

royalties. However, the risks in this business became apparent when Sony was forced to shut down its PlayStation Network during April 2011 following a cyber-attack in which the credit card details of subscribers were stolen.

Looking to the Future

As the three leading console providers planned for the next generation of consoles, they realized that their strategies needed to take careful account of the changing dynamics of competition in the industry. The weakening of the console makers relative to the games publishers, in particular their inability to force exclusivity upon the publishers, implied that video games would no longer be a winner-take-all industry as they had been in the 1980s and 1990s. Moreover, the expanding number and variety of video game players suggested that the market was segmenting, for example the Wii appealed to different users than the Xbox and PlayStation.

The future role of the games console as a home entertainment device was also unclear. Sony and Microsoft had envisaged their video game consoles as multifunctional home entertainment devices. The willingness of Sony and Microsoft to devote so many resources to their video games businesses was because they viewed the video game console not just as an important product in its own right but also as a basis for building their strategic positions within the home entertainment market. Yet, the Wii was essentially a dedicated games console. To what extent would video consoles become devices for playing movies, downloading and storing entertainment content, and interacting remotely as opposed to specialized gaming machines?

Appendix Financial Data for

NINTENDO (YEAR ENDING MARCH 31)

	2001	2002
Total sales	463	554
Operating income	85	119
Net income	97	106
Op. income/ Av. total assets (%)	9.7	9.5
Return on av. equity (%)	12.2	12.0

Note:
Figures in parentheses denote a loss.

SONY (YEAR ENDING MARCH 31)

	2001	2002	2003
Sales	7,315	7,578	7,711
Of which:			
Games	661	1,004	1,004
Operating income	225	135	135
Of which:			
Games	(51)	84	84
Net income (loss)	17	15	15
Op. income/ Av. total assets (%)	3.1	1.7	1.7
ROE (%)	0.1	0.1	0.1

Notes:
Figures in parentheses denote a loss.
For 2009–2011, the segment data for S...
For 2012, Games are included within t...