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Sony, Microsoft, Nintendo get ready to rumble

By Lisa Baertlein

LOS ANGELES (Reuters) - The \$30 billion video game industry's own war of the titans reboots this week with the U.S. launch of Sony Corp.'s PlayStation 3 on Friday and the debut of Nintendo Co. Ltd.'s Wii on Sunday.

A limited supply, delayed debut and drop in the number of games built exclusively for the new PS3 could choke market leader Sony's quest for mainstream hearts and dollars until after the crucial holiday season, a far different scenario from the last console battle when Sony beat key rivals to market.

"It's a significantly more competitive market this time," said Yankee Group video game analyst Michael Goodman, adding that many parents are not brand loyal and will not let Christmas pass without a console for the gamer on their list.

Initial supplies of the PS3 are expected to quickly evaporate and Goodman and others expect Microsoft Corp. and its one-year-old Xbox 360 to be the main beneficiary of the resulting spill-over in demand.

While minor shortages can create beneficial media buzz, Sony's shortage is so severe that its rivals stand to gain, Eric Johnson, a professor at Dartmouth's Tuck School of Business, told Reuters.

Johnson predicted that holiday shoppers who are unable to bag a PS3 may just grab the Xbox 360 instead: "My thought is that Microsoft is the real winner this Christmas."

Both the PS3 and Xbox 360 have advanced graphics and faster microchips to handle more on-screen action and deliver characters that look more lifelike than ever.

Nintendo's Wii does not compete for computing power but has a remote control that can be swung like a tennis racquet or sword, and at \$250 costs less than half the \$600 price for the top-line PS3 and significantly less than the \$400 high-end Xbox 360, making it a potential spoiler.

Sony, which dominates the global console market with its current-generation PlayStation 2, has forecast global PS3 shipments of 2 million by the end of calendar 2006.

Microsoft expects to have shipped five times as many Xbox 360s by December 31, while Nintendo is targeting 4 million units.

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In the year since its launch, Microsoft's Xbox 360 has made significant inroads in the U.S. market that accounts for more than one-third of overall video game sales, attracting 4 million subscribers to its console-connected online gaming service Xbox Live and creating buzz with exclusive new titles like Epic Games' "Gears of War."

Take-Two Interactive Software Inc.'s blockbuster "Grand Theft Auto" games were heavy hitters on the PS2 but the newest iteration will be released on both the PS3 and the Xbox 360, which is getting extras for Xbox Live users.

Video game publishers are hitting their stride on the Xbox 360, having had time to get to know the new technology. Industry watchers expect to see a similar ramp with PS3 games.

Price is also a big issue for consumers and businesses.

Some gaming enthusiasts say they are limiting themselves to one of the more expensive machines or waiting for prices to fall before taking the plunge.

Game makers face new game costs of around \$20 million for the PS3 and Xbox 360 -- roughly double the previous price -- and some are holding off such investments until there is a big enough audience to justify the expense.

As publishers cover their bets, they also are leveling the competitive landscape by forgoing exclusives in favor of turning out the same title for both the PS3 and the Xbox 360.

Goodman predicted that by 2011, Sony will control 45 percent to 50 percent of the U.S. console market, but that Microsoft will significantly narrow the gap with projected share of 38 percent to 48 percent.

"Every time you enter a console transition it's an incredibly competitive time. This is the point where market share is up for grabs," Goodman said.