

VIDEO GAMES INTERVIEW

Arnold C. Greenberg

A ColecoVision of the Future

By Roy Trakin

It's a gray Saturday afternoon at the Hartford, Conn., headquarters of Coleco. The company's 49-year-old president, Arnold C. Greenberg, sits behind a desk amidst towering piles of memos, invoices and bills. Impeccably groomed, with gray-flecked hair, bushy eyebrows and an intense, straight-forward manner, he is surrounded by the recreational products that have moved Coleco to the upper crust of the video game field. Last year, the company started by his father, Maurice, 50 years ago, tripled its sales from \$178 million in 1981 to a whopping \$510 million, with net income shooting up 420 percent to \$40 million.

The history of Coleco reads like a fabled American success story. From its humble beginnings, selling leather goods to shoemakers, Coleco began manufacturing its own products, including leathercraft kits for Mickey Mouse and Davy Crockett moccasins, and Howdy Doodly Bee-Nees in the early '50s. The company's interest in licensing has endured to this day with toys built around such marketable commodities as Smurfs (playhouses), E.T. (pools and power cycles), Sesame Street (Rumble Seat Roadster) and G.I. Joe (Arctic Patrol Bobsleds).

From leather, the company expanded into plastics in the '60s, building a reputation as the leading manufacturer of above-ground swimming pools. In 1966, Greenberg, who had been practicing law and representing the family company, moved over to Coleco on a full-time basis. As son, brother, director, major stockholder and legal represen-

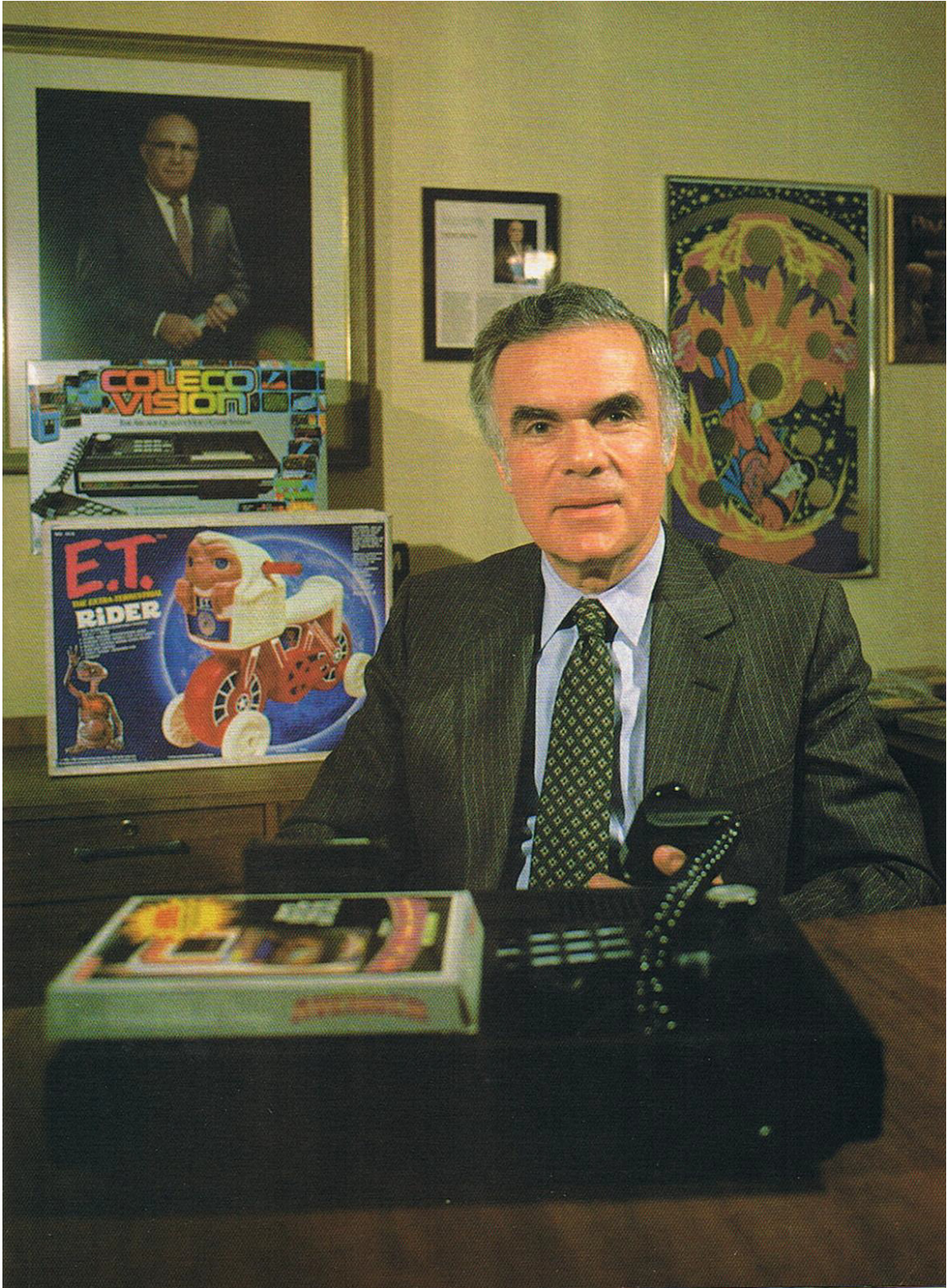
"We can make the experience the equivalent of life itself. You will be the star of a 35 millimeter movie, you will be at the center. All of this is merely a warm-up for what's ahead in the next few years."

tative to the company, who had been involved in the growth it experienced, he says it was an easy choice to make. Two years after his arrival, the company acquired Eagle Toys, a manufacturer of a tabletop rod-hockey effort, heralding Coleco's entry into the sports game arena. Soon Greenberg and his brother, Leonard, chairman of the company, began prowling the arcades, searching for the next big thing. They found it in a game called Pong.

Pong sparked the brothers into thinking of bringing such fare into the home. In 1976, one year after Atari offered its own home version of Pong, Coleco introduced Telstar, a "dedicated" video unit and, in the following two years, offered upgraded versions and a programmable unit. The interest in the dedicated systems was being overshadowed by the popularity of hand-held electronic games, pushing the company into this new area. While Coleco managed to sell in excess of \$20 million in hand-held games, it was forced to dump more than a million units of Telstar, driving the company close to bankruptcy in 1978, when financial reports revealed a loss of over \$20 million dollars.

Ironically, this flirtation with disaster made the company more determined than ever to remain in touch with the ever-changing world of toys. ColecoVision, the video game player introduced last August, sold over a half million units in 1982, at \$175 apiece. And, even though this made the unit \$75 more expensive than Atari's VCS, video aficionados praised its lifelike graphics, which were superior even to Intellivision, and \$35 lower in price. Greenberg predicts that Coleco will soon surpass Mattel to become the No. 2 seller of video game players, right behind Atari.

The future looks bright indeed for the recreation and toy company. Coleco has gone into agreements to bring out 20 new games by the end of '83, including popular titles like Donkey Kong, Jr., Space Fury, Rocky Battles the Champ and Gorf. In January, Coleco made CBS its principal foreign distributor, and will begin developing and marketing for ColecoVision, home video cartridges licensed by CBS from Bally. A lawsuit with Atari has just been settled, allowing Coleco to continue to produce the expansion module which makes it possible to play Atari 2600 cartridges on the ColecoVision system, while Coleco continues manufacturing of cartridges for the Atari and Intellivision systems. The company recently introduced a wafer system known as the Supergame Module, which has more memory capacity than any video game software on the market, more than eight times that of any Atari 2600 compatible cartridge. At the June Consumer Electronics Show Coleco will enter the home



computer business with the introduction of a ColecoVision computer (total cost: \$375—\$175 for the video game player, and \$200 for the module). The computer module will come with a printer and contain a microdrive, a new storage device superior to the cassette storage units used in other lower-priced computers.

So, while experts argue whether the public will buy a home computer from a company known primarily as a toy manufacturer, Coleco gears up for a future where video games can “replicate life itself” and in which the player becomes “the star of his own 35 millimeter movie.” As Arnold Greenberg systematically describes his company’s prospects, I glance over his shoulder and see a row of posters hanging on the wall, a chronology of the company—from leather moccasin kits to above-ground swimming pools to tricycles and ride-on choppers to video games and computers and beyond. Only in America could the son of a leather goods man grow up to be head of a manufacturer of home computers. A portrait of founder Maurice Greenberg hangs in the boardroom at Coleco. It might have been my imagination, but I could swear he was beaming with pride as his son described his company’s vision of the future.

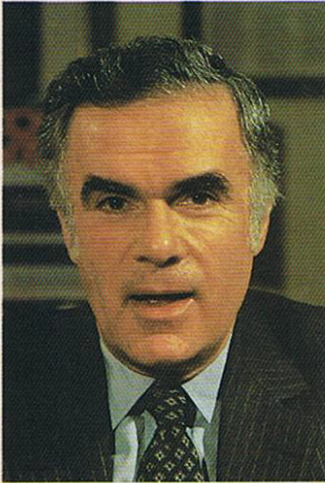
VIDEO GAMES: How do you feel about Wall Street’s prediction that video games have peaked, in the wake of Atari’s fourth quarter slump?

ARNOLD GREENBERG: I think Wall Street clearly overreacted, and very erroneously downgraded the prospects for continued growth of the video game market. Warner Communications had a record year in 1982 and, clearly, Wall Street made an error and very quickly corrected that error and now realizes that the industry is healthy. Some companies may be healthier than others. What really happened last year was that, as newer competitors came in, market shares were being reallocated and the fortunes of some companies were advancing at the expense of other companies. I’m very positive about the industry and, more importantly, the great opportunity that the industry has to keep growing. Now, by industry, I mean both the video game industry and the home computer industry, which I define to be under \$500 at retail. Increasingly, those two industries should be treated as one. There is too much focus on video games versus home computers, as if they are competing industries. In fact, they are not. There is much too much focus on the hardware means of delivery that, truly, I think is a false distinction. The real issue is to take a look at the software opportunity that both hardware systems seek. What we’re really saying is that the industry is one involving computerized entertainment. Whether you buy a video game system or a home computer, generally, substantially all the software that you’re using is entertainment in nature.

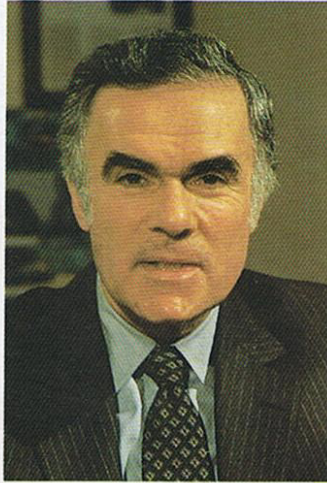
A more powerful machine, which we tend to call a home computer, lends itself to more sophisticated entertainment software. But, still, the majority of the software packages bought by home computer owners is entertainment software.

VG: So you see the home computer/video game as a luxury item rather than a necessity?

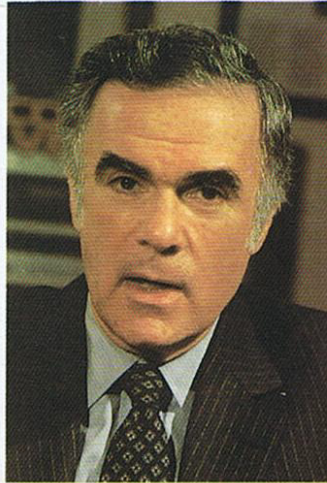
AG: It’s hard to say that a video game is a luxury. That may literally be so, but I don’t think that that is a difference that takes us anywhere. Some 15 million American families have already bought a video game system. Therefore, it is getting to be as much a necessity of life as a luxury. What I’m saying is, the name of the game is computerized entertainment, whether or not that entertainment is made possible by a video game system or a home computer system. We should not look at the two kinds of machines as antithetical and opposite. Increasingly, video game systems of the future will be more complex. They will, in fact, be home computers, and the kind of entertainment software that they will make available will be increasingly sophisticated. The direction we are going towards is more interactivity, more sensory appeal. There will always be a large market for the very low-priced video game system, and that will be for the consumer who wants an entry-level experience at a low price. But the more sophisticated video game systems, which



“... Games are a foot in the door, but entertainment is more than merely games...”



“... I’m very positive about the industry and, more importantly, the great opportunity the industry has to keep growing...”



“... The key to competing is having the right products... And our product is right...”

are in fact home computers, I think will increasingly take a larger share of the total market.

Games are a foot in the door, but entertainment is more than merely games. It's a step up in sophistication from games. After the kids first bring these systems into the house to play games, the adults eventually learn how they can use them or, as the children get older, they find uses for the home computer in addition to entertainment. That's what the ColecoVision home computer system is all about: finding utilitarian opportunities for the entire family to put to work. The opportunities are very real, and that is the key to making the home computer appealing to the entire family.

VG: What is your own company's particular role in that evolution?

AG: We think we have a very meaningful role in the evolution. We believe that there are three primary uses for a home computer: entertainment, information management and education. And I rank them in that order. By virtue of who we are and our particular background, we think that we will address those three functions in a truly unique way and we will go very heavily on our experiences as a successful entertainment company and as one whose distribution network tilts very heavily toward those large retailers who are comfortable handling entertainment and promotional merchandise. In many cases, those are the retailers specializing exclusively in toy and entertainment products. These are the people who want products that are simple, integrated and functional, but don't require a great deal of demonstration. The mass consumer market is the one we take as our objective. We do not seek to turn the mass of Americans into programmers. We are not looking for a hobbyist market. We are seeking a very broad-based market.

VG: I understand that just this week the lawsuit between Coleco and Atari regarding the Coleco Expansion Module #1 has been settled. Could you tell us about the issue that was involved here?

AG: The lawsuit raised the question as to whether or not there was any patent infringement by Coleco in connection with the Expansion Module #1 which we made for the ColecoVision system. That module made it possible to play any Atari 2600 VCS compatible game on our system. It also raised the very same pa-

tent question with regards to our new Gemini video game system. Again, it is a free-standing system that makes it possible to play the Atari cartridges. As a result of the settlement, Coleco will continue to be able to make and ship both the Expansion Module #1 and the Gemini free-standing system and that will be done under a royalty-paid license under the Atari patents.

VG: Tell us about the Gemini. Is it a children's system?

AG: No, the Gemini is not just for children. It's a free-standing system that functionally can do what the Atari 2600 VCS can do—it plays compatible cartridges. We have a very fine controller that's included with the game; one that's both a joystick and paddle controller at the same time. We also include a Donkey Kong cartridge, which we had programmed last year, and \$25 in savings coupons that enable the consumer to buy up to five Coleco program cartridges that are Atari VCS-compatible. The other part of the Gemini system is what we call Gemini Sound I. This is a sound module that can work on any Atari VCS, the Gemini or the Atari

module that plugs into the ColecoVision system. It's a patented, digitally encoded sound system that coordinates the action on the screen with sounds. We are making use of licenses, such as the Berenstain Bears, Dr. Seuss, the Smurfs, to capture what should be a very appealing youth market.

VG: In a market atmosphere that has become so crowded with software game cartridges, what is the key to breaking hits?

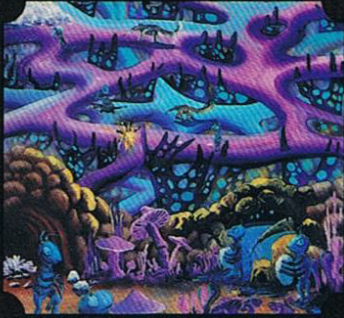
AG: I think the titles that are likely to be the most profitable and the most successful are those based upon very strong licenses. But that's only step one. Step two requires that the home video versions be very well programmed. They must be good translations, not merely graphically, but in terms of game play. Finally, they should be effectively and aggressively promoted on TV. That's very important. Those companies able to combine these three elements should have hits. I see the software market developing multiple tiers, with cartridges of varying quality available for \$5, \$10, \$15, \$20 and up.

VG: Do you see the coin-op business,

Introducing



Ant Eater™

ROM CARTRIDGE
FOR USE WITH ATARI 400/800 COMPUTER



Wave after wave of horrid black insects waving their feelers? Tough, age-old ants. Perhaps they'll rule the world, after man becomes extinct through war and pollution. How do you want your Anteater? Eat him raw, bit by bloody bit. Command your slaveants to kill the Anteater by laying deadly eggs. Or maneuver him by stealth under a crushing rock. Will the little varmints take over? Or will the Anteater out-feeder them? Play and see. May the best species win! Ideal for picnics.

ROMOX™
Romox Inc.
501 Vandal Way
Campbell, CA 95008
(408) 374-7200



ATARI is a registered trademark of Atari Inc.

even as it wanes, continuing to be an important source of licensed titles?

AG: Absolutely. The coin-op business is not as strong as it once was for various reasons. There's been a proliferation of newer machines, but they've been unable to gain a foothold because the hits of yesteryear are such hearty perennials. Another reason for its weakness is that there are now many coin-op hits available in home versions. But, as a whole, I think that industry is healthy, and all that it awaits are technological developments that will create new, exciting forms of games. Some of those developments will take place this year, things in the nature of 3-D and the videodisc, which will make coin-op play more exciting. Videodiscs can enhance graphics and make the whole experience more sensory, more interactive and certainly more appealing.

VG: Talking about making the experience more appealing, is your own Super Action Controller a step in this direction?

AG: The Super Action Controller is a system designed for use primarily with a line of advanced ColecoVision sports



software. It's a pistol-grip and comes with the ability to move four players individually, 360-degree rotary joystick, 12-position keypad—so you really have a very interactive, sensory controller system. The software that's designed for it will be quite unusual—it'll represent the best in sports software available. For

instance, the baseball game will be split-screen, so that you will be able to see many images and different aspects of the baseball game at different times. The Super Action Controller really will lend itself to a very new software experience. And that's really what we're talking about in terms of future development: an experience that can take the player and bring him closer to the center of the action. We can make the experience the equivalent of life itself. You will be the star of a 35 millimeter movie, you will be at the center. All of this is merely a warm-up for what's ahead in the next few years.

VG: Although you believe strongly in licensing, Coleco is still very much committed to creating original games.

AG: Oh, yes, original games are very important, and even the programming of licensed games is important. The translation from the licensed version to the home version takes a great deal of skill and programming capability. We have been doing that in-house since last year.


VG: Why haven't you publicized the individual programmers of the games, as Activision and others do and, in the same vein, hired a visible company spokesperson, a la George Plimpton and Bill Cosby, for your TV advertising campaigns?

AG: We don't believe that a cartridge is created by any one person. We have a team of many people, including graphics designers, who are very key to the development of any cartridge. We think it's inappropriate to lay the primary

Introducing



Fortune Hunter™

ROM CARTRIDGE
FOR USE WITH ATARI 400/800 COMPUTER



Treasure awaits, yours for the taking. But, do you have what it takes to kill the guards and escape? No guts, no glory. It's a chancey game, and a little bit lonely. Are you fast enough? Smart enough? Crazy enough? Then this game's your meat. It's up to you - and your fast reaction times, if you've still got em...

ROMOX™
Romox Inc.
501 Vandell Way
Campbell, CA 95008
(408) 374-7200



ATARI is a registered trademark of Atari Inc.

credit at the feet of any one individual.

It's been a deliberate move on our part to avoid working with a spokesman. Our thinking on that has been several-fold: Number one, our product is so superior to the competition in the marketplace, that in and of itself, our product is the very best spokesman. Secondly, and this stems from the first reason, is that it's pointless for us to compare ourselves with the competition. We think we're dramatically better. What our commercials do is compare our product with the arcade experience and that really seems to be a much better way to go.

VG: Will the market for hand-held games continue to be profitable?

AG: Oh, there's no question that will be a continuing market, even with video game prices getting lower and lower.

VG: When you first entered the video game market seven years ago, how did you think the business would develop?

AG: We knew back then that the field would develop along cartridge-based lines. The only question was how quickly it would take. Actually, it took quite a bit longer for the video of the present day to develop because the portable market got so strong in the late '70s. The advantages of portability are obvious, so, when the low-cost microprocessor became abundantly available, it was possible to create a new game experience that, for a while at least, clearly overshadowed video.

VG: You entered the video game hardware market rather late. What was your strategy in introducing ColecoVision?

AG: We became convinced that the market needed a third-generation system, a system with even better graphics than the Mattel system, and with exciting software. And we felt that, with the advent of the home computer, it would be desirable to create a system that was expandable—that was modular in nature, so that state-of-the-art developments could be incorporated into it as they came along. We saw the need to create a much better mousetrap. We felt that the available technology was such that a better product could be created, in terms of graphic capability, in terms of the controller system, and, in particular, in terms of expandability.

VG: And now you are introducing an attachment that can turn ColecoVision from a video game system into a home

computer, which can compete with the Texas Instrument 99/4A, Atari 400 or Commodore VIC.

AG: We will be at the June Consumer Electronics Show previewing a very unusual keyboard module, complete with certain peripherals that will help us address in a unique way the primary uses of the home computer as we see it—entertainment, information management and education.

VG: Are you convinced that the most important function of the home computer will be entertainment, or is that only from Coleco's perspective?

AG: It seems to me that's not even a debatable issue. All one has to do is take a look and see what kind of software is being purchased by people who own home computers. Anywhere from two-thirds to three-fourths of the units are entertainment software. I believe that will continue. The home computer is merely a more sophisticated entertainment machine than the video game.

VG: Do you feel that video games can be an important learning tool for youngsters?

AG: I'm delighted to see that even the President of the United States just recently commented that video games can be very constructive, indeed, even in the training of pilots. I think video games have done a lot to lower the age of computer literacy and help break down the barrier between consumer and computer. Video games are, in and of themselves, home computers, and the value of the video game experience, is, at least in part, that the user quickly develops the hand-eye coordination that is of great value in the manipulation of the computer. Video games can teach the player memory and strategy. One increases one's score if one develops certain memory capability with respect to noting what is a repetitive game pattern and what isn't. The more one concentrates on the challenge of game play, the higher one's score can be. So, there are valid learning experiences that come from working with video games, and I think they are a very natural transitional step into the home computer. To argue otherwise at this late date, is really rather foolish. I see no danger in reducing the age of computer literacy. I see no danger at all in furthering understanding.

VG: Is Coleco active in distributing game cartridges to outlets like video stores?

AG: I think our products will increasingly be sold by stores that also sell video cassettes. The development of the software boutique is a new concept in merchandising that will certainly be prominent in the '80s.

VG: How can a company like Coleco go up against the mass communications giants like Warner Brothers or CBS in competing for shelf space in stores like that?

AG: The key to competing is having the right product, whether you're large or small. And our product is right. We compete with anyone and everyone in every means of distribution.

VG: Does Coleco plan to move in the direction of establishing their own retail computer outlets, such as Apple and IBM have done?

AG: No. That is a very different, and specialized market. It's the personal computer field, which is a specialized text market and a complicated one, for different people who require a great deal of demonstration. That's not what our system is about. We're talking about a mass consumer product here that must be simple. It's got to be able to hang on a hook. It does not need extensive in-store demonstration in order to let people know what it is. It's got to be clear and apparent on its face.

VG: How would you describe the Coleco image?

AG: We're a worldwide leader in the manufacture of entertainment and recreational products for the entire family. Right now, most of that is electronic—in 1982, 73 percent of our volume was electronic. But, we do have an important and growing position in the non-electronic toy and entertainment product area, and that's a position we expect to continue to expand.

VG: Can Coleco catch up to the front-runners even with its relatively late start?

AG: Behind the front-runners? Well, I suppose technically we are, but we feel that the momentum is certainly running with us. We believe we are clearly established as the most wanted video game system, even though some of the others have sold more units in the past. That really is the key consideration.

VG: And to what do you attribute that momentum?

AG: A combination of quality, a better product, and very aggressive marketing and merchandising. ▲