposable income. Shipments of traditional toys decreased 7% last year, while video game sales grew 88%.

CEO Smithburg, explaining his tentative venture into video games, says, "We hope that the electronics we learn through U.S. Games will be integrated into Fisher-Price in an R&D sense." Adds U.S. Games' Belden: "With a Silicon Valley base in a business like this you get people presenting a wide variety of technological opportunities to you."

Today, some 15% of Fisher-Price's

U.S. sales come from toys containing microprocessors. A new line of sturdy children's phonographs, cassette players and walkie-talkies are its hottest selling products in years. "Baby Soft Sounds," a doll that is the company's first experiment with voice synthesis, uses microprocessors to make gentle sounds when held and to fuss when ignored. Over \$15 million worth of these charming devices were sold in the last three years.

Within the next year or so the company will probably begin marketing "child-directed computer software." For competitive reasons, Smithburg keeps mum about this "great opportunity for the toy business." But voice recognition already allows a computer to respond to very simple, specific verbal commands. Respond with what? Perhaps *Sesame Street* graphics on the console. Perhaps a rendition of "Mary Had a Little Lamb" by a \$4 voice synthesizer not much more complex than Baby Soft Sounds. Once computer technology gets cheaper and reaches the point where a machine can recognize relatively complex, multiword conversation and "talk" back, the potential mushrooms for things such as storytelling, "interactive" word games and video-aided education. "That can unlock the computer for the three-year-old," says a Fisher-Price spokesman.

A bit further down the line is a "synthetic playmate"—a child's robot that will be able to respond to voice command, play games, and probably even "see." What's more, it might be made to look like a teddy bear. The obstacle, of course, is getting this technology—most of which exists today—into a reasonably priced package. It will probably be the end of this decade when such robots toddle on to the market.

Meanwhile, there's always the upside potential video games offer. U.S. Games has contracted Jonathan Winters to represent its current line of a dozen games. The first potential hit, a Pink Panther game, will be released this May. There will be other games of a "whimsical, fun" nature, as opposed to the shoot-'em-up approach, intended for younger children, girls and parent-supervised purchases.

Whether U.S. Games turns a buck or not seems a matter of only secondary concern for Quaker Oats' management. CEO Smithburg casually notes, "The risk is so low that, if it fails, we can sweep it under the rug and no one would really care." Low risk, high opportunity. ■