A Hitch in Evolution of DVDs

Sony delays the launch of its PlayStation 3, a key player in the contest to set the standard for the next generation of video disc technology.

By Dawn C. Chmielewski, Times Staff Writer
March 16, 2006

Sony Corp. rolled the consumer electronics and video game industries Wednesday by pushing back the worldwide launch of its highly anticipated PlayStation 3 to November.

The delay is more than just a bummer to video game enthusiasts; it virtually guarantees consumer confusion as Hollywood prepares to release the next generation of DVDs in competing and incompatible formats. Problems with PlayStation may also hamper Sony's ambitious corporate restructuring.

PlayStation is Sony's most profitable product line and one of the most popular tech devices of the last decade, outselling Apple Computer Inc.'s iconic iPod 5 to 1. The third iteration of the game console, initially expected this spring, is considered pivotal to the resurgence of the Japanese electronics and entertainment giant.

In addition to tapping the $25-billion global games market, PlayStation 3 will include Sony's high-definition DVD format called Blu-ray. The competition between Blu-ray and the rival standard HD-DVD recalls the format wars between Betamax and VHS in the 1980s.

By pushing off PlayStation 3's debut, Sony surrenders an early advantage in that race because high demand for the console was expected to put Blu-ray in more homes quickly. HD-DVD players, with starting prices at around $500, will be in stores this month. Blu-ray players from other manufacturers, starting at around $1,000, are expected to follow in May.

Sony also leaves the video game market wide open to Microsoft Corp., which released its Xbox 360 console in November to brisk sales.

But some analysts said the delay might actually help Sony by giving it time to stockpile inventory of its Xbox 360, which is considered a success.

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The game industry has billions of dollars riding on Sony's success. Sales dipped last year as consumers waited for the new round of consoles.

"I don't think the delay will impact their ability to capture market share with the next generation," said game industry analyst Anita Frazier of NPD Group. "The brand is very strong and Sony was always clear that they would release the system when it was ready and not before."

That strategy has paid off before. In 1995, when Sony entered the video game market with the original PlayStation, it was beaten to store shelves by game titan Sega Corp. Sony quickly became the industry leader and Sega quit the console business.

Despite laggardy financial performance in recent years, Sony enjoys considerable affinity among technophiles and video game fans. But Sony can ill afford mistakes. Howard Stringer last year became Sony's first non-Japanese chief executive as the Walkman brand was overshadowed by the iPod and lackluster performance of the

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Despite laggardy financial performance in recent years, Sony enjoys considerable affinity among technophiles and video game fans. But Sony can ill afford mistakes. Howard Stringer last year became Sony's first non-Japanese chief executive as the Walkman brand was overshadowed by the iPod and lackluster performance of the
company's movie studio and electronics business dragged down its bottom line.

The Welsh-born Stringer immediately embarked on a massive restructuring of the company, calling PlayStation "one of the key pillars of Sony's growth strategy." Charged with implementing that strategy is Ken Kutaragi, head of Sony Computer Entertainment Inc. But analysts said the technical issues delaying the new console hinted at larger problems.

"It raises new questions about … their ability to design their own future," said Richard Doherty, senior analyst with the Envisioneering Group. But he also noted that "PlayStation 3 will be the most powerful video computer ever made. It will have more graphic power than are in digital cinemas today."

Kutaragi said Sony decided to delay PlayStation 3 to work out technical details. The machine is extremely complex, capable of realistic graphics and sound as well as playing Blu-ray discs. Part of the problem, Kutaragi said, was making Blu-ray technology work with the rest of the device.

"I'd like to apologize for the delay," Kutaragi said Wednesday at a news conference in Tokyo.

Sony executives in the United States declined to comment.

Powered by a chip developed with IBM Corp., PlayStation 3 has been rumored for months to be behind schedule. Although disappointed, retailers, game developers and investors were reassured by Sony setting a firm launch window before the crucial holiday shopping season.

Shares of Sony and other game companies rose slightly Wednesday. Sony was up 17 cents to $46.68 and Microsoft rose 13 cents to $27.36.

"This is the news that has been floating around the industry for the last three months. But there has been no confirmation from Sony," said Tim Bajarin, president of Bay Area market research firm Creative Strategies Inc. "They have been silent."

Bajarin and others said getting video standards right was crucial for Sony, which developed the Blu-ray standard and is paid a royalty for every disc that uses the technology. Hollywood studios plan to make movies available in both formats, but each has lined up behind its preferred format.

Once the market determines a winner, studios will gravitate toward that single format, as they did when VHS trumped Sony's Betamax.

"Most of the press are fixated on video games," said Michael Pachter of Wedbush Morgan Securities in Los Angeles. "They think Sony is only in a battle with Microsoft. Sony is in a battle to make as much money as possible for the privilege of putting entertainment content in a Sony format. They already have a large group of people paying them for video games. They want a large group of studios paying them for movies."

Although other manufacturers will sell Blu-ray players this spring, backers of the format were counting on PlayStation 3 to generate excitement. Until one format dominates, manufacturers and retailers expect few people to buy a machine that may not play very many movies.

Blu-ray Disc Assn. spokesman Andy Parsons called the delay "a bit disappointing, but I wouldn't call it catastrophic…. Everyone, of course, would like to have it come out earlier. PlayStation 3 will be a big shot in the arm."

*(INFOBOX BELOW)*

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Game consoles sold in the U.S. since they were introduced

(in millions)

Sony PlayStation 2 (33)

Microsoft Xbox* (15)
Nintendo GameCube (11)

- Includes 1 million Xbox 360s

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Source: NPD Group

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