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MILTON BRADLEY: PLAYING CATCH-UP IN THE VIDEO-GAME MARKET

For a company with healthy profits, low debt, and a long-lived product line, Milton Bradley Co. (MB) is in a surprisingly serious predicament. The Springfield (Mass.) toy maker missed the boat in electronic video games, and that error shows how damaging one strategic blunder can be at an otherwise sound corporation. MB is struggling to catch up in video -the hottest toy category by far--but changing technology makes leadership in the field a moving target.

Four years ago, MB developed a TV-connected game, but company executives failed to market it because they thought such items constituted an over-priced fad. Last year alone, however, U.S. sales of video game systems and software cartridges tripled, to \$1.2 billion, according to a trade association, Toy Manufacturers of America Inc. In 1982 they are expected almost to double, to \$2 billion (page 78). Sales of all other toys and games rose only 6%, to \$4.9 billion, in 1981 and will probably show modest growth this year. Now, MB Chairman James J. Shea Jr. is trying to come up with a new-generation video system. He is also seeking MB's first consumer products acquisition outside toys, in case the come-from-behind effort does not accomplish enough.

MB placed its bet on portable electronic games rather than video consoles--a decision that seemed smart at first. From 1977 to 1980, MB's revenues grew at a compound rate 29% per year, fueled by demand for such offerings as Simon, an unsophisticated but successful tabletop game. But the phenomenal rise of consoles, including Mattel Inc.'s Intellivision and Warner Communications Inc.'s Atari, has siphoned off huge chunks of parents' toy-buying dollars. Last year portables were blasted like so many alien targets zipping across the TV screen, and MB's electronic-toy revenues plunged 33%. Gains made by the company's old standbys, board games such as Candy Land and Battleship, helped overall profits stay relatively healthy for a recessionary year. Still, earnings dropped 37%, to \$20 million, on sales down 9%, to \$381.4 million. 'Treading water.' Shea must now come up with a video product that goes a step beyond the advanced competition. He and Senior Vice-President George R. Ditomassi Jr. both hint that the company is working on just such an item. "We would like to think there is an opportunity for Milton Bradley in the video/home computer market," Shea declares. "We are looking for a niche [other than] consoles like Atari or Intellivision or personal computers."

Shea will not be more specific, except to characterize the product as entertainment rather than a toy or game. But whatever it is, the new offering will not hit full production in 1982. "We will be treading

water this year," concedes Ditomassi. Indeed, retailers say MB's line-up this year lacks exciting new toys, other than a board-game version of the popular arcade game, Pac-Man. "They really don't have anything to replace the volume lost last year," says Ian McDermott, senior buyer at toy retailer F. A. O. Schwarz.

To regain momentum in the long term, MB has a number of electronic options. The secret product designed to create an entirely new niche may or may not include other innovations that MB confirms it is working on. The company is developing video game cartridges that synthesize human speech and respond to some spoken words. Such games could talk to players and even call them by name. Mental challenge. MB is also studying educational software for home video systems, a natural extension of an effort begun last year to sell computer programs to schools. In addition, Ditomassi says he is spending 1982 researching the kinds of entertainment that would appeal to the over-55 age group. Later this year or in early 1983 the company will sell an electronic chess game for \$200 to \$300, and Ditomassi says a fuller line of products for mature buyers may be introduced by 1984.

Industry watchers suggest that there may be many more avenues for MB. Current video games delight many users, but most still involve hand-eye coordination rather than clever thinking. Computer power could add a thinking element, while another dimension yet to be explored is the sensation of movement. Analysts are awaiting games that create feelings, such as a sense of speed in an auto race game or vibration from explosions in action games.

These will all be contested markets, however. This summer, Mattel will introduce a keyboard that can turn its video console into a personal computer. It, too, is introducing speech capabilities to games. And a number of manufacturers sell chess games and related products for older users. Meanwhile, such toy makers as Coleco Industries Inc. and MB's archrival, the Parker Bros. Div. of General Mills Inc., are cashing in on the most popular consoles by preparing to sell compatible game cartridges. MB tried that tack a few years ago by bringing out cartridge versions of such board games as Yahtzee and Hangman, but it made them compatible with a console that fared poorly--Texas Instruments Inc.'s Gamevision. MB pulled its cartridges off the market in 1980.

With that failure MB is painfully aware of how difficult it will be for any option to succeed. Game cartridges alone look too competitive--"a lot of blades for everybody's razor," as one brokerage-house analyst puts it. Ditomassi agrees. "You've got a bloodbath coming in cartridges," he says. That is likely to drive down prices for software, which has been retailing at about \$20 to \$30 per cartridge and supporting wholesale markups of a huge 50%, compared with 20% on nonelectronic board games and 10% to 12% for ordinary toys. Indeed, MB may simply have missed the fat profit years in video. Now says Ditomassi "we're struggling to find something a little different from

what everyone else has, something that won't put us into the revolution with a me-too product two years too late."

ENVIABLE RECORD. This is a decidedly atypical position for MB, a 122-year-old mainstay of the toy business. For decades the company has had strong brand recognition and a superb reputation among retailers as a producer of perennially popular games. Seven MB board games--some introduced 20 or 30 years ago--sell more than 1 million units each per year, a record that few competitors in the fashion-conscious toy industry can match. The company's long history of financial health has also provided a strong balance sheet: It has only \$24.1 million in long-term debt.

MB's borrowing power could now be used to make the nontoy acquisition Shea wants. As with the company's toy electronics, Shea is coy about saying exactly what he is after. But he suggests it will be "an opportunity in which we can use our expertise in marketing soft goods and our electronics capability." Others in the toy industry are skeptical because MB has talked before about nontoy acquisitions but never acted. About 96% of the company's revenues still comes from toys and games. Shea maintains that he has sent inquiries to some 60 investment bankers and other acquisition brokers--and that he is considering one target company right now.

Shea may need to act this time. The growth in video games might be great enough to allow one more competitor to slip in profitably, and no one doubts MB's ability to produce electronic hardware or software. But success is by no means assured. And while the company waits, the current leaders in video games are finding that their products appeal more and more to players younger than 14--MB's prime market for its traditional toys. The company's hand held electronic games, meanwhile, still sit on many store shelves threatening MB's image among retailers. "We haven't ordered any hand-held games yet this year, other than Coleco's Pac-Man," says Luke Kirby, vice-president of Caldor Inc., a discount chain. "Once burned is enough."