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Video Games Revive—and Makers Hope This Time the Fad Will Last

By JEFFREY A. TANNENBAUM
Staff Reporter of THE WALL STREET JOURNAL

Home video games—a spectacular but short-lived fad of the early 1980s—are making a comeback.

After going bust just six years ago, video-game sales are again soaring, thanks to smarter marketing, improved technology and the coming of age of a new generation of players. And this time around, the industry is taking steps to make sure that the boom lasts a bit longer.

Sales began to revive in 1986, climbing to \$430 million from \$100 million a year earlier. And last year, they more than doubled to \$1.1 billion. Industry leader Nintendo of America Inc., the U.S. unit of Nintendo Co. of Japan, estimates that the field's total U.S. sales in 1988 will reach \$1.9 billion.

The home video-game market "has gone from being dead to being extremely lively and growing," says Don Reisinger, marketing vice president of Sega of America Inc., a U.S. subsidiary of Tokyo-based Sega Enterprises Ltd.

Lust for Zapping

Still, many retailers doubt that the industry will see a replay of its previous boom, when the technology was new to most Americans. At the industry's peak in 1982, Americans shelled out \$3 billion to indulge their lust for zapping Space Invaders, competing in a variety of electronic sports, and otherwise enjoying the games' space-age sounds and colorful graphics. But by 1985 the boom was over, and sales had withered to \$100 million.

Parents Fear Games Turn Their Kids Into Zombies

By CARRIE DOLAN
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Rachel Lamanet is concerned about her son's habit.

"He told me, 'It's like I want to stop, but I can't help myself.' I thought, 'Oh no, is this my 11-year-old?' He's like an addict. It's awful. He needs me to help him control it."

Her son, Christian Lamanet, is a home video-game player.

Currently, the San Mateo, Calif., fifth grader, is suspended from playing his video-game set, made by Nintendo Co. of Japan, because of "Nintendo-related" offenses, his mother says. Christian, who once played at a friend's house for about 14 hours straight, concedes, "I think I should play less, as much as I like it. I think I

Top-Selling Video Games

Based on sales during the last week of February at a nationwide chain selling all major brands

- Mike Tyson's Punch-Out!! (Nintendo Co.)
- The Legend of Zelda (Nintendo)
- Karnov (Data East USA Inc.)
- Super Mario Brothers (Nintendo)
- Double Dribble (Konami Inc.)
- Goonies II (Konami)
- Castlevania (Konami)
- Wizards & Warriors (Acclaim Entertainment Inc.)
- Winter Games (Acclaim)
- Rush 'N Attack (Konami)

Even if the revival isn't as big as the previous boom, though, it's likely to be more enduring, retailers say. "This time, there will be a more permanent, lasting market for electronic games," says Peter Harris, president of FAO Schwarz, a toy-store chain based in New York. "Today's games have higher quality."

Home video games were among the top sellers at toy stores during last year's Christmas rush and have continued to be best sellers in the stores' post-holiday doldrums. For instance, Mike Tyson's Punch-Out!!, a boxing game introduced last October by Nintendo, already has sold more than a million copies, making it one of the biggest-selling video games.

"By no means is the market satu-

rated," says Norman Ricken, president of Rochelle Park, N.J.-based Toys "R" Us Inc., the largest U.S. specialty-toy retailer. "So 1988 will be another big year."

Meanwhile, despite increases in factory capacity, production hasn't kept up with demand for some of the hardware used with the games, such as the limited-use computers that display the games on a player's TV set. Some of the video games themselves, which generally sell for \$20 to \$60 each, are in short supply at some stores because of distribution and production problems.

Avoiding Past Mistakes

On top of the strong sales, the industry is trying to avoid some of the mistakes it made in the early 1980s. In the previous boom, game titles proliferated so fast that the market became glutted. And many customers were disappointed by a rash of low-quality and look-alike products. Even devoted players finally grew bored as the latest games stopped offering anything new.

Nowadays, marketers are working to prevent a glut by pulling older lines off the shelf as more games are introduced. Nintendo, for instance, is withdrawing 18 of its 36 games to make room for new offerings. Nintendo dominates the U.S. market with an estimated 70% share, followed by Atari Corp., with 16%, and Sega with 10%.

Improvements in technology also have helped the revival, making the games "more lifelike, more vivid and more detailed," says Mr. Reisinger of Sega.

The latest video-game hardware includes computer chips that provide better picture resolution, more colors and more "sprites," as the independently moving objects on the screen are known. For instance, the Mike Tyson game has 256,000 bytes of computer memory, compared with 8,000 in Pac Man, the video-game hit of yesteryear.

The new technology has made the games more challenging, too. In Super Mario Brothers, for instance, players can spend months trying to rescue the princess, the object of the game. And many of the games can be played at dozens of levels of difficulty. That's a far cry from the late 1970s game Pong, in which players merely batted an electronic pingpong ball back and forth on the screen.

A New Generation

No matter the changes in technology, though, much of the industry's audience is too young to remember the earlier games anyway. Marketers say most video-game players are between the ages of eight and 14. Some children catch the video-game bug at game arcades. But as the arcades have waned in recent years because of rising rents, more kids are flocking to

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- Three or more 23%
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By MICHAEL SICONOLFI

Staff Reporter of THE WALL STREET JOURNAL

When Henry Saveth bought his first mutual-fund shares a year ago, he did it for convenience. A New York lawyer, Mr. Saveth was attracted by the funds' professional management and diversification.

That was before some unforeseen tax complications arose. Now Mr. Saveth has changed his view, withdrawing his money from three of four portfolios and rethinking his commitment to mutual funds.

"Funds are billed as making life simple, but all of a sudden you get hit with tax surprises that make them almost more complicated than stocks," says Mr. Saveth. "I just don't think it's worth it."

Like Mr. Saveth, many investors are finding that mutual funds have their own tax pitfalls. Among the hazards are unpredictable capital-gains distributions and a recent tax-law change on the extent and timing of payouts. Financial advisers say smart planning can lighten this load somewhat, but there's no denying that mutual-fund investors have been hit hard lately.

Bigger Bite

In the five-year bull market for stock and bond funds, taxes weren't a big concern, says Marion Martini, a New York City investor. "Now that the gains have narrowed, taxes have become a major consideration."

One area attracting more investor scrutiny is capital gains, where mutual funds differ in important ways from other investments. Those who own stocks directly can control when any capital gains are taken. A mutual fund, in contrast, can realize capital gains anytime and pass them on to holders without notice, thereby reducing the fund's net asset value and leaving holders with a tax liability.

John Markese, research director for the American Association of Individual Investors, a Chicago-based nonprofit group, says, "Even if you understand the tax consequences, capital-gains payouts make mutual funds less predictable" than stocks.

Another difference: Any capital losses from a fund's transactions aren't passed along to its investors, so investors can only realize the losses—and use them to offset income for tax purposes—by selling shares in the fund at a loss. "It's not symmetrical," Mr. Markese says.

Moreover, investors can receive distributions without having benefited from the capital gains they reflect. Many stock funds declined in 1987 but sold some securi-

ty shares. The marketing vice president of Sega of America Inc., a U.S. subsidiary of Tokyo-based Sega Enterprises Ltd.

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Home video games have revived with a vengeance, to the delight of a few companies and thousands of children, but to the dismay of parents who fear their offsprings' zombielike devotion to the games. While kids who play the games at arcades are limited by how many quarters they can plunk into the machines, the home systems inspire marathon sessions. Some children spend more time playing the games each day than they spend at school, as their grades head south. And many go broke buying the increasingly expensive games.

Help From the Hot Line

The number of child addicts is legion. Nintendo, the industry leader, has 32 full-time "game counselors" who staff phone lines solely to help frustrated players; the hot line receives 20,000 calls a week, de-

though. Most of the games cost between \$20 and \$60 apiece. David Ross owns 41 games, valued at more than \$1,000, which he keeps in a double-locked drawer. Working as a grocery-store bag boy to support his hobby, he buys a new game every two weeks. Trevor Moser, a 14-year-old player in Kent, Wash., says he has bought about \$700 worth of games in the past year, mainly with his paper-route earnings.

Derek Johnstone, 11, of Cerritos, Calif., founded the Electric Rendezvous club, which prints its own newspaper "with strategies and tips" for improved playing. The club's 11 members take an oath promising, among other things, not to "spill the beans on any tricks," and they pool money to buy games.

Players are usually boys between the ages of eight and 14, says Robert Holmes, senior vice president of Acclaim Entertainment Inc., a video-game maker in Oyster Bay, N.Y. "It's very competitive. It tends to get almost physical," he says. "It's the entertainment form for the '80s—immediate, real-time gratification."

Mr. Holmes says technological advances and improved graphics spurred the industry's revival. "Kids play longer because the games . . . offer a deeper, richer environment" than previous home video games.

Researchers who have studied the mania say it has its pros and cons. Debra Lieberman, an assistant professor in telecommunications at Indiana University, says a study of more than 500 schoolchildren in 1983 found that the more video games children played, the lower their reading scores. Heavy game players tended to be heavy TV watchers who didn't

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Although retailers say girls account for an increasing number of video-game sales, the marketing is still geared mainly toward boys. "Be a hero as you battle a gang of seedy punks who try to steal your girl," says Sega, for instance, in the pitch for its My Hero game. "Your incredible Kung Fu training will help you as you match wits with knife throwers, ferocious bulldogs and the gang's evil leader."

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Shun Sun Belt Other Moves

RES of retirees bask in Sun Belt retirement benefits that are everywhere in the South. So it's easy to see why older Americans are flocking in masses to warmer climates. The Census Bureau figures that fewer than 5% of people change their geographic location each year.

It is that the Midwest, the Northeast, and parts of the West are actually getting "warmer" than most of the country. Younger people are flocking to these states, seeking better opportunities, and older people are staying on. In 1986, 19 million, or at least 12.5% of their population, aged 65 or older, only in Florida, is a bona fide Sun Belt resident.

Florida is a stark exception to the trend. The median age of 36, it has the youngest population of any state. It offers a glimpse of the U.S. population in roughly 30 years. Florida right now. Its population (18% of the population 65 years plus) is roughly the same as the U.S. population will look like in the year 2020.

Immigrants Gain Bulk

THE ILLEGAL aliens make the headlines, but the steady flow of lawful immigrants continues to pour into the U.S. In 1986, nearly 602,000 foreigners entered the country on legal immigrant visas, the highest figure in 50 years and a total more than the population of Washington, D.C.

Did these people go? Immigration and Naturalization Service says that nearly 500,000 of the new arrivals

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The number of child addicts is legion. Nintendo, the industry leader, has 32 full-time "game counselors" who staff phone lines solely to help frustrated players; the hot line receives 20,000 calls a week, despite recently changing from a toll-free number to a toll number. And about 100 game clubs have sprouted up nationwide, including Mario Maniacs, Video Goonies, Colossus Clickers, and Gamelords.

The game makers fuel the mania. Sega of America Inc., the U.S. subsidiary of Tokyo-based Sega Enterprises Ltd., sends its game magazine to 25,000 children. Nintendo mails 800,000 copies of its Fun Club News magazine, packed with game tips, top scores, reviews of its own products and hype about future games. Children send in their own tips, which reflect their detailed obsession with the games. An 11-year-old Georgia player advises: "When attempting to defeat the Mother Brain, stand where the last Zebetite was and shoot missiles at the brain. If the Rinkas come at you, blast them with missiles and then continue shooting the Mother Brain."

Rod Baker, 14, heads a Shinnston, W.Va., club called Fanatic About Nintendo Games, or FANG. "Mom can't get me out of my room," he says. "It's like having the whole world put into one thing." He says he prefers the video version of baseball to playing the real thing "because you don't get bruised knees."

Logan Chamberlain, of San Mateo, says his 11-year-old son would "play forever if I didn't limit it. It's scary how long they play. They don't eat, they don't move. I noticed him becoming so absorbed, he stopped reading and doing physical activities." Still, Mr. Chamberlain admits, "The golf game is really great. I see where they lose sense of time."

Big Spenders

David Ross, 16, of Miami Lakes, Fla., often plays from 4 p.m. until midnight or 1 a.m., averaging more than 20 hours a week. "I have earned a reputation for mastering games extremely fast," he says. "I hold records for 21 games in Miami Lakes." His 12-member club in Florida holds competitions, and "we study the games as we go along, notice details, and take notes." Like other hard-core fans, Mr. Ross records his game-playing on a videocassette recorder to provide proof of lofty scores.

The video thrill doesn't come cheap.

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In the study, children said they liked the games because of the fantasy themes, challenge, sense of control, interaction with other players, and recognition for winning. They also may help develop a child's ability to respond quickly to two or more factors at the same time, Ms. Lieberman says. "The kids are amazing," she says. "They have to plan ahead, shoot and move, while being attacked."

'Time to Unwind'

While the games themselves may not be harmful, parents should "be more concerned with what the kid is dropping to compensate for time spent with the game," Ms. Lieberman adds. "If he's dropping homework, time outdoors, or time with friends, it can be a serious problem." If the child is constantly withdrawing to his or her room to play the games, it may indicate trouble. But, she says, as long as children maintain other interests, video games are fine. "Children need time to unwind, too."

Mrs. Lamanet, Christian's mother, questions whether the skills children learn from the games are useful. "It gives them a sense of power and mastery, but what are they really mastering? At least when they're playing with spaceships or something, they're creating the action. With Nintendo, they're just plugging into someone else's creativity."

Parents also worry about the violence in some of the games, with names such as Rambo and Contra. An ad for one game says: "Two a.m. is no time to be alone in the subway and you're about to find out why. . . . They've got clubs, chains, and blades. It's three against one—but they've picked the wrong one." The ad shows the hero kicking a punk in the face.

In the end, though, parents may find that they have no control over the most effective deterrent against excessive game playing. Trevor Moser, the Washington teen-ager, confides there is a stigma attached to video-game wizardry: "You don't want to tell girls you're a video-game player, because they'll think you're a nerd. They want to see you out there doing sports."

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Some video-game software writers are trying to attract older players by taking a different tack than the usual action-filled, fantasy games. GameTek Inc., of Plantation, Fla., has begun marketing video-game versions of favorite TV game shows, such as "Jeopardy" and "Wheel of Fortune." The players needn't despair at matching wits with the computer, however. "It's programmed so it makes mistakes, like it's human," says Malvina Vogel, a GameTek marketer.

Future Games Will Increase Interactive Role of Players

Picture a film clip from "Platoon": A big battle is breaking loose in the jungle. Snipers are all around. Suddenly you let loose with a burst of gunfire, destroying several of the enemy.

This sort of scenario is likely to be played out on a coming generation of video games.

Today's games rely on computer-generated images. As computer chips have become more powerful, the images have become more complicated and vivid—but still aren't realistic. Under development, however, are games in which the players interact with videotape scenes.

Several companies are said to be developing the new games. One retailer who has seen a Hasbro Inc. prototype says the technology is still "rough," and that price could be a problem. But others say the games could be perfected within a few years. Hasbro, based in Pawtucket, R.I., refuses to comment.

For educational products, similar interactive technology using videocassette recorders will be on the market this fall. Beginning in October, View-Master Ideal Group Inc. of New York will offer the View-Master Video System, in which a processor is wired between a VCR and a TV set. With a remote-control unit, the viewer can call for changes in the special videocassette tapes. For example, a child can tell the Sesame Street puppet on the screen which letter of the alphabet to sing a song about.

"This is full-motion video that's being changed by the child—it's not computer graphics," says David Shapiro, View-Master marketing vice president. The product will sell for about \$120, including the first tape. Additional tapes will cost \$20 to \$25 each.

—JEFFREY A. TANNENBAUM