

Sony: in addition to massive development and launch costs, the component cost of each PS3 exceeded \$800, while its retail price was \$499.³ In addition, the complexity and high cost of developing games for the PS3 meant that there were few games that fully exploited its technical capabilities; Sony was obliged to cut its royalty rate to encourage developers to write for PS3. After a slow start PS3 sales gained momentum during 2008–2010.

Nintendo Wii Nintendo's launch of its Wii console in November 2006 was overshadowed by attention given to the PS3. Nintendo had been largely written off by most industry observers: it had neither the financial nor the technological resources to match those of Sony and Microsoft. Yet, the Wii proved to be a sensation. Technologically, the Wii was backward—compared to the PS3 and Xbox 360, it was seriously underpowered in terms of both speed and graphics, and it lacked a hard drive, DVD player, and ethernet port. Its innovative feature was its remote wand-like controller that was sensitive to a range of hand movements. This allowed Wii to be used for a variety of new sport and exercise applications—*Wii Fit* was one of the biggest selling titles of 2008–2010. Wii was also more accessible and easy to use than other consoles. This attribute was exploited by a marketing strategy that targeted a very broad demographic, including older people. During 2007–2008, Wii established a clear market lead over the PS3 and Xbox 360, which it maintained during 2009 and 2010—though only in unit sales—in terms of revenue it was overtaken by both Sony and Microsoft.

The success of the Wii challenged the conventional wisdom of the industry that the primary market was males aged between 13 and 30 and that the key to accessing this demographic group was to court hardcore gamers when developing and launching new models. This required a combination of hardware with immense processing power and brilliant graphics and games with cinematic quality, graphic realism, strong characters, and complex storylines.

The Video Games Industry in 2012

The Market for Video Games

At the beginning of 2012, video games continued to be a growth industry. Worldwide sales of video game software and dedicated hardware (both consoles and handheld game players) was estimated by DFC Intelligence at \$66 billion worldwide in 2010 and expected to grow to \$81 billion by 2016.⁴ Most of this growth would be outside the mature markets of North America, Europe, and Japan; indeed, US consumer expenditures on video games had been in decline for several years (Figure 1).

Nevertheless, even within the US, games playing remained a major leisure pursuit. Over 40% of households owned video game consoles and 67% of households played video games. Worldwide, the user base of video game players was broadening. Once the preserve of teenage boys, by 2011 the majority of the age group 18–44 played video games, and even among 55- to 64-year-olds 26% played video games. Female participation had also increased strongly. However, in terms of intensity of game playing, teenage boys remained clear leaders: US males between 12 and 17 with a video game console in their home spent an average of 14 hours a week playing video games.

FIGURE 1 US co
1990–2011 (\$billion)

The composition
and software. Vide
soles and PCs to m
packaged software
cloud access.

Software

Each video game c
ware companies to
pany were involve
responsible for fina
and video game de
ingly dominated by
lisher submitted a
and approval. The
hardware provider
control over releas
company. Game de
on the publisher's
developers and pu
(Table 3).

Escalating game
3-D, cinematic-qual
consoles. Atari's *Pa*
cost about \$100,000
engineers, about th
and about the same
\$650 million of sale
which was release