

Pursuing Simplicity is the Key for Game Software Development

Interviewer: *Otsuka Keiichiro*

IWATA Satoru, president of major Japanese video game maker Nintendo Co., said in a recent interview that his company would soon release new versions of its hit software titles such as *Mario* and *Pocket Monsters (Pokémon)*. He also said Nintendo would market by the end of this year a new portable game machine, code-named Nintendo DS (dual screens). He expressed confidence that Nintendo DS will provide a fresh, innovative gaming experience.

Otsuka: According to the Computer Entertainment Supplier's Association in Tokyo, domestic and overseas shipments of home video game software in 2001 and 2002 slipped by around 10% year on year. How do you see the current state of the game industry and its future?

Iwata: I think the number of game players will decrease if the game industry continues to pursue its current strategy of making software more complicated and

luxurious, which in turn requires customers to consume enormous time and energy. Customers now find themselves hard-pressed to keep up with the game developers' approach. If we put the brakes on such a trend, we would be able to put the industry back on a growth path. Nintendo was aware of this early on. We would like to market such software and expand the sales of game machines.

Otsuka: Sales of Nintendo's GameCube game console have remained stagnant, struggling behind Sony Computer Entertainment Inc.'s (SCEI) PlayStation2. Did last year's price cut have any effect?

Iwata: I think so. We had a hard time in the first half of fiscal 2003. But sales during the Christmas shopping season after the markdown were brisk in Europe and the United States, with the shipments at home and abroad in the October-December period last year hitting the 3.5 million unit range. We narrowed the gap with PlayStation2 and made up for the

beating we took in 2002. Nevertheless, domestic sales remain weak and the total of global shipments for fiscal 2003 came in at 1 million units under the 6 million target.

Otsuka: SCEI launched the PSX, which combines a home game machine with a DVD recorder, last December. Did the new SCEI product affect Nintendo?

Iwata: The PSX is not a game machine but a home electronic appliance. So, it didn't compete with our game machines. The PSX is priced differently from our products and customers bought the PSX for different purposes. I think few people, if any, would be at a loss to choose between the PSX, which sells for ¥80,000, and our GameCube priced at ¥14,000. You had better put this question to Matsushita Electric Industrial Co., Toshiba Corp. or Pioneer Corp.

Otsuka: How is the GameBoy Advance portable game machine selling?



Nintendo president Iwata Satoru holds the newly released Nintendo DS at the Electronic Entertainment Expo 2004



Photo: Nintendo Co.

Iwata: Global shipments for fiscal 2003 were targeted at 20 million units but didn't get beyond the 18 million range. Sales were good in the United States and Europe, led by the GameBoy Advance SP folding machine, but sales of this machine in Japan dropped below the previous year's level. This adversely affected our global shipments.

Otsuka: **My next question is about your game software strategy. You said that you would like to release new software which would bring customers back to the fold. What customers do you specifically have in mind?**

Iwata: We are facing a critical situation, in which the number of game players will decrease unless we change tack. We will release software targeted at customers in different age groups. *Donkey Konga*, software for the GameCube jointly developed with Namco Ltd. and released last December, has sold well. Its content was well received. I think the charm of *Donkey Konga* partly lies in the fact that even a three-year-old child can play it.

Otsuka: **Specifically, what kind of software do you plan to release?**

Iwata: We plan to release new versions of such popular titles as *Mario*, *Pokémon*, *The Legend of Zelda* and *Kirby Super Star*, because customers want them and we would like to take on new challenges. As software for the GameCube, we would like to offer easy-to-understand software using such characters as *Donkey Kong*. We will release in Europe and the United States by the end of the year a new version of *Donkey Konga*, varying the music according to local tastes. Music for the U.S. version will be different from that for the European version. We have sent samples to our overseas sales agents, which have received them well, partly because some samples contained classics.

Otsuka: **Nintendo repackaged 10 classic titles of its original home console system, such as *Donkey Kong*, *Super Mario Bros.* and *Pac-Man*, for**

GameBoy Advance, releasing them in Japan in February under the title Famicom Mini. As a follow-up, 10 other popular titles, such as *Mario Bros.* and *Twin Bee*, were released for the hand-held game machine on May 21. Do you intend to continue the revival of old software?

Iwata: It is a matter of course that we should consider the utilization of our software assets. There are many things we can do. Adults can hardly get involved in games unless we offer them simplicity. Adults who do not usually play games should be able to understand them in 10 seconds. We would like to revive older software which would prompt such adults to feel like playing them.

Otsuka: **Much software for SCEI's PlayStation2 and Microsoft's X-Box is dynamic enough to appeal to adults. But it seems Nintendo is not good at producing software for adults.**

Iwata: Game software should neither be exclusively targeted at children nor adults. Instead, we will develop software which anyone can instantly understand. At the same time, production of software readily acceptable to adults is worth studying.

In March last year, we released *Made in Wario*, a collection of mini-games, which was favorably received by both adults and children. *Made in Wario* contained features of the so-called Family Computer launched in Japan in 1983, and so evoked a sense of nostalgia in many adults. Children, for their part, must have enjoyed it without understanding these connotations.

I think we should continue to adopt a similar approach. When we market new software for adults, we should publicize it as software that everyone can enjoy. It will be nice if adults who have kept away from playing games will be motivated to take them up again. That will be more effective than undertaking a promotion specifically aimed at adults.

Otsuka: **Nintendo has not entered the online game business, while other game companies are focusing on them, as is shown by SCEI's PlayStation2. Is Nintendo not thinking of heading in that direction?**

Iwata: Not at the moment. SCEI's online golf game didn't sell well, while its off-line golf game sold one million copies. This was also proof that customers do not want online games. Online technology has its own interesting features, so I don't rule out the possibility of making use of it for games. But, at the moment, most customers do not wish to pay the extra money for connection to the Internet, and for some customers, connection procedures to the Internet are still not easy.

Some time ago, game companies as well as the media were predicting that online games would take off in the future. But game companies now find it difficult to make online game businesses successful, and their enthusiasm for them is cooling. During the year-end shopping season last year, none of the online games succeeded. The failure of SCEI's golf game was a good example. All the games that sold well were off-line games.

Otsuka: **Exorbitant costs are the main obstacle to the development of games, aren't they?**

Iwata: It is not unusual for development of software for portable game machines to cost between ¥100 million and ¥200 million. Development of full-blown software for household game machines costs as much as ¥500 million. Development of software at such high costs is not sound. Some kinds of software might justifiably cost ¥500 million, but that doesn't mean all software should cost that much.

This is why we released low-cost *WarioWare, Inc. Mega Party Game\$!* in October last year as a follow-up to *Made in Wario*. We developed this new software for less than ¥100 million in only six months, which enabled us to set the per-copy price at ¥3,800. Because of the

low cost, *WarioWare, Inc.* sold more than 400,000 copies.

Otsuka: Do you plan to form tie-ups with other companies in software development to curb development costs?

Iwata: Tie-ups with other companies will not necessarily reduce development costs. Tie-ups are aimed at developing unique commodities which neither Nintendo nor its partners can develop alone. *Donkey Konga* was created through the combination of Nintendo's *Donkey Kong* character and Namco's *Taiko no Tatsujin* (Drum Master). There were merits for both sides. We intend to expand tie-ups not only with Japanese companies but also with foreign companies. We are now holding negotiations with major Western game developers and will be able to conclude a deal by the end of the year if things go smoothly.

Otsuka: Nintendo last year bought 2.6% of the outstanding shares in Bandai Co., which owns such characters as *Gundam*. What was the purpose of the share purchase? Was it related to the possibility of a tie-up with Bandai?

Iwata: It all started when a holder of Bandai shares approached us. We bought the shares as Bandai's business value and stock price were balanced. We already had a relationship with Bandai, as we had marketed Bandai's software. A closer relationship would be beneficial for both sides and it will be nice if the two companies can work together in doing something interesting.

Otsuka: Later this year, Nintendo plans to release a new portable game machine, provisionally called Nintendo DS. What will it be like?

Iwata: Featuring two 3-inch color screens, the Nintendo DS will enable customers to play games in a different way. We will also develop software that will bring out the strengths of having two dis-

plays. The two screens will display different scenes. When playing a soccer game, for example, one screen will show an overview of the field and the other will show a view of one of the characters. Different scenes shown on two screens will give game players the feeling that they are on a soccer field. The Nintendo DS will be a success if it provides customers with a new gaming experience.

Game developers are finding it difficult to make completely unique software. That is why they have been making software too complicated while excessively tinkering with such details as improvements to the quality of the displayed images. Of course, customers will not accept this trend. Even developers themselves did not feel like using such software, with the result that the game business has been stalled in Japan and the United States since the second half of last year. The situation is quite serious.

Otsuka: What will you do with the existing game machines after releasing the Nintendo DS?

Iwata: We will continue the marketing of GameCube and GameBoy Advance, because they are different from the Nintendo DS. If the existing machines are withdrawn from the market, customers will not think that the Nintendo DS has different features from these machines.

Otsuka: The PlayStation Portable (PSP) game machine SCEI will release in the end of this year will boast wireless local area network (LAN) functions using an ultra-small optical disc, which will enable high-speed communications without cables. Will the PSP compete with the Nintendo DS?

Iwata: Entertainment goods are not necessarily superior just because they are equipped with state-of-the-art technology. Game developers have made games too complicated for ordinary people to play, because they thought advanced technology by itself is great. I think customers will not regard the Nintendo DS

as having the same purpose as the PSP. Just as the GameCube does not compete with the PSX, the Nintendo DS will not compete head-to-head with the PSP.

Otsuka: Nintendo reported a net loss of ¥2.8 billion in its consolidated financial statement for the April-September period last year. Nintendo reported its first net loss since its shares were listed in 1962. The losses apparently resulted from a foreign exchange loss of ¥40.3 billion stemming from the yen's appreciation against the dollar. How do you view the financial results as the company's chief executive?

Iwata: The first loss since the stock listing was indeed disgraceful. As the president, I am striving to boost sales and operating profits, but can do nothing about exchange rates. Nintendo has foreign-currency deposits totaling about \$5 billion, so we suffer a loss when the yen appreciates. Given that we boosted our assets through foreign-currency trading in the past, I am not pessimistic about the situation.

When the yen appreciates, most companies have to exchange dollars for yen to maintain the value of their assets. But Nintendo can keep the value of its assets without doing so immediately. Our current and net profits may be affected on paper, but that is not a real loss. Drastic fluctuations in exchange rates are not desirable but we cannot help it.

Otsuka: How do you view the current business situation in Japan?

Iwata: The days when all business sectors could thrive are over. Business sectors selling products which are not daily necessities, like the game industry, will be affected by business fluctuations. But if we make a product consumers want at any cost, they will buy it. We must make efforts to produce such things. **JS**

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