

As mobile gaming ascends, retailers still make space for consoles

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Among the vice presidents at Best Buy Co. Inc. who oversee specific product lines, Chris Koller could be considered something of a black sheep in the family.

As the consumer electronics chain talks up its strong growth in smartphones, tablets and appliances, Koller supervises a category that includes gaming products, CDs and DVDs - declining categories that CEO Hubert Joly wants to minimize.

But Koller has good reason to feel upbeat: Sony and Microsoft finally released their next-generation video [game](#) consoles, just in time for the holiday shopping season. Selling the PlayStation 4 and Xbox One will provide a welcome boost to electronics retailers like Best Buy and Target Corp., where sales of video games have precipitously declined in the past several years.

"The video game category has really been energized by the PS4 and Xbox One," Koller said. "Gamers are always excited for new content, but launching two new consoles is a special time."

Retailers have not yet released data but early indications suggest strong sales. Sony said it sold 1 million PS4s in North America in the first 24 hours after its Nov. 15 launch date. MasterCard Advisors reported that electronics sales on Thanksgiving more than tripled over the same day in 2012. It's a good bet that the consoles had something to do with that.

One reason for the pent-up demand is that Sony and Microsoft haven't released a completely new console since 2006. The seven-year gap has left analysts and retailers wondering: Why so long?

"That's a great question," Koller said. "I would sure like to know the answer."

Liam Callahan, an analyst with market research firm NPD Group, said there is a natural life cycle for any console, and the declines in recent years were largely linked to reaching the latter years of that life cycle. "But this was a situation which had not existed in any other generation" because of the long gap between new consoles.

Consumer electronics retailers live and die on manufacturers' ability to pump out a steady flow of innovative products. Retailers not only depend on the extra store traffic but also the sales of related merchandise such as speakers, headsets and controllers.

"As expected, we have seen a phenomenal response to both the Xbox One and PlayStation 4 console releases as well as accompanying video games and accessories," said John Butcher, Target's vice president for electronics, in a statement. "Along with the incredible demand for new consoles, guests are also having a strong reaction to new content and pricing on Nintendo's products."

And hard-core gamers, who count as some of Best Buy's most fiercely loyal customers, are likely to play games not just on consoles but also handheld devices and personal computers.

"You can't forget PC gaming is actually really huge," said Maya Mikhailov, co-founder of GPSopper, a Chicago-based company that designs mobile software, including gaming applications, for major retailers. "Video games are played very differently on PCs. People buy

hardware just to optimize to play some of these games."

Between 2009 and 2012, [video game sales](#) dropped about 34 percent to \$6.7 billion, according to market research firm NPD Group. Sales of physical games fell 21 percent alone last year compared with 2011.

Meanwhile, Apple and Samsung have launched multiple versions of smartphones and tablets, which in turn had boosted sales of mobile apps, hard cases, battery chargers, and data plans from wireless carriers. So it's no wonder that a key part of Joly's "Renew Blue" strategy consists of devoting more store space to mobile devices and less to entertainment.

PS4 and Xbox One will no doubt give a short-term boost to the industry. But some experts wonder how long that momentum will last.

For Target, "this is something they can count on for one quarter," said Amy Koo, an analyst with the Kantar Retail consulting firm in Boston. "The business is very cyclical."

In the seven years since the last consoles, consumers are now playing on their mobile devices games that they downloaded, often for free, from the Internet. According to NPD, 29 percent of gamers in the United States fell into the free and mobile segment, a 2 percent increase over 2012. The other segments, including core console gamer and casual gamer, either decreased or remained unchanged.

But experts say there's plenty of room for everyone.

"Mobile and downloadable games are in many ways complementary to the experiences of the physical video game business," Callahan said. "I like to look at these as appetizers, meals and feasts, with mobile games as smaller appetizers, many downloadable games as meals, and physical games, often largest in terms of content, are feasts. There is a time and a

place for all these games."

And the passion for games also presents opportunities for retailers like Best Buy.

"This audience is so engaged," Mikhailov said. "They want to play in tournaments. They want to learn the levels faster. It's like the movies: Yeah, you can probably download movies and not go to the theater, but look at these opening weekends. They're just getting bigger and bigger."

As it turns out, Best Buy and other retailers have launched an all-out push to capitalize on this enthusiasm. Best Buy has hosted midnight launch parties where consumers can pick up the consoles they preordered over the Internet. And both Best Buy and Target both have redone their video games sections with interactive product displays.

In addition, Best Buy is hosting [video game](#) tournaments in eight cities. The winners get to play "Madden NFL" on the giant Jumbotron in the Dallas Cowboys' state-of-the-art stadium.

"Console-based games are absolutely still relevant," Koller said.

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