Sony Has Much Riding on Console

Success of PlayStation 3 would also boost the firm's high-definition DVD standard, Blu-ray.
By Dawn C. Chmielewski, Times Staff Writer
May 8, 2006

It's no coincidence that Sony Corp. scheduled tonight's unveiling of its new video game player at its historic Culver City studio, where such classics as "Ben-Hur" and "Singin' in the Rain" were filmed.

PlayStation 3 is more than just a game machine for Sony: It's the Japanese conglomerate's attempt to define the connection between entertainment and technology in the 21st century the way movies did in the 20th.

In addition to playing games, the device — which won't hit store shelves until fall — is expected to include all the circuitry necessary to pull movies and music off the Internet and play them on a TV or stereo. More important for Sony, PS3 will also feature the company's version of the next generation of high-definition DVD players.

So although Sony will spend this week promoting PS3's technical credentials to the 100,000 or so gamers attending the annual Electronic Entertainment Expo at the Los Angeles Convention Center, the company's real aim is to anchor the device at the hub of the digital living room.

"The PS3 is Sony's Trojan horse," said Michael Pachter, an analyst at Wedbush Morgan Securities.

Central to Sony's strategy is to use PS3 to win rapid acceptance of its high-definition DVD technology, called Blu-ray. In a fight reminiscent of the battle between VHS and Sony's Betamax format, Blu-ray is jockeying for consumer favor with a rival standard called HD DVD.

At stake are potentially billions of dollars a year in royalties. For every DVD a studio presses in the Blu-ray format, it would owe Sony a few cents for the privilege. VHS vanquished Betamax in the 1980s. Sony views the PS3 as its secret weapon.

Success would help Howard Stringer, the Welsh-born chief executive who took over last year as Sony's first non-Japanese head and vowed to bolster the company's bottom line, which has sagged along with its reputation as a technological innovator.

If sales of PS3 and, by extension, Blu-ray take off, Stringer hopes Sony can ramp up demand for its high-definition televisions and camcorders as well as high-definition copies of movies from its library of 7,500 titles. At the same time, PS3 would be equipped to take advantage of the shift in entertainment and media toward online delivery.

"I think it's fair to say" that PS3 is "one of Sony Corp.'s most significant product launches in a long time," said a Sony executive who requested anonymity because he works outside the games division.

But it's Sony's to fumble.

PlayStation 3 is the third version of the world's best-selling video game console, which...
Sony Has Much Riding on Console

By the time Sony launches PS3, Xbox 360 — which has many of the same entertainment features as the Sony device — will have had a year's head start in the market.

Unlike Sony, which subsidizes its other businesses with PlayStation profit, Microsoft supports the money-losing Xbox operation with its highly profitable software products — notably its Office productivity package. Like Sony, though, Microsoft has aspirations beyond games: It seeks broad acceptance of its digital media software.

Microsoft has shipped 3.2 million Xbox 360s, which start at $299. Analysts expect the company to sell 10 million consoles by the time the PS3 debuts. Although Sony has not disclosed a price for PS3, analysts expect it to be $399.

"Sony's got not only the challenge of repeating what it's done before" but also it faces "a really well-financed and really profitable competitor in Microsoft," said John Taylor of Arcadia Investment Corp., an institutional research firm.

Both consoles are expected to lose money — potentially hundreds of dollars on every console — for the foreseeable future. Some analysts estimate that it may take production of 20 million PS3s before component prices drop far enough and Sony achieves the manufacturing efficiency necessary to make a profit.

Nintendo Co. is also expected to reveal details about its new game machine, Wii, this week. Unlike Sony or Microsoft, Nintendo says it makes money on every console, in part because it does not incorporate multimedia extras like its rivals do.

"We aim to never lose money," said Perrin Kaplan, Nintendo's vice president of marketing and corporate affairs.

Meanwhile, Sony and Microsoft try to recoup losses by selling games and by charging licensing fees to independent game makers.

"It's well documented that this is a razor and razor blades business," said Jack Tretton, executive vice president and co-chief operating officer of Sony Computer Entertainment Inc., the Foster City, Calif.-based division responsible for PlayStation in the United States.

Tretton said last week that Sony was counting on PlayStation. "When we began in 1995, the PlayStation was seen as a cute little project," he said. "Fast-forward 10 or 11 years later, it's no longer a luxury but a necessity that the game system delivers. The reason it's so important, beyond the dollar contribution, is the natural synergies to where the consumer is headed."

Critics scoffed when Sony included a DVD drive in its PlayStation 2 in 2001.

But for nearly half of PS2's buyers, it was the first DVD player they owned. Now, a quarter of PS2 owners have a high-definition TV — meaning they will be able to take advantage of PS3's high-definition features right out of the box.

"We ushered in DVD for a lot of gamers who would not have been DVD fans," Tretton said. "The natural parallel there is we can have the same impact on Blu-ray."

Analysts said that Sony's strategy made sense, but that it depended on the fickle video game market to succeed. Game players tend to be among what marketers call early adopters, the technophiles who buy gadgets first and share their opinions with friends and family.

That's why wooing them this week at the Electronic Entertainment Expo and generating buzz is so important. If gamers like what they see tonight at the studio, which was formerly Metro-Goldwyn-Mayer's, and at the expo, they'll be more likely to encourage others to wait until fall for PS3 rather than buy an Xbox 360 now.

In terms of raw horsepower, PS3 will be the most powerful game system ever. With
eight microprocessors, the machine is capable of producing such vivid, detailed images that players can see a single beam of light streaming through a church’s stained-glass window.

Analysts who have seen demonstrations of PS3 have been impressed — as have game designers and animators.

“These demonstrations left animators with their jaws open,” said Richard Doherty of Envisioneering Group, a technology market researcher. “They hadn’t expected this much power.”

But Betamax was widely regarded as technically superior to VHS, and Sony still lost. Tonight’s news conference may well end up being the first step toward singing in the rain or just ending up all wet.

“If they blow this, I think they disappear — which is why I’m so confident that [Sony] won’t” make a misstep, said Pachter of Wedbush Morgan.