The Console Video Game Industry: A History and Analysis

By David H. Caldwell

The impact on video games on our culture is self-evident, with an estimated 69% of Americans now enjoying this entertainment medium.[1] Although this multibillion dollar industry continues to expand in new forms, this essay will focus only on the history, current health and future of the home console--where gaming first began.

The history of console video games would fill and has filled many books, so this paper will focus towards more "current events." In the middle of the last decade three companies dominated the console gaming market: Nintendo, Sony and Microsoft. What became known as the seventh generation of consoles formally began in 2005, with the release of Microsoft's Xbox 360--the successor to the original Xbox released in 2001. Boasting twice the storage capacity, eight times the memory and twice the graphics of its predecessor, the 360 (as it was colloquially known) has sold 70 million units worldwide throughout its seven-year lifespan.[2] In addition, Microsoft included the Xbox Live Marketplace. This software allowed consumers, for the first time ever, to download games directly to their consoles--no disk required. This new foray into digital distribution Microsoft had officially launched the new era, and its two competitors were well on the way to releasing their own consoles.

Sony's PlayStation 3 was next, released in November 2006. Like its predecessors, the PlayStation and PlayStation 2, the PS3 bolstered Sony's reputation as increasing the technical capabilities of home consoles. This time, however, Sony appeared to have overextended itself. The advanced technology of the PlayStation 3 gave it a high price tag of $699 and reduced sales; due to high manufacturing costs, Sony was losing $100 for every console sold.[3] Over time, however, sales grew due to the console's versatility (it could also function as a Blu-Ray player) and several high-quality console-exclusive franchises like *God of War*, *LittleBigPlanet* and *Uncharted*. To date, the PS3 has matched Microsoft sales with 70 million units sold worldwide.[4]

At the end of the last century, Nintendo was facing console decline. While the company had enjoyed market dominance in the late 80s-early 90s, Nintendo had been coming in third behind Microsoft and Sony in recent years. Their next console, however, changed the industry forever. In November 2006, just days after the PlayStation 3, Nintendo unveiled the Wii. This console used unprecedented wireless motion controls, literally changing the way people played games. A copy of *Wii Sports*, included with every console, helped consumers learn how to use the new system with games like tennis, bowling and golf. Suddenly, games weren't just for

---

[1] Bendik Stang, ed. *The Book of Games, Volume 2.* Ottowa ON, Canada: gameXplore, 2007, 13.

[2] Microsoft Corporation. "Earnings Release FY13 Q1." Retrieved from http://www.microsoft.com/investor/EarningsAndFinancials/Earnings/Kpi/FY13/Q1/Detail.aspx

[3] Goldberg, Harold. *All Your Base Are Belong To Us: How Fifty Years of Video Games Conquered Pop Culture.* New York: Three Rivers Press, 2011, 282.

[4] Sony Computer Entertainment. "PlayStation 3 WorldWide Hardware Unit Sales." Retrieved from http://www.scei.co.jp/corporate/data/bizdataps3_sale_e.html

gamers anymore; adults and even the elderly took advantage of the Wii's accessibility.[5] Combined with a cheaper price tag of $250, Wii consoles have sold just fewer than 100 million units worldwide.[6] While older gamers dismissed the Wii as a kid's toy, a larger market embraced it.

The Wii had demonstrated motion controls were the future, and Sony and Microsoft needed their own to compete. However they could only afford to release additions to their existing consoles, rather than investing the time and money to create a console which, like the Wii, used motion controls from the ground up. Sony's PlayStation Move and Microsoft's Kinect, both for the PlayStation 3 and Xbox 360 respectively, have been unsuccessful in attracting the casual market. Consumers would need to buy a console and pay extra for the motion controller (a minimum of $450), while they could simply buy a Wii for $250. The two controllers combined sold 34 million units—barely one third of Wii sales. SOURCE

The industry today is poised for the next generation, as the consoles on the market today are increasingly showing their age. However before the current health and prevalent issues of the industry may be addressed, the industry itself must be outlined. Before outlining the current structure of the console gaming industry, it would be wise to discuss the differing roles of the game publisher and game developer. The relationship between a game publisher and developer is somewhat similar to the relationship between the producer and director of a film: while the developer/director is responsible for physically creating the game--the programming, art design, voice acting, etc.--the publisher/producer is responsible for getting the game sold. The publisher handles marketing and provides the capital necessary for the game's physical production and shipping. Publishers can form close partnerships with developers or, more commonly, acquire developers outright.

Today, the console industry resembles a pyramid, an oligarchy at the top and moving toward monopolistic competition. At the very top are the three giants of Nintendo, Microsoft and Sony; referred to colloquially as the Big Three, these three corporations manufacture the home consoles used today. These companies are also developers, working to develop games for their own console. For that reason, they are known as first-party developers. Nintendo, for example, serves as both developer of Nintendo consoles and also exclusive publisher of Nintendo games, maintaining exclusivity over its many core franchises and having final say on all products released. While some might argue this limits competition, in reality it protects the integrity of the core franchises which have guaranteed Nintendo's success over the years.

At the next level are video game publishers. These companies started out as developers but, over time, have built up sufficient capital to manufacture games independently. Big-name publishers have been in the gaming business for decades: Electronic Arts (known as EA, founded 1982), Activision (founded 1979) and Ubisoft (1986) are some of the largest publishers active today, each with dozens of subsidiary developers.

---

[5] Stang, 19-20

[6] VGChartz, Ltd. "Global Hardware Totals." Retrieved from http://www.vgchartz.com/#Global%20Totals

Naturally, the next tier is occupied by associated game developers, in other words developers who work closely with or are owned by a publisher. These developers might have independently developed a successful franchise, and then been bought out by a publisher. They are known as third-party developers due to this close relationship. Similar to a capitalist economy, a good publisher will only interfere with a subsidiary developer or franchise when necessary. The publisher knows that outside interference will change the successful franchise to something different, which could in turn decrease revenue or stop the game's production altogether.

The final tier is independent developers, who have enjoyed a resurgence over the past year. 2012 was the year of crowdfunding, with websites like Kickstarter providing companies the ability to bypass game publishers and appeal directly to consumers for funding. A notable success story is of an adventure game in development from Double Fine Productions, a new studio helmed by gaming veteran Tim Schafer. Earlier in his career Schafer had developed cult classics like *Grim Fandango* and *Psychonauts*, which developed strong fan followings but sold poorly. With this record no publisher would fund his work, so Schafer appealed directly to gamers through Kickstarter. His project asked for $400,000 and ended up with $3.4 million donated by over 87,000 people.[7] The advent of crowdfunding, paired with digital distribution, allows indie developers to ask for funding directly from their consumers.

Despite this concrete structure, the game industry today bears the scars of the recession and is currently operating at a loss. Profits declined by 20% last year, a continuation of an 8% decline in 2011. SOURCE This decline is due to many issues facing the industry today, which will now be discussed; these issues include the end of the current console generation, the failed revolution of the Wii U, the riddle of casual gamers, the advent of digital distribution and the changing face of video game marketing.

The largest issue faced by the industry today is the end of the current console lifecycle. This phenomena is a mixture of market saturation and technological innovation--all three of the home consoles available today have been out for an average of seven years. Microsoft, for example, lost $1.1 billion in Xbox sales in FY2013 Q2. However development increased by $98 million or 25%, supporting arguments that the company's next console is on the way. SOURCE Sony, meanwhile, decreased the price of its expensive PlayStation 3 console over this past holiday season, hoping to move more inventory and make room for new stock. The "Ultimate Playstation Value Bundle," including a 250 gigabyte console and three of its most popular games, sold for $199; 500,000 were sold over Black Friday weekend alone. SOURCE Nintendo has already released its own next-generation console in the form of the Wii U, but sales have not been as positive as the company has hoped.

While Nintendo shifted increasingly toward the family-friendly market over the 1990s, the release of the Wii cemented their dominance of it--and consequent loss of the "hardcore

---

[7] Kickstarter. "Double Fine Adventure by Double Fine 2 Player Productions." http://www.kickstarter.com/projects/66710809/double-fine-adventure

gamer" demographic which had grown up with Nintendo. Nintendo's Wii U console was intended specifically to recapture hardcore gamers, with more mature titles and HD graphics capability. However, the console has not enjoyed the record sales of its predecessor. Released in November 2012, weekly sales ballooned to 70,000 over the holiday season but slumped to 21,000 in early January of this year. SOURCE These sales figures match those of Sony's PlayStation 3, a console five years older than the Wii U.

The tragedy of the Wii U illustrates the unpredictability of the "casual gaming" market. The Wii made gaming more expansive than ever, but have casual players lost interest? Rising trends show casual gamers moving increasingly to tablets and smartphones, seeking instant gratification rather than the time and money associated with a console. SOURCE
Major publisher and developer THQ developed a tie-in peripheral tablet called the uDraw in 2011, to be used with Nintendo's Wii. Marketed for casual players, the tablet sold poorly; THQ ended up with 1.4 million unsold units and a $100 million shortfall. This directly contributed to THQ's bankruptcy in December 2012 and collapse just this past week. SOURCE Companies like Nintendo must ask themselves if it is worth the added opportunity costs to produce both casual and hardcore games, if the casual audience is indeed moving away from consoles.

This increased opportunity cost might be offset through the rising trend of digital distribution. With console hard drives increasing in size, it is becoming more and more obvious that digital distribution is the way of the future. One of the most highly anticipated features of the Xbox 360, released in November 2006, was the addition of Xbox Live Marketplace. This software enabled consumers to download Xbox games directly to their consoles. Nintendo responded by creating the Virtual Console for the Wii, allowing gamers to purchase both new and classic Nintendo titles. As previously noted, digital distribution was one of the factors responsible for the resurgence of indie developers over the last several years, small teams able to bypass publishers and produce games themselves through digital download. Publishers can save money by decreasing manufacturing costs, money that can be spent on game development or not spent at all, leading to cheaper game prices. However, these reductions in manufacturing costs may be spent on overblown and misguided marketing.

As game companies search for more markets for their products, game advertisements have found their way onto television, the internet and even billboards, evidence of millions of dollars spent on marketing which could have instead been spent on game development. The highly anticipated shooter *Battlefield 3*, for example, had a marketing budget of $50 million—half the total budget of *Grand Theft Auto IV*, the current record-holder for Most Expensive Game. SOURCE Pre-rendered CGI movies are very expensive and time-consuming to produce, and furthermore show little to no aspect of gameplay. Consider, for example, *Starcraft 2*, the highly anticipated follow-up to the 1998 real-time strategy juggernaut. A CGI trailer may be found here, while a demonstration of actual gameplay may be found here, The difference in presentation is startling—the uninitiated might never guess those two videos represent the same game. While longtime fans would argue they know how the game plays, a casual fan who buys the game hoping to play what is depicted in the trailer will walk away disillusioned.

The largest issue unique to this industry is the technological innovation. It is true that a game needs unprecedented innovation in order to succeed; however if the innovation costs more than consumers are willing to pay, the game or console will not sell. This argument can be used to chronicle the gradual downfall of one of the oldest companies in this industry. Sega, today a big-name publisher, was Nintendo's primary competition during the early 1990s. Although Sega's consoles were technologically superior to their competitors, their higher prices led to low sales. SOURCE As previously stated, the high technology of the PlayStation 3 led to lukewarm initial sales. However, this is not the only double-edged sword in gaming today.

A second and equally complex issue is the franchise monopoly. Developers maintain exclusive rights over the franchises they themselves create, as in any other medium. Far from eliminating competition, this setup not only encourages but requires developers to create their own bestselling franchises to stay competitive. In 1983, the game market was flooded with games, mostly cheap knock-offs of popular games like Pac-Man, made by companies hoping to make a quick profit. When the public refused to buy the knock-offs, the market crashed, devastating the industry for years in an event known as the "Crash of '83." SOURCE However there are also bad monopolies, one company dominating a game genre in which other companies could compete easily well. Electronic Arts, through its EA Sports division, has maintained exclusive rights to many sports franchises for years—the ability to use actual team names and players' images. These include the NFL, NBA, NHL, NCAA, Tiger Woods Golf and FIFA, among others. EA's monopoly of popular sports eventually saw the company taken to court in 2008. After a four-year deliberation, EA agreed to give up exclusive rights to the NCAA College teams. SOURCE This small victory (EA hasn't made an NCAA game in two years) ignores its Madden NFL and FIFA franchises, far more lucrative.

While EA's domination of popular sports games is unpopular, perhaps more unpopular is EA leading the trend in the release of Downloadable Content packs, or DLC. These packs, containing gameplay like more maps, missions and weapons, serve as incentives for gamers to keep playing the game. However, DLC has been increasingly used as a way for game companies to make up for low profits. DLC packs will often be priced disproportionate to their content; *Lair of the Shadow Broker*, an expansion for the 2008 Sci-Fi game *Mass Effect 2*, contained roughly two hours of gameplay (a drop in the bucket compared to the depth of its original game) but was priced at $10, one-sixth of the game's $60 retail price. SOURCE Some have speculated companies will use DLCs or subscription services to boost revenues; it has been speculated that future multiplayer modes may be subscription-based. SOURCE

Finally, the industry has always bore the burden of negative popular stereotype, particularly the supposed linkage between video games and violent behavior. This stereotype has been brought up and examined in the wake of every tragic gun violence incident, from Columbine to Newtown. Public and Private organizations including none other than the United

States Secret Service have confirmed there is no prevalent linkage between games and violent behavior. SOURCE In many games, negative media attention may boost sales. The *Grand Theft Auto* (or *GTA*) franchise, an open-world game in which players can commit any number of violent crimes, is a prime example of this. Media controversy was already surrounding *Grand Theft Auto III* prior to its release in 2001. 300,000 copies sold over its opening weekend, even more when the media controversy reached consumers. Upon release of the game's successor, *Grand Theft Auto: San Andreas*, franchise developer Rockstar was investigated by the FTC (unsuccessfully) to determine if the company was intentionally corrupting American youth. SOURCE There is another highly anticipated *GTA* game in the pipeline at the time of this writing.

Video games encourage innovation, creativity and originality like no other media form. Despite the industry operating at a loss for the moment, it is on the cusp of the next generation of home consoles. Combined with the simplicity of digital distribution, the capitalistic nature of crowdsourcing and the new ideas of indie developers, the next years seem bright for console gaming. The best is, indeed, yet to come.

Works Cited

Print

Berens, Kate and Geoff Howard. *The Rough Guide to Video Games*. New York: Rough Guides Ltd., 2008

Bendik Stang, ed. *The Book of Games, Volume 2.* Ottowa ON, Canada: gameXplore, 2007.

Burnham, Van. *Supercade: A Visual History of the Videogame Age, 1971-1984*. Cambridge, MA: The MIT Press, 2001.

Edery, David and Ethan Mollick. *Changing the Game: How Video Games are Transforming the Future of Business.* Upper Saddle River, NJ: Pearson Education, Inc., 2009

Forster, Winnie. *Game Machines 1972-2012 - The Encyclopedia of Consoles, Handhelds and Home Computers*. New York: Enati Media, 2011.

Goldberg, Harold. *All Your Base Are Belong To Us: How Fifty Years of Video Games Conquered Pop Culture.* New York: Three Rivers Press, 2011.

Herz, J.C. *Joystick Nation: How Videogames Ate Our Quarters, Won Our Hearts, and Rewired our Minds.* New York: Little, Brown and Company, 1997

Internet

Bioware. “Mass Effect 2 DLC.” Accessed January 23, 2013 from http://social.bioware.com/page/me2-dlc

Chalk, Andy. (2012, December 6) “Michael Pachter Says Call of Duty is a Failure.” Retrieved from http://www.escapistmagazine.com/news/view/120973-Michael-Pachter-Says-Call-of-Duty-is-a-Failure

Dutton, Fred. (2012, February 2) “THQ details full extent of uDraw disaster.” *Eurogamer*. Retrieved from http://www.eurogamer.net/articles/2012-02-02-thq-details-full-extent-of-udraw-disaster

Gilbert, Ben. (2012, November 29) “Sony moved 525K PlayStation 3 consoles during Black Friday week, 160K Vitas.” *Engadget.* Retrieved from http://www.engadget.com/2012/11/29/playstation-3-vita-black-friday-2012-sales/

Kickstarter. “Double Fine Adventure by Double Fine 2 Player Productions.” Accessed January 24, 2013 from http://www.kickstarter.com/projects/66710809/double-fine-adventure

Kuittinen, Tero. (2013, January 18) “Nintendo’s Wii U Problems Turn Into a Crisis.” *BGR News.* Retrieved from http://bgr.com/2013/01/18/nintendo-wii-u-sales-crisis-295918/

Matthews, Matt. (2012, June 21) “Where do Kinect Sales Go from Here?” *Gamasutra*. http://www.gamasutra.com/view/news/172666/Analysis_Where_do_Kinect_sales_go_from_here.php#.UQRMHWdyF8E

Microsoft Corporation. “Earnings Release FY13 Q1.” Accessed January 23, 2013 from http://www.microsoft.com/investor/EarningsAndFinancials/Earnings/Kpi/FY13/Q1/Detail.aspx

Peterson, Steve. (2013, January 25) “Microsoft reports 29% drop in XBox revenue.” GamesIndustry International. Retrieved from http://www.gamesindustry.biz/articles/2013-01-25-microsoft-reports-29-percent-drop-in-xbox-revenue

Sarkar, Samit (July 23,2012) “EA Sports agrees to $27 million settlement.” Retrieved from http://www.polygon.com/gaming/2012/7/23/3177295/ea-sports-monopoly-lawsuit-settlement

Sinclair, Brendan. (2011, July 13) “Battlefield 3 could have $50 million marketing budget - analyst.” *Gamespot*. Retrieved from http://www.gamespot.com/news/battlefield-3-could-have-50-million-marketing-budget-analyst-6323532

Sony Computer Entertainment. “PlayStation 3 WorldWide Hardware Unit Sales.” Accessed January 23, 2013 from http://www.scei.co.jp/corporate/data/bizdataps3_sale_e.html

Suellentrop, C. and Totilo, S. (2012, October 6) “Gaming Faces its Archenemy: Financial Reality.” *The New York Times*. Retrieved from http://www.nytimes.com/2012/10/07/arts/video-games/video-game-retail-sales-decline-despite-new-hits.html?pagewanted=all&_r=0

United States Secret Service. “The Final Report and Findings of the Safe School Initiative: Implications for the Prevention of School Attacks in the United States.” Accessed January 24, 2013 from http://www.secretservice.gov/ntac/ssi_final_report.pdf
VGChartz, Ltd. “Global Hardware Totals.” Accessed January 22, 2013 from http://www.vgchartz.com/#Global%20Totals

Yin-Poole, Wesley. (2012, November 16) “PlayStation 3 hits 70 million units shipped worldwide mark six years after launch.” *Eurogamer*. Retrieved from http://www.eurogamer.net/articles/2012-11-16-playstation-3-hits-70-million-units-shipped-worldwide-mark-six-years-after-launch