

## One Year Later—

# An Overview of Microsoft's Xbox, and Other Console Insights

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### In The Beginning...

Three years in development, \$500 million allocated just for promoting it, and more fanfare hype at the launch event than even Windows XP. On November 15, 2002, Microsoft marked the one year anniversary of the black and green themed console. To celebrate the one-year mark, Microsoft “lit the fuse” of the much anticipated on-line service dubbed Xbox Live!

Many of you have heard the buzz and rumors over the last year accompanying Microsoft's incursion into the gaming console arena. Let an Xbox analyst give you an inside perspective on exactly what Xbox represents, unravel some common myths, and answer some poignant questions about the infamous black and green box.

Xbox's engineering is simply the crown jewel of entertainment consoles. One would conclude from gleaning the Xbox spec sheet that it's a very capable computer outright. So what do you get for the current price tag of \$199? The new “Holiday Offer” packaging includes not only the new controller S, but also two very nice games—SEGA GT 2002 and Jet Set Radio Future.

### Show Me Thy Power

Let's not forget how much value is bundled into this modest \$199 price tag. Shall we take a brief refresher course of the Xbox innards? We start with an Intel PIII 733 matched up with Nvidia's custom designed Xbox GPU (NV2a) that's on par with the bestselling GeForce 3 cards found in higher end PCs last year! Xbox also sports an 8 Gig Hard Drive and an I3DL2 sound chip (with support for 64 audio channels and Dolby Digital 5.1). Xbox contains a unified memory architecture where the console shares 64 megabytes of DDR RAM for the video and main system bus. Gates confirmed in an interview last year that the OS contains “an extremely stripped down” Windows 2000 kernel. There is also a custom version of the “DirectX 8” API and the state of the art HyperTransport bus that allow for mind-blowing transfer rates. Xbox holds native support for broadband via a built-in 10/100 Ethernet adapter, and four USB type controller ports so four can play simultaneously. Two additional nice touches are the ability to save your favorite tunes to the hard drive for use during game play (note: the game must support this feature), and the parental control option which is accessible through the Xbox Dashboard. Plus, the Xbox is HDTV capable (with purchase of “High Definition AV Pack”) for a maximum resolution of 1920x1080. Games that support 1080i will start showing up shortly, and many already support 480. If you purchase the optional Xbox DVD Movie Playback Kit you will enable DVD movie viewing with a nice remote control unit. With the System Link cable, up to 16 players can hold a nice Frag Fest providing you have 4 Xbox's and 4 TV's.

## **Tell Me Something I Don't Already Know**

For many of you this is nothing new or anything you didn't already know. For new comers to the Xbox camp, it's exciting to know the capabilities of their new console and to reaffirm it can keep pace with current and future technologies. After one year we easily forget or take for granted the engineering effort Microsoft put into this console to give it the best chance of sustained survival.

Just don't ever call the Xbox a PC or Microsoft will release the hounds on you. Seriously, Microsoft doesn't want the Xbox and PC ever mentioned in the same breath. It's engineered, designed and developed to do one thing in grand style—play games. Don't fault the Xbox for uninspired game ports where developers didn't take the time to optimize their code for the Xbox or take advantage of the unique Xbox capabilities. I could write a separate feature on this ugly enigma of the gaming industry alone.

I get all pumped up (literally) just talking about the specs, but wait until you see the titles coming out as we inch closer to the US launch of Xbox Live on November 15<sup>th</sup>, 2002. Keep in mind not all of these games are Xbox Live ready, but what an awesome way to end 2002:

- Metal Gear Solid 2
- MechAssault
- Serious Sam
- Ghost Recon
- Star Wars Jedi Knight II
- Mortal Kombat: Deadly Alliance
- Unreal Championship
- Medal of Honor Frontline
- Splinter Cell
- James Bond 007: Nightfire
- Panzer Dragoon

## **Business As Unusual**

Microsoft forecasts cumulative sales of Xbox shipments to reach between 9 and 11 million units by June 2003. With Redmond's kingdom of solid fiscal backing and zest behind it, you can safely say Microsoft is taking Xbox very seriously for the long haul. So what triggered Microsoft's decision to jump head first into the console business? In short, Microsoft is looking for fast growth areas, unlike the saturated PC industry where sales are waning. Game consoles are a logical business decision. Consoles average about \$200 each. The average PC costs three to five times that amount. Consoles have become mainstream—even low income households can afford them. Estimates put the game console market at \$12 billion last year—figures are going up, up, up. It's not only a hot growth area, but if Microsoft succeeds it will have diversified its revenue stream. Yes, it's probably true that Microsoft is taking a loss on each console sold. That will diminish over time as engineering and production costs are realized. The Xbox business strategy is deep and complex with major licensing deals on peripherals, as well as the games themselves. Profits will primarily come from the games—especially those developed in house. Third-party developers will pony up a royalty fee of \$5 to \$7 for each game according to Credit Suisse First Boston.

## **Frisky Business Or Risky Business?**

Sure, unmitigated risks and uncertainty are associated with this revolutionary box. As an Xbox advocate I'm a little biased that all will be rosy, but there are the logical concerns. Microsoft has a less than stellar track record with a "first release" of any type product; nevertheless this is a whole new enchilada for them. But at least Microsoft was smart enough to hook up with experienced Flextronics (prime manufacturing vendor that has huge Xbox facilities in Mexico and overseas). Another concern is whether there will be

enough quality games and developers. Between Microsoft's clout and Xbox's own merits, it drew some of the best PC developers over to the console side. Additionally, elite international console game developers have hopped in the sack with Microsoft as well. It's a known fact that developing a game for Xbox is much easier and more profitable than for a PC (remember no minimum requirements and platform/configuration issues to deal with, plus the hardware is locked down). Literally hundreds of quality titles are in the works. Microsoft is no doubt disappointed in the overall international sales scene thus far. Things may improve considerably with the advent of newer price points, greatly improved games, and Xbox Live blooming around the corner.

Furthermore, concern arises over whether there will be enough of the console cake for Sony, Nintendo, and Microsoft. With the Nintendo GameCube not having concrete "on-line" or DVD capabilities, it's possible we may be left with just PS2 and Xbox. Don't even waste your breath comparing all three consoles because having two or three consoles can not only be healthy, but is easily supported by consumers in today's frantic gaming marketplace. Video game consumer demand is at an all time record breaking pace with no sign of a slow down. Even Blockbuster is making money hand over fist in the newly created Game Rental Market that didn't exist a year ago! Finally, video games fall under the fairly certain "Recession Proof" entertainment segment, mirroring the movie industry.

### **I See Crazy Sony People!**

Let me tell you a little known fact why Sony is so implacable about protecting the PlayStation franchise. Fifty percent of the annual Sony earnings are derived from the PlayStation franchise and related game software and accessories. This is a colossal statement considering how many subsidiaries and divisions relating to the Sony Empire exist. Think of all their computers and peripherals, Consumer Electronics Division, Sony Picture Studios, etc. Think about that fifty percent again! That is the motivation for Sony to do anything to address any competitors treading on their market share, including Microsoft. Trust me—Sony execs can't stand the fact they're playing "catch up" to the Xbox specs, even if it's just a few technological advantages over the PS2. Somewhere in the upper echelons of Sony, heads rolled (no Sushi for you) due to the fact that consumers are even buying Xbox or Cubes despite their insurmountable market share lead.

We can say with pretty good certainty the PS2 will indisputably remain the quantity champ for the foreseeable future. Many of you will be shocked to know that all three console makers will be sticking around together for years to come. Let me make one bold prediction about the future. Looking deep into my crystal ball...hey I don't need a crystal ball, my right bicep tells all—here it comes "Sony will release the PS3 in less than 15 months." I need to smooth out that peak; it looks like a bad cut scene from an uninspired cheap port!