

The Great Console War of the 16 bit Era, Sega vs. Nintendo „Aggressive Marketing“

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1The Company Sega

1.1 *Sega Company History*

Sega is a Japanese video game manufacturer which was created through the fusion of the companies "Service Games Company" and "Rosen Enterprises Ltd." in 1965. The first of the 2 companies was founded by American entrepreneurs Raymond Lemaire and Richard Steward under the name "Service Games Company." in 1951. The original purpose of the company was to import and sell American amusement machines like jukeboxes and slot machines to American military bases in Japan. The other company was founded by David Rosen to sell mechanical photo booths to Japanese supermarkets. (After the war, because of the law, there was a huge need for passport photos and these photo booths were the most easy way to fulfill the demand.) After the merger, it was decided to abbreviate the word "Service Games" to "Sega". In 1969, Sega was bought by Gulf and Western (who also owned movie studios like Paramount). They turned Sega into a manufacturer of arcade games and this brought a drastic increase in revenues. (Before, Sega only earned 37 millions per year, after, the revenues were over 100 million dollars per year.) After they embraced microprocessor technology, sales rose to 215 million dollars in 1982. In 1984, Rosen resigned as the president of Sega and his successor became Hayao Nakayama. Gulf and Western sold Sega to a Japanese investment partnership which turned the company into a completely Japanese company. In 1986, Sega founded their American dependence "Sega of America".¹

So, in history, Sega was a Japanese company founded by Americans which became fully Japanese and then founded an US subsidiary. (It was also kind of senseless to cut off all connections with the US and then reopen a new US subsidiary.)

1.2 *Product*

The Mega Drive is a video game console developed by Sega as a replacement of the Master System which experienced unsatisfactory sales in the US. (Although it was rather popular in Europe.) Because the arcade machine model "Sega System 16" was extremely popular, it was decided that the hardware architecture of the System 16 should provide the base of the Mega

1 Vgl. Funding Universe ohne Datum

Drive. The name "Mega Drive" was chosen because the name sounded fast (drive as in "to drive" and also as a term to refer to computer storage devices) and Sega wanted to highlight the processing speed of the device. (Because in the US, Sega was unable to secure the trademark, they renamed the device "Sega Genesis".) The introductory price of the device in Japan and Europe was about 150 euros. Because in the US, under the launch price, the console did not sell much, Sega performed price cuts. The device could display 64 out of 512 colours at the same time. Today, aside from the Dreamcast, the Megadrive is still the most popular product of Sega in Germany and had a life cycle of 10 years.²

1.3 Manufacturing

The Mega Drive was produced in Taiwan, Malaysia, Thailand, Mexico, China and Japan.^{3 4}

1.4 Portfolio

Aside from the Megadrive, Sega also sold theme park attractions, video arcade machines, handheld gaming systems like the Game Gear. (And the Megadrive also has predecessors like the SG-1000 and the Master System.) During the sales period of the Mega Drive, Sega also started to develop the successor device "Sega Saturn". For the Sega Megadrive, additional peripherals like a CD rom drive were released.⁵

2 Vgl. Frank, 2012

3 Vgl. Villahed94 2014

4 Note: It was impossible to find clear official information about where the device was produced. This is a thread by users who collected their information about the production of their own devices. The device owned by the author of this text was produced in Malaysia.

5 Vgl. Funding universe ohne datum

2. The market

The US video game market was revitalized by Nintendo in 1985 which ensured their dominance over a wide period of time. ".⁶

2.1 Competition

Segas biggest competitor was Nintendo, who owned 80 percent market share of the 3 billion dollars large american video game market when the Sega Megadrive was released in the US. Late in the life of the Megadrive, when Sega tried to enhance the Saturn with the CD rom drive "Sega CD", Sega faced competition by CD based consoles like the "3DO" and electronic companies like Atari, Commodore and Sony, who also invested in CD rom technology. ⁷

Aside from these CD Rom devices and Nintendo, other competitors in the home console market were the Neo Geo, the NEC TurboGrafx 16. In the mobile device market, Atari was another competitor. ⁸ Technology wise, the Neo Geo far exceeded the performance of every other competition, but the device and its software also had a far higher price than every competitor, because essentially, the Neo Geo was not a device developed as a console, but an arcade machine put into a case of a console. (So, home users essentially had to pay the same price as entrepreneurs who wanted to offer the arcade machines in their video arcades or restaurants. At first, the Neo Geo was also only thought as a special service for hotels, but hotel guests asked SNK if they could buy the devices for home use. And so, SNK decided to offer the device to the home user market.). ⁹ Because of this, SNK was not a true competitor to Sega, and targeted another market segment (which probably owned a Neo Geo as well as devices from other companies.)

2.2 Market Disadvantages

Although several companies like Namco were angry at Nintendo for their policies and planned to switch to the competition, Nintendos market dominance and restrictive licensing treaties (which granted nintendo huge exclusivity rights) forced many companies to comply with Nintendo's demands. (Although there were also lawsuits against Nintendo for holding and abusing a market

6 a.a.O.

7 a.a.O.

8 Vgl. tvtropes.org (a) 2014

9 Vgl. tvtropes.org (b) 2014

monopoly.) Because of this, there was a lack of third party support for Sega. Sega also had a problem with using in house talents, at first, but the american company "Electronic Arts" strongly supported Sega, which resulted in a huge palletete of Sports games for the Mega Drive. These sports games became important selling points for the device.¹⁰

(This might have helped especially in the west.)

It is possible that this lack of third party support forced Sega to be more independent as they had to develop many things by themselves and did not have the easy possibility to outsource developments. (For example, because of this contractual exclusivity, Street Fighter could not be published on the Mega Drive, at first, so, they had to develop their own fighting game franchise, "Streets of Rage".¹¹

Sega was rather successfull with games like Mortal Kombat and Night Trap, but due to the brutality of these games, there were certain concerns in the public. Because of this, political pressure happened and important stores in the US put important "violent" games from the shelves, forcing Sega to abandon these games in the US altogether. ".¹²

10 Vgl. Pettus, Muoz, Villiams, Barroso 2013 S. 47ff & 52 -54

11 a.a.O. S.75

12 Vgl. Funding Universe, ohne Datum

3. Company Structure

3.1 International Dependences

The mega drive was published in the USA on August 14 1989. The mega drive was one of the first 16 bit devices in the USA. The competitor NEC were before Sega, but they lost their first mover advantage because of quality issues with their software. Because of this, Sega tried to use their technological advances as a Unique Selling Proposition. (And they cited their experience with arcade machines in press statements as an argument supporting that claim. The Mega Drive also had the advantage that arcade games could be ported nearly perfectly to the console, which supported that claim.)¹³

The american dependance (Sega of America) was involved in the development of hardware extensions like the 32x. In America, for the Sega Megadrive, Sega cooperated with Time Warner to offer the "Sega Channel", which distributed digital content for the Mega Drive via television. (The Service was designed for cartridges and could not be used with compact disc devices like the Sega CD. Because of this, when the CD based successor of the Megadrive, Saturn, was released, the Sega Channel was canceled.) The Silicon Graphics technology, which became part of the Nintendo 64, was originally offered to Sega of America, but the japanese headquarters rejected the offer, despite the US dependance was willing to cooperate with SGI.¹⁴

The Sega Channel was also an advertisement platform for new games where Sega showed trailers and ads for new products. ".¹⁵ In japan, Nintendo had a competitive product to the Sega Channel called the "Broadcast Satellaview X".¹⁶

American employees like Ed Annunziata also developed video game brands released on the Sega Mega Drive. For example, the "Ecco the Dolphin" Series.¹⁷

In the US, there was the problem that Electronic Arts and other companies decoded the lockout chip of the Mega Drive. (And were thus able to produce Mega Drive games without the need of a special development kit which was originally rented by third parties from Sega to develop games on the Mega Drive.) Because of this, Sega changed the lockout chip. (This caused some EA published games to malfunction on later models of the Mega Drive.)¹⁸

Nintendo responded the competition by Sega in the US (who got a market share of 20% of the video game market in 1992) by repeated price cuts of their SNES gaming system. ". In 1993,

13 Vgl. Pettus, Muoz, Villiams, Barroso 2013 S. 49f

14 Vgl. Miller, Horowitz 2013

15 Vgl. Funding Universe ohne Datum

16 Vgl. Fryguy64 2001

17 Vgl. Anunziata, Peterson 2012

18 Vgl. Pettus, Muoz, Villiams, Barroso 2013 S. 77f.

Nintendo had a market share of 55% and Sega had a market share of 43% ¹⁹

In 1993, Sega cooperated with the US company AT&T to develop an analog modem for the Sega Mega Drive. ". To improve internet gaming further, a cooperation with Microsoft was sought.²⁰ (Thus, Sega was among the first console manufacturers which enabled online multiplayer gaming in the USA.)

In the USA, Sega also cooperated with contractors of the US military to build virtual reality theme parc attractions which were presented in Las Vegas and other parts of the US. ".²¹

The european headquarters of Sega was located in London. In the year 1992, Sega founded a german dependance in Hamburg, which was lead by Torsten Oppermann, a former video game journalist which was employed as a Marketing Director by Sega. (Oppermann was also one of the main people involved in the launch of the Sega Saturn, the successor of the Mega Drive.). (Nintendo had their HQ near Frankfurt Main. (Germany) According to Torsten Oppermann, this was a marketing advantage for Nintendo and one reason why Nintendo was more successful than Sega in germany, while Sega dominated in the UK. (The german term "Heimvorteil" could be used to describe that.)) In most times, germany and france were the second strongest european markets behind the UK. The european dependance and the US dependance worked rather independant from the other dependances and there were huge deficits in communications between dependances. Some dependances even had outright rivalries with the japanese central and the other dependances. Except for TV ads, the local dependances had a large amount of liberty in the definition of the marketing. Sega cooperated with german video game developers like "Factor 5" and developed games based on german media like the "Ottifanten" from german comedian "Otto Waalkes". ²²

An outstanding fact of these dependances is, Sega developed games everywhere around the world , these dependances were even involved in hardware development, and despite the inner company rivalries, there was early on a high degree of internationalization. Possibly, this high degree of internationalization is the result of Sega being a japanese company founded by americans, then sold to an US company and then sold to a japanese company. With the foundation, the company was already a multinational company.

Nintendo released their "Super Famicom"/"Super Nintendo Entertainment System" in Japan in 1990 and in the US in 1991. Sega tried to use the time without a major competitor to gain a user base strong enough to break Nintendo's monopoly and prevent them from reestablishing this monopoly. (Sega officials went as far as insulting Nintendo and comparint their behavior to that of the mafia.)²³

19 Vgl. Funding Universe, ohne Datum

20 a.a.O.

21 a.a.O.

22 Vgl. Sponsel, Oppermann 2014

23 Vgl. Pettus, Muoz, Villiams, Barroso 2013 S. 56f.

4. Advertising

4.1. Testimonials

Because of the disadvantages compared to Nintendo, Sega turned to a testimonial marketing strategy where they cooperated with celebrities like Michael Jackson, Joe Montana, Pat Riley, Holyfield etc. and developed games about these people. The target group of this campaign were teenagers.²⁴

4.2. Sonic the Hedgehog as a symbol of speed

The company mascot "Sonic the Hedgehog" was designed by Naoto Oshima. Sonic's games were intended to show the advantages in processing power utilized by the new device. The designers coloured Sonic blue to connect the character to the Sega Company Brand, which utilized the colour blue in their logo.²⁵

Sonic was planned as a company mascot which should be a competition of Nintendo's mascot "Mario" and a replacement of failed Mascots like "Bubsy the Bobcat" and "Alex Kidd". After rejected designs of Dogs, Armadillos and Rabbits, they decided to choose to design Sonic as a Hedgehog. Sonics red shoes were inspired by the Design of the marketing figure "Santa Clause" and the musician "Michael Jackson". At first, it was planned that Sonic should have got a human girlfriend called "Madonna", but this was scrapped because the US dependance thought it would become ridiculous.²⁶ (Supposedly, the name Madonna is an allusion to the 80s pop star.)

The Hedgehog design won because the creators had the initial idea of a character that could roll into a ball and Hedgehogs have similar abilities in real life. To be able to draw the character easier, they gave him large blue spikes on his back. Because Hedgehogs aren't really fast animals, they gave him running shoes to symbolise his agility. The name Sonic was chosen because during a test screening, one employee remarked that sonic seemed to move at "supersonic" speed. To reinforce the idea of speed in the game, they designed roller coaster like structures in the game maps and put an animation in the game that looked like Sonic would get impatient at the player, if the player does nothing.²⁷

Sonic should become the polar Opposite of Mario. (Note: Mario has Red as the dominant colour and Sonic Blue.) Sonic should become "cool" instead of "cute". The characters "Toejam and Earl" were an alternate idea of Sonic, which were rejected because they seemed too american and not suitable for international marketing campaigns. Instead, these characters became an

24 a.a.O. S.52ff.

25 Vgl. Lunkeit 1013 S.42

26 Vgl. Nickel 2011/2012 S.50-55

27 Vgl. Pettus, Muoz, Villiams, Barroso 2013 S. 60ff.

independent franchise.²⁸

On topic of Sonic's design, it's remarkable that his colours are blue, white and red, the same colours as used in the flag of the USA. (And several maps of Sonic the Hedgehog Games are based on US cities like New York or San Francisco.) Sonic is also the enemy of an evil scientist called "Dr.Robotnik". So, there is a pairing "good american hero fighting evil russian scientist". (possibly a nod to the cold war.) In the US, there were produced 3 animated series of Sonic and Archie comics published a comic series about the character. (Note: Mario uses the same colour pattern, but in the opposite order.)²⁹

Besides japanese popstars like "Masato Nakamura", Sega Employees like "Jun Senoue", western musicians like "Marty Friedman" and "Richard Jacques" were involved in the creation of the game Soundtrack. (Strillinger, Dennis (2013) Musik mit Schallgeschwindigkeit - Die Soundtracks zum Rennigel - S.48f Veröffentlicht in "Retro - Das Videospiele Kulturmagazin" - Ausgabe 28 Sommer 2013) It is also rumoured that Michael Jackson was involved in the creation of the Soundtrack, too. But this is unproven and if Michael Jackson was involved, his involvement was uncredited. Among the proposed reasons for Michael Jackson quitting the job are the allegations of Child Abuse against Michael Jackson and that the sound processor of the Mega Drive could not fulfill Michael Jacksons artistic demands.³⁰

One week after the launch of the SNES, Sega launched a special marketing campaign for Sonic. The campaign was successful and the sales of the console improved vastly because of the release of Sonic the Hedgehog. And while the critics and game magazines said that Mario World was the better game, Sonic was the more successful game. Because the game was so popular, it was bundled with every Mega Drive console, against the will of the Japanese dependence.³¹

4.3 Aggressive Marketing

Tom Kalinske, a marketing specialist who switched from Mattel to Sega, convinced Sega to adopt a very aggressive marketing strategy. (The Japanese board of directors had some trouble with that because it violated the Japanese rules of politeness.) Sega dropped their price (to enable their customers to buy more software, at the cost of losses in the hardware area), changed their advertising strategy to the topics of Speed and Coolness (because Sonic proved, that worked.) The agency "Goodby, Berlin and Silverstein" told Sega to turn the brand into a kind of cultural icon. Because of this, they cooperated with MTV and started to mock and ridicule Nintendo in their ads. Nintendo's Howard Lincoln threatened to sue Sega and so, they had to drop some of their ads.³² (The huge losses they made with the Master System is another reason why they were

28 a.a.O. S.57f.

29 Vgl. Oxford 2008

30 Vgl. Strillinger 2013 S.48f. & Horowitz 2009

31 Vgl. Pettus, Muoz, Villiams, Barroso 2013 S. 64f.

32 Vgl. Pettus, Muoz, Villiams, Barroso 2013 S. 72

convinced of an aggressive marketing campaign. And these losses stem from Nintendos licensing policy. (which is explained some sections before.)³³

Sega also called Nintendo a childs toy maker (and claimed to be a real video game maker) and claimed themselves to be the developer of the "fastest game in the world".³⁴

The most famous Sega campaign was the campaign "Sega does what Nintendon't", which directly attacked the competitor, highlighted its flaws and highlighted the product advances of Sega over Nintendo. One main issue adressed was that of processing speed. Segas marketing division called that advantage "blast processing". Compared to this, Nintendo games suffered from repeated slowdowns. Sega stated that this ad campaign "destroyed" the Super Nintendo. Aside from this, when Nintendo forced the publisher of "Mortal Kombat" to censor the game, Sega allowed them to release an uncensored, violent version of the game, on their device. They highlighted this difference in advertisements.³⁵

Segas campaign in the US costed 10 million dollars.³⁶

In europe, they tried to adopt an image of rebellious, deviant punk attitude and featured advertising depicting them as hackers etc.³⁷

In 1992, a survey discovered that in the US, children who owned a SNES instead of a Mega Drive, felt ashamed of it.³⁸

Many people think that in most times, the duel between Sega and Nintendo had no clear winner, but because of the marketing campaign, Sega and Nintendo were equal in strength.³⁹

33 Vgl. Moleenar 2010

34 Vgl. Funding Universe ohne Datum

35 Vgl. Workman 2014

36 Vgl. Funding Universe ohne Datum

37 Vgl. Pettus, Muoz, Villiams, Barroso 2013 S. 72f.

38 a.a.O. S.76

39 Vgl. Frank 2012

5. Conclusion

In the end, Sega left the hardware business and developed software for other devices. Nintendo and Sega now often build games with shared Sega and Nintendo characters. ⁴⁰

This console wars one of the most aggressive marketing campaigns ever produced and today, it's unthinkable to do something similar.

Segas struggle showed that Marketing can help to counteract huge business deficits and it works to try the rather aggressive way of directly attacking the competition. It's interesting that Nintendo and Sega now often cooperate. Possibly, the best way to help Sega and Nintendo (who are in similar trouble as Sega was in 2000) would be a complete fusion of both companies, so, they could join forces and reinvent dead brands. Sega had the advantage of Coolness, Nintendo lacked.

40 Vgl. Workman 2014

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