



Console Wars: May the Best Supply Chain Win

The overall video gaming market will be excellent this holiday season with the release of highly anticipated next generation consoles from Nintendo and Sony. However, given Sony's supply chain failure, *the winners will be Microsoft and Nintendo.*



With part shortages and quality problems, Sony's **PS3** launch (400k units) will mean massive shortages in the stores. While small shortages often benefit a new video console by creating hot-new-product hype, Sony's shortfall is so large that much of the related publicity will only spill over to its competitors. Nintendo's **Wii** launch (1.2M units) will also mean shortages, but tight supply will ensure Nintendo's unit sells-out and gains the reputation as a hot-new-product without the massive sales losses that Sony will experience. With an already large, installed base of **Xbox 360** users, a growing set of popular game titles, and a supply chain loaded to satisfy holiday demand, Microsoft will be the overall winner this holiday season.

Below are the details:

- Sony will only be launching 400k units of PS3 in North America due to lack of availability of the Blu-Ray components for its Blu-Ray drive.
 - Although PS3 has the highest price point among the consoles, it will be a sellout.
- Xbox 360 and Wii will benefit from the PS3 shortage as consumers will look to the two as substitutes for PS3 over the holiday season
 - As a result of these substitutes, the PS3 could see declines in future sales due to its high price and reasoning that one console is likely sufficient for one household.
- Nintendo Wii will be a sell out due to its lowest price point among the three consoles and its broad target customer segment, which includes young kids to adults.
 - The Nintendo Wii launch will include an exclusive game title, "The Legend of Zelda" – one of Nintendo's most successful franchise.
 - In contrast, Sony PS3's launch titles do not include any highly anticipated titles that are exclusive to its console.
- PS3's shortage will mean slower adoption of Blu-Ray technology
 - PS3's built-in Blu-Ray drive provides a lower price incentive for high definition video consumers because Blu-Ray players are currently priced at ~\$999 (www.bestbuy.com) compare to PS3's \$499.
 - With a sold-out PS3, cost-sensitive HD video consumers will look to HD-DVD as a lower price alternative (~\$499.99 at www.bestbuy.com) for the player, or the Xbox 360 + HD-DVD drive combo.

- When the PS3 is available, it is likely to cannibalize on Blu-Ray player sales
 - We believe that Sony has made a strategic mistake in selecting Blu-Ray as its default media drive because the console will compete against Blu-Ray disc players. Sony cannot price too low despite the higher Blu-Ray component costs because it will upset Blu-Ray consortium members who are making the disc players, yet it cannot price too high without risking gaming share to MS.
- HD-DVD adoption will benefit because:
 - Microsoft will release a \$199.99 HD-DVD drive for the Xbox 360. Purchasing an Xbox 360 plus the HD-DVD drive will cost approximately the same as the 20GB model of PS3.
 - HD-DVD players are priced at ~\$499.99.
- PS3 shortage will also mean fewer users of Playstation Network Platform (PNP), Sony's online gaming platform.
- Meanwhile Xbox Live will capitalize on its network effect and continue to grow (Xbox Live is expected to grow to 6 million users by next year).

Next Generation Consoles At-A-Glance*

Console	Microsoft Xbox 360 	Nintendo Wii 	Sony Playstation 3 
Launch date	Nov. 22, 2005	Nov. 19, 2006	Nov. 17, 2006
Availability at launch	Currently available	~1.2M units	~400k units
Price	\$299 Core \$399 Premium	\$249	\$499 (20GB model) \$599 (60GB model)
Game titles	> 100	~21 at launch	~21 at launch
Average game title price	~\$59	~\$50	~\$60-\$80
Online capability	Xbox Live	Console to console	Playstation Network Platform (PNP)

* data shown for North America, source: wikipedia.org