

## Pricing Games: Sony PlayStation and Microsoft Xbox

The home video game industry can be traced back to May 1972 in the United States with the release of the Magnavox Odyssey, the first home television game console, which sold for \$100. Though the game had no sound and no color, console sales grew from 100,000 in the first year to 350,000 units by 1975.<sup>1</sup> Competitors soon entered the marketplace, and within two years there were at least eleven major video game manufacturers, including Atari, Coleco, Magnavox, and National Semiconductor.<sup>2</sup>

Atari released the Atari VCS/Atari 2600 in 1977, featuring its soon to be world-renowned game, *Pong*. Because of its full-color output, sound, and cartridge-based games, the Atari 2600 soon became the market leader in home consoles. In 1982, Coleco entered the market with its graphically superior Colecovision. Atari then introduced the Atari 5200, with enhanced graphics, for \$269, and retailers began discounting the 2600 model.<sup>3</sup>

The promise of success in this market attracted a flood of imitators, with many distinct manufacturers each promoting their own systems. An inevitable industry shake-out occurred in 1983.<sup>4</sup> Nevertheless, prospects for renewed strength in the market came with the release of the Nintendo Entertainment System in 1985.<sup>5</sup> At \$199, the basic console was bundled with one of the most popular video games of all time, *Super Mario Brothers*. Once again, success attracted more competition, and the following year Sega Enterprises introduced the Sega Master System, which soon became a serious challenger to Nintendo.

Some generations of technology later, the industry's first CD-based console was introduced by Sega in 1995. Sales of Sega's 3-D graphical Saturn, however, totaled only 1.4 million units in the U.S. over the product's life. This was attributed mainly to two factors: (1) the complex multiprocessor made it difficult to design games for the system, and (2) the \$399 price was perceived as too high for many consumers. That September, Sony's CD-based PlayStation was unveiled at \$100 less than the Saturn. It became an instant hit, selling about 1.5 million units within 14 months.<sup>6</sup> In its traditional second-mover style, Nintendo released its Nintendo 64 console a year after, pricing it at \$199. Though it maintained its cartridge-based format, rather than moving to CD-based technology, Nintendo sold more consoles on the launch date than Sony had sold within 13 weeks of PlayStation's release.<sup>7</sup> Sega eventually ceased console production in 2001.

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