

**Title:** Will Nintendo's new game play?  
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REDMOND, Wash.--Try to picture the color television industry being dominated by one manufacturer with a market share of, say, 80 percent.

Not too easy--particularly in the consumer electronics industry--where scores of manufacturers seem to fill each product niche.

And if you try to imagine the video game business--as it was once constituted--being dominated by a single manufacturer, the notion is outlandish.

Yet the industry may be witness to this phenomenon in the next few years: One manufacturer that makes virtually all the hardware, virtually all the software and has a hammer lock on all third party software as well.

The company could be Nintendo of America, and the man who thinks (and hopes) it may happen is Minoru Arakawa, president.

Strictly speaking, the product that Nintendo will gradually bring into other cities after the first of the year following its New York launch this fall is not a video game in the conventional sense. The company calls it the Nintendo Entertainment System. Retailing for under \$180, it consists of an operating robot and a light "gun," as well as more conventional onscreen games.

One key difference between Nintendo's product and its predecessors is the quality of visual element. The figures are more like cartoon animations. They have realistic perspective as well as details such as shadows that bring an actual arcade quality to the play. The light gun and robot provide an element of interactive participation between one or two players. In this respect, and in its considerable variability, the Nintendo Entertainment System is far removed from its antecedents in the video game field.

With the New York launch scarcely underway, Ron Judy, vice president of marketing, feels that chances are good that Nintendo will be able to create a whole new product category from the ashes of the video game business and completely dominate that category. He feels this way because the Nintendo system offers what the video game industry promised but never delivered.

"This is something the consumer has been waiting a long time for. We have made huge advances without the robot, but with the robot you're got much more in the way of entertainment. We're introducing a product that nobody provided before."

#### Successful test

Bruce Lowry, vice president of sales, is a recent arrival at Nintendo, having been appointed to his post in 1984 after several years with Phase Linear, another Washington-based consumer electronics company. He knew the video game business only from its reputation, but the entertainment system raised his confidence level. And when Nintendo ran a modest, but very successful market test in a VideoConcepts store in Bellevue, Wash. last May, his confidence level rose.

"With just one small ad we had a problem with crowd control, people were lined up past the front door and down the street," he said.

But with all their confidence, the Nintendo executives know that they are up against a lot of consumer and some retailer residual resentment concerning the entire video game category. Fairly or unfairly, Nintendo is being splattered, if not painted, by the same brush.

Commenting on the video game business of the early 1980s, Judy remarked, "I have to sympathize with the retailers who saw a profitable business disappear right before their eyes. [Video games](#) had become so big that even the top management of large chains became aware of it. I've talked to some of them, and they asked me how a multi-million-dollar-a-year category could suddenly turn into something they couldn't get rid of quickly enough."

Judy feels that another problem was that too many manufacturers were chasing volume at any price. There was also the problem of poor marketing.

Lowry added, "Even in the best years of the industry there was no price integrity. One week the factory was handling sales directly; the next week they had a distributor and the week after there was another distributor."

In launching its entertainment system, Nintendo is traveling a dust-choked trail and is under no illusions that the trail will be an easy one. But the company has laid its travel plans very carefully and has avoided pre-conceived notions in the trade about what software should be and should not be.

"The key video game manufacturers always thought the requirement for success was third-party software," said Judy. "Interestingly enough it was the key to their demise. But this type of thinking was true among retailers also. They told us that if we didn't have third-party software our system would never be successful. But I think we're making headway in showing them why we're going in the direction we are. It's taking a lot of effort."

#### Offering controlled

Arakawa said that while there have been between 15 and 20 third-party software vendors in Japan, their offerings have been tightly controlled by Nintendo.

"In the United States," he said, "we have no third-party vendors of software and have not decided yet whether to license any. We don't want to lose control."

As a result, there is no possibility that the market will be flooded by software that can be used on Nintendo machines. The widespread disaffection that occurred in video games because of poor performance and poor quality of third-party material will not be allowed to affect Nintendo's business.

Neither does the company plan to flood the market with its own software. Current plans call for about 15 for all of 1986. Lowry estimated that the average SKUs for retailers will be in the same neighborhood, a far more orderly situation than the old video game days, not only in terms of cartridge and console SKUs but in the number of vendors as well.

While the company's approach to the entertainment systems business has a strong common sense element, its approach will not be without muscle.

When Nintendo's new advertising drive ends at the Christmas season during the New York launch, \$3 million will have been spent since the start in October. This figure, obviously, was not earmarked only to move the 100,000 or so systems that are expected to be sold during the period. It was earmarked to set the stage for the gradual unfolding of distribution outside New York in 1986.

"We've budgeted a tremendous amount in New York because it takes heavy spending to move a category uphill again after it's been going downhill," said Lowry. "I think what happens in New York will have a wave effect elsewhere. We're getting retail support, but it's the consumer we have to convince. A lot of retailers outside New York will know what's taking place in the city, but not the consumer. We'll have a lot of work in 1986. You've got to let them see it to believe it."

Nintendo plans a very gradual introduction in 1986, probably no more than 10 markets. But in each of those markets, the company will spend as much proportionately to promote the product as it will in New York.

"We're telling retailers not to take astronomical numbers. We're saying take what you're comfortable with," said Lowry.

"What we learn in New York, we'll make available to retailers in other markets," Judy said. "And we'll have information for each category of retailer throughout the country based on the experience of that particular retail category in New York: Appliance-TV, mass merchant, department store or whatever. We want to prove to retailers what we're saying about the Nintendo Entertainment System is true."

#### Retailers to act

The fact that Nintendo has demonstrated its willingness to create a market for them, retailers in New York have stepped forward with a substantial investment of their own. Major department stores have allocated windows--and considering the value of floor space--sizable special areas for in-store display and demonstration.

But probably the thing that has sold the product to retailers is the product itself and the value that it represents. The package consists of a base module, two controllers, a light gun, the robot and two software packages. Lowry feels that the package is more than the consumer would expect for under \$180. The robot is the clincher.

"The key word in the commercial game business is interactive technology, and that's what we're bringing into the home," said Judy. "Because of the variability and potential complexity of play, regardless of what element of the system is discussed, it can appeal to any age group."

"The robot," said Judy, "can be used as an ally or as an adversary as it reads the signal from the television screen. We're able to provide in all the games a randomness and variability that was never available before."

Obviously, Arakawa, Judy and Lowry would not have the advertising support nor the live-wire product if they did not have a strong company behind them.

Nintendo is a 96 year-old concern that has always specialized in entertainment which, in the early stages, were very simple products. In the 1960s it entered the field of electronic games, and in the late 1970s introduced its first arcade games. Interestingly, it emphasized the quality of play over the quantity of games. While its competitors were introducing 10 to 20 games a year, Nintendo was introducing only one. However, with that the other companies did with their 10 to 20. In 1982, the company brought out its first handheld LCD game and sold 30 million units by the end of 1983.

With the launch of the Nintendo Entertainment System in Japan 18 months ago, the company sold 4.5 million base units and 22 million cartridges as of the end of August 1985. In 1984, Nintendo was one of the most actively traded stocks on the Tokyo Exchange, and according to the Japanese Economic Journal, the company was among the 10 top concerns in the country on the basis of earnings, growth and return on investment.

Looking ahead to next year, Arakawa has adopted a very conservative stance. "We're going to be very selective in our expansion," he said, "and we will not be in full national distribution by year-end."

However, the company has new product plans for 1986. Probably in June it will be ready with a telephone modem so that games can be played by two remotely located participants. The company is also planning a disk drive that will provide much more storage capacity for increased play value and better graphics.

Nintendo is taking the game business very seriously and is waiting to see just how the American consumer takes to its products.

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