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FUN & GAMES

Second-half outlook:

Worst is over, say battered video game software suppliers

by Suzan D. Prince

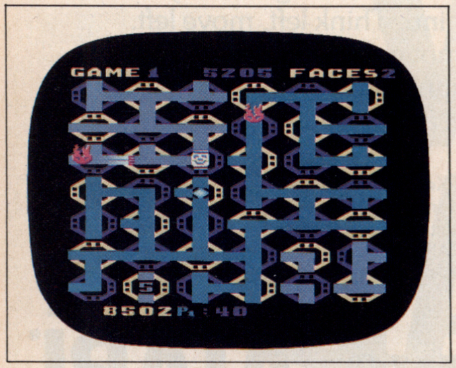
In this, the all-important "Year of Transition"—as survivors of the video games shakeout are calling 1984—the industry is coming off a long, rocky road. And, with the coming crucial Christmas season, suppliers insist that retailers can look forward to a more orderly marketplace than they've witnessed in nearly two years.

"While there's nothing to indicate that the games business will continue growing at its previous levels, a solid niche remains for the dedicated game system and software," asserts Parker Brothers marketing VP John O'Leary.

How large that niche will be and how long it will last in the shadow of encroaching home and personal computers is the big question to be grappled with as the third quarter rapidly approaches. Imagic, one of many firms that used the games category as a natural springboard into computer software, views the "10 to 15 percent diehard arcade game players" as an ongoing, indefinite source of fourth-quarter sales, says marketing VP Paul Arutt. But apart from an occasional ColecoVision release, the company says it will concentrate efforts on diskette-format computer games.

"Undeniably," agrees Parker's O'Leary, "computers do everything game machines do, and much more." Still, entertainment remains the most comfortable consumer software application, whether on game or computer.

Interphase, an optimistic—and the lone—new entrant into the games segment, claims the market is ripe for new technology developments characterized by strong product differentiation.



Activision's Zenji: Entertainment remains key to second-half strategy.

"Consumers and retailers are largely disillusioned by what has happened in the video game industry," notes company president Stephen Willey. "That's why we chose precisely this time to enter the market. We think we can create brand awareness for the unique products we offer, such as chip-based talking games and built-in artificial intelligence. We're not going in to make a million overnight. We're in it to make it work over the long haul."

Like Willey, Activision president Jim Levy sees a continuing trend to multiple-system formating. "It's an efficient strategy in what is bound to remain a fragmented consumer marketplace for the foreseeable future."

Licensing is no longer viewed as the panacea for otherwise lackluster titles, suppliers say, and the industry has finally come to grips with an individual title's limits on influencing sales. Another important trend is to "more cerebral" efforts; several firms—Coleco, Parker, and Atari among them—plan future arcade action games laced with strategic elements to broaden the core audience to include adults, women, and girls.

On the distribution front, many predict the massive inventory glut that plagued the last Christmas season will finally die off in the third quarter, and that a slim, trim, and cautious-moving retail network will emerge.

"Of the estimated 80 million cartridges purchased by consumers in 1983, we estimate that perhaps a third of the total purchased were distress sales, less than $8 a title, with Atari, Imagic, and Mattel the major dumpers," Goldman, Sachs analyst Richard Simon reports.

But according to a recent study by the securities firm, the formerly $2 billion-a-year games market already has exhibited preliminary settling. Video game hardware and software retail sales will be about $1.5 billion this year, down—but not drastically—from $1.9 billion in 1983. The industry's peak year was 1982, with retail sales of $2.7 billion.

As for an instant cure to the depressed pricing situation, executives say there is none. However, Parker Brothers' O'Leary notes, "retailers should keep in mind that at this stage there is clearly a two-tiered market in which prices for new, quality releases are holding nicely in the $25 to $35 range."

From now on, adds Simon of Goldman, Sachs, seasonality will reign. "In our judgment, perhaps more than 50 percent of annual sales of game cartridges will now occur from November through February, and even a greater percentage of console sales will come over those months. As a result, given that we expect the flood of liquidation cartridges to abate by mid-1984, Christmas could be healthy this year."

Activision's Levy says that much of what occurs in game software this year will depend on hardware suppliers. "Basically, all we've been talking about so far is an industry maturing in the same way other consumer industries have over time. By the end of '84, most remaining companies will have made the decision to stay in the business for the long haul or to get out once and for all. After that, the survivors can concentrate on establishing a stable marketplace."

The hardware market has been pared down to two major players—Coleco and Atari—and neither shows any signs of abandoning the market. Atari, in fact, plans to ship a new game console this summer, and third-party software publishers say such a move can only help the industry. □

TOP 10 VIDEOGAMES

Top 10 Games

This Month	Title	Last Month
1	**Pitfall II** Activision	1
2	**WarGames** Coleco/ColecoVision	4
3	**Pole Position** Atari/VCS, 5200	–
4	**Frontline** Coleco/VCS, ColecoVision	–
5	**B.C.'s Quest For Tires** Sierra On-Line/ColecoVision	1
6	**Buck Rogers** Coleco/ColecoVision	5
7	**Cabbage Patch Kids** Coleco/Colecovision	–
8	**Decathlon** Activision	8
9	**Q*Bert** Parker Bros., all game formats	9
10	**Moon Patrol** Atari/VCS, 5200	3

All listings for Atari VCS unless otherwise noted.