The Console War Heats Up

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Third generation consoles are just around the corner. Microsoft will launch its new Xbox 360 in November, which means that it will have more than a head’s start on Sony and Nintendo.

May 12th was the day chosen by Microsoft to present its new desktop console, the Xbox 360. This was staged at a Gala hosted by Elijah Word, the popular star of “The Lord of the Rings”, and was broadcast by MTV throughout the United States.

Six months before, at the beginning of November 2004, the “Halo 2” video-game was launched. Pixar’s last big motion picture, “The Incredibles” came out about the same time. While the film boxed 70 million dollars in its first weekend in the United States, the sale of the video-game took in 125 million dollars on its first day, an absolute record in the entertainment industry. Would this have happened in the times of Game Boy? What is going on in the video-game industry?

What is happening is that the video-game business is not now the only entertainment sector with most growth, but quite simply it is the one that makes most money, far in excess of films, music or DVD. According to the consulting firm NPD, the up-to-recently so-called arcade games had a revenue of 13,900 million dollars in 2003, as against 9,200 millions for the film studios. This is what the situation is like in the United States but it is also true for Spain, where video-games were sold to the tune of 790 million euros in 2004. We are looking at a 30-year-old sector that is reaching maturity by leaps and bounds.

The incorporation and conquest of the video-game market by Sony and more recently by Microsoft has spelt the conversion of the simple “game machines” of old into real high capacity multimedia devices. So far, Sony has beaten everyone hands down with their successive PlayStations, while Microsoft has swept past the traditional Nintendo to take a well deserved second place in the world ranking with its first Xbox.

In 2005, the fight continues: the Japanese answer to the new Xbox, PlayStation 3, has just been officially presented at the E3 Fair (Electronic Entertainment Expo) in Los Angeles. This has clearly shown the generational change and the true extent of the console war that is being waged: if the Xbox boasted three IBM processors (capable of performing 9,000 million operations), PlayStation 3 will have the Cell processor capable of performing 218,000 million operations; if the Xbox 360 continues to rely on the double layer DVD, PlayStation 3 will go for the Blu Ray technology that has six times more capacity than the Digital Versatile Disk. Both will come with hard disk options and, needless to say, they will have broadband Internet connection.

The situation changes somewhat in the portable consoles. Nintendo has never lost its supremacy since it reached that spot back in 1989. That began with the original Game
Boy and continues with the sophisticated DS (Double Screen) that was presented to the public in March, although the company focuses its strategy on producing games.

Sony, however, has reacted once again with its PSP (Play Station Portable), which is being sold quite successfully in Japan and the United Status and its European debut has been put back till September. After losing the first MP3 battle to Apple and Creative, Sony’s PSP is being sold as “the walkman of the XXI century” because of its capability to play compressed music as well as UMD format films. Even Nokia has entered the fray experimenting with the integration of telephony with its NGage console, which enables the user to phone, receive short messages, surf XHTML pages and play with other users on the other side of the world.

What does the future hold? Will some of these devices become the standard multimedia center? So far, the only sure thing is that the Xbox 360 goes on sale in November 2005, which will give Microsoft a huge advantage at Christmas (when 80% of sales take place) over its competitors (PlayStation 3, as well as the new and mysterious “Revolution” console by Nintendo, both of which are technologically better than the Xbox 360) whose consoles will not be launched until sometime in 2006. But how true is the saying that goes “he who strikes first, strikes twice”? If the long-awaited “Halo 3” is ready at the same time as the Xbox 360, then that may very well be the case. Thousands of millions of dollars, euros and yens are at stake.

**What factors explain the success of the video console market?**

**Attractive content**

_Sandra Sieber, IESE professor_

There can be no doubt that the technological superiority of the hardware is one of the factors that contributes to the success of video consoles. Therefore, the makers must focus on offering more powerful devices with more services (Internet connection, multimedia file player, etc). But this in itself is not enough. For this reason, the companies engaged in this industry must combine good hardware with content capable of attracting the attention of the public.

The new generation of video consoles demands good games that can be used on the Internet. This means huge doses of interactivity that enable players to enjoy the content on the Internet.

Moreover, there is a growing convergence between the video-game and film industries. The fact is that films no longer breed video-games. Over the last few years, films, based on popular video games, have enjoyed huge success. This is why it is essential that the makers capitalize on this to launch aggressive policies when producing a new product so that they can create synergies between the promotion of the film and the game. In short, attractive content that takes advantage of all the opportunities available in related sectors is a critical factor for success in the video console market.
Microsoft’s goal to topple Sony’s leadership will materialize when its new video console, the Xbox 360, makes its debut. It will fit perfectly into the so-called “house of the future” to become a genuine multi-media center incorporating the latest technologies in DVD and MP3 players as well as high speed wireless communications. Sony will try to offset Microsoft’s launch with its PlayStation.

The lion’s share of the market will be split between both devices, although Microsoft’s has the advantage of being the first on the market as it goes on sale just before the 2005 Christmas campaign. Although being first does not always guarantee success, this will mean a major test to measure the users’ confidence in Microsoft’s console after all the problems it had with its predecessor. On the other hand, the Xbox 360 won’t run so fast as the PlayStation 3.

Looking at the major improvements Sony’s new console boasts – not to mention their huge difference in sales outlets in comparison to Microsoft’s (4 to 1) – it would seem that PlayStation 3 will keep its leadership, although it may lose some ground to its main rival.