

Namco: Maker of the Video Age

By Kazuhisa Maeno

Video game software developer Namco Ltd. stunned the game machine industry on February 4, 1985 when it announced it had purchased a controlling interest in Coin Operated Game Division (COGD), a Sunnyvale, California-based affiliate of Atari Inc., the creator of world-famous "Atari" brand video games. Namco, capitalized at ¥550 million (about \$2.2 million) and headquartered in the out-of-the-way Tokyo suburb of Kamata, had bought out Atari's Japan subsidiary ten years earlier. Now it was moving to gobble up Atari itself in a reversal reminiscent of what may be Namco's best-known product—the voraciously hungry electronic "Pacman" of video arcade fame.

The architect of Namco's rapid rise to all-star status in the competitive video game business is founder and president Masaya Nakamura. Following his acquisition, Nakamura promptly renamed COGD as Atari Games Inc., and had himself appointed chairman (Namco America Inc. president Hideyuki Nakajima is president of the reborn company). But Nakamura's interests in the acquisition go beyond the chance it offers to revitalize the American market for video games, which accounts for 70% of world demand. The free-wheeling entrepreneur hopes to strengthen his ties with Warner Communications Inc., owners of Atari Inc., and advance into the motion picture and entertainment industries.

Such grand aspirations are nothing unusual for Nakamura, who has spent years refining a management philosophy that can cope with the dawning information-oriented society. Nakamura feels hemmed in by the traditional industrial classifications of primary (agriculture and mining), secondary (manufacturing) and tertiary (commerce and services) industries. Observing that the tertiary industry today accounts for nearly 70% of Japan's gross national product (GNP),



Masaya Nakamura, president of Namco Ltd.

Nakamura says the disproportionate share is proof that too many fields of business are being squeezed into the tertiary industry rubric. The time is ripe, he says, for a new quinary, or five-point, classification system.

As Namco's president sees it, tertiary industry should refer only to those services, such as taxicabs, which depend purely on manual labor. Intellectual services such as computer programming would be called the "quaternary" industry. And finally, businesses which provide comfort to the mind and spirit, from insurance to movies and entertainment, would be gathered together as the information industry.

This is more than just empty rhetoric. In Nakamura's view, industry in a highly information-oriented society must follow this growth curve toward greater sophistication. In the process, value-added and profit margins will improve the more sophisticated industry becomes. As such, the theory is an important clue toward

developing and implementing effective management strategy.

Riding the high road to success

Namco's track record under Nakamura would seem to endorse his theory. Nakamura himself was born in Kanda in downtown Tokyo 60 years ago. He graduated from the naval architecture program at Yokohama State University shortly after World War II, only to find it impossible to get a job in the chaotic post-war economy. For a while he helped run his father's air gun business. But in the end he struck out on his own to build amusement machines and equipment. Nakamura Manufacturing Co., Ltd. was established in 1955, the year Japan took off toward the economic prosperity it now enjoys. It certainly was a timely start.

Nakamura opened for business in the Tokyo residential district of Ikegami with only himself and two employees. The new firm was capitalized at ¥300,000 (\$1,200) at a time when the starting salary of government employees was only ¥10,000 a month. (In 1984, it was about ¥123,000 a month for college graduates living in major cities.) From the start, Namco has controlled its corporate properties by serially numbering each item. Even today, Nakamura says he finds the numbers N10001 and N10007 unforgettable: they belonged to the two amusement park horses that were Namco's first properties.

The horses started Nakamura down the high road to success. The iron legs of the horses could be moved up and down by turning a crank much like the merry-go-round horses that used to be a common sight in amusement parks. Namco persuaded the then Matsuya Department Store (now Matsuzakaya) in Isezakicho, Yokohama City, to install the horses in the rooftop garden, giving Nakamura his first sale.

With these two hard-working horses as starters, Nakamura Manufacturing Co. grew and grew. Before long it had won a contract to build a small amusement park on the roof of Mitsukoshi Department Store in downtown Tokyo's Nihombashi shopping district. Mitsukoshi was then the undisputed king of department stores in Japan, and its branch stores all over the country followed its lead in turning their rooftops into playgrounds. In every instance, it was Nakamura who walked away with the job; in less than a decade his company had become Japan's leading amusement park operator.

One of the things that kept Nakamura Manufacturing out in front was its ceaseless product development drive. This soon led to the company's first game machine: "Periscope." This early simulation game had players peer through a periscope and fire torpedoes at enemy warships. First installed in odd nooks and crannies of department stores, the game became a tremendous hit. It was installed in game centers around the country, and was constantly surrounded by swarms of children. Namco went on to develop equally successful electrically operated racing games and pitching machines.

The success of these electrically operated game machines—or "ele-mecha" as Nakamura likes to call them to distinguish them from modern video game machines—solidified the company's business foundations. But the move which helped Namco leap to the front ranks of the games industry was its switch to video.

Plugging into video

It was back in 1974 that a tall man of sturdy build came to visit Namco's head offices, by then relocated to Haramachi in Ota Ward, near the river separating Tokyo from neighboring Kanagawa Prefecture. The business card he presented announced him as Kenichi Takumi, president of Atari Japan Inc. Atari Japan's parent company, Atari Inc., had pioneered the video game machine business, and was the industry leader in the United States. Atari's president, Nolan Bushnell, was a great fan of the Japanese game of *go*, and is said to have borrowed the *go* term "*atari*" (similar to "checkmate" in chess) as the name of his company.

Atari was searching for foreign business, and had set up Atari Japan to break into the Japanese market. But Takumi, the subsidiary's president, was a rank amateur in the field, and the company was soon in serious financial straits. He was searching for somebody who could help

him sell Atari game machines, and Namco was at the head of the list.

Nakamura instantly thought this sounded like a good idea. The former would-be shipbuilder was already thinking of expanding overseas. Takumi's proposition appeared to be just the ticket.

Namco signed up to help sell Atari's game machines. But Atari Japan's business just went from bad to worse. Finally, Nakamura was asked to purchase Atari Japan outright. At first he thought it would be too heavy a burden on his own company, but on second thought he decided to buy because he believed that micro-electronics was the inevitable wave of the future. It proved a wise decision which foresaw the coming of the computer age.

The final purchase price was ¥296 million (\$1.18 million). The question for Nakamura was how to pay such a huge sum. The agreement was that Nakamura would pay the amount in full by the end of October that year, but Namco's capital in those days was a bare ¥80 million. In the end, Namco was not able to come up with the whole amount by the promised date. After two days and three nights of negotiations, Bushnell finally agreed to put off the deadline.

Although Nakamura had succeeded in dragging out the payment, he still faced the far more difficult task of raising the money. In those days, banks put the amusement machine business in the same chancy category as bars, and considered granting loans to be too risky. But Nakamura energetically scurried from bank to bank, and finally succeeded in persuading several to extend enough loans for him to purchase Atari Japan.

Subsequently, the mainstream of the amusement machine business in Japan shifted from electrically operated game machines to computer-run video machines like the popular "Invader" game. Nakamura had displayed timely foresight in steering his company toward the electronic future ahead of his Japanese competitors.

"Paku-paku" man

At first, Namco conducted basic research on video game programming by running computer analyses of Atari's products. The work was conducted by a team of young men in their 20s led by Shigeichi Nakamura, now general manager of the Development Division and a member of the board. It was on-the-job training with a vengeance, but after repeated trial and error, the company finally succeeded in August 1975 in developing "Pacman," one of Namco's



"Puckman," Pacman's forbear on the Japanese market

breakthrough products. The game was the work of Toru Iwatani, manager of the first Development Planning Section.

The idea for "Pacman" came by chance. On a balmy spring afternoon when the cherry blossoms were in full bloom, Iwatani was having a small pizza for lunch at a snack bar. Casually, he thrust his fork into one of the six slices of the pizza and lifted it to his mouth. Suddenly he noticed that removing the segment had created what appeared to be a gaping mouth on the plate. From there on, his imagination took wing. The gaping mouth chased after jellyfish-like monsters and gulped them down one after another. Thus was born the concept for the Pacman game. The name came from the act of gulping which is expressed in Japanese as "*paku-paku*."

Put on sale in Japan, the game became an overnight sensation. In the video game industry of those days, a machine was a hit if 5,000 were sold. It is said that video arcades snapped up as many as 11,000 Pacman machines. Pacman's smash success was the realization of Nakamura's business strategy to earn money in the quaternary industry: video games run on software which is a product of the human brain. But this was only the beginning of the Pacman story.

When Pacman was exported to America, it produced a fever even more intense than in Japan.

In the president's room at Namco's head office there are dozens of examples of Pacman character merchandise. All were license-produced by American

companies. In America, the TV program "Pacman" enjoyed high ratings. Even an ailment, "Pacman wrist," was coined for wrist pains coming from excessive playing. It was an explosive boom which even Nakamura had not anticipated.

It is an interesting point about Pacman that while the character will be devoured by monsters if he is overtaken, if he finds and eats the "nutrition" placed in his path during his escape through the labyrinth, he will gain the power to eat up the monsters himself. Some American intellectuals even argue that Pacman is a distinctly Oriental creation whose turnabout has its roots in the Buddhist philosophy of metempsychosis. In America, Pacman was elevated beyond a mere game to a theme for discourse on civilization by thinkers and philosophers.

But a more down-to-earth reason also lay behind Pacman's booming success in America. That was Nakamura's foresight in adopting the royalty formula in overseas markets.

Trade in brainpower friction-free

Trade friction is a serious issue today, but it is a problem that is foreign to the video game industry. Why? Explains Nakamura: "It is because we have established a system of coexistence by licensing an American company to manufacture and market in the U.S. on a royalty basis."

In the case of Pacman, a cassette for home use sells for \$39.50. It is said that more than six million tapes have been sold in the U.S. alone. Assuming a royalty of \$1 for each cassette sold, Namco should have earned more than \$6 million, or roughly ¥1.4 billion. In addition, it has royalty earnings from more than 450 varieties of character merchandise. The business magazine *Fortune* once wrote that Namco gobbles up royalties the way Pacman gobbles cookies in his labyrinth.

Although Namco feeds on the monster known as the American market, the company is welcome there. This is because it is selling only manufacturing rights, a product of the brain. Namco has not stolen away the work of manufacturing and marketing video game machines. In the quaternary industry which markets brain power, there is no reason for trade friction to occur between Japan and the United States.

The turnover of this 1,000-employee company came to ¥30 billion (\$120 million), ¥6 billion of it in royalties.

Namco's corporate slogan is "Let's create play." In Japanese society, which is



Namco's own game space "Milaiya"

often criticized for putting too much emphasis on work, "play" has a negative value. In such a society, Nakamura's attitude of making "play" a source of business is unique. But Namco's president maintains that this, too, is in keeping with the coming new age.

In an information-oriented society, people will enjoy greater leisure time thanks to the extensive use of computers. How to enjoy this time fruitfully will become an important question to the Japanese. Namco's corporate slogan was drafted in the anticipation that "play" will become an important part of the Japanese people's life-style.

Namco employees, the creators of this new "play," are individualists with strong personalities. Indeed they were hired for their unique, individualistic thinking.

"Never mind if you have lots of C grades," reads the copy of Namco's campus recruitment ads. Most companies try to hire students with excellent scholastic records, but Namco is different. Namco does not want stereotyped honor students. It wants young men with unique ideas. Nakamura believes that technical innovations will create market after market, and that enterprises must have employees with diversified talents and capabilities to respond nimbly to future change.

A one-man war on piracy

The greater the boom in video games, the more software pirates appear. Home video games run on software (programs) loaded into a microcomputer. It is extremely easy to copy this software on tape, and as a result, exact pirate copies (called dead copies) of hit video games have begun to flood the market. Priced 40-50% below the original maker's price, dead copies often sell better than the real thing. But while the copyright issue is much in the news today, until about 10

years ago the amusement machine industry in Japan, unlike other industries, was rather insensitive to copyright.

Even in the days of electrically operated game machines, vast quantities of dead copies were cranked out in Japan. Game machine makers simply thought that their game software was being copied because it was successful, and accepted piracy as a sort of "fame tax." Nakamura, however, thought differently. And again his thinking was far ahead of its time.

Concluding that widespread pirating would hurt the sound development of the game machine industry, Nakamura filed a complaint against dead copy makers in Tokyo District Court. The court ruled completely in his favor. The mood in the domestic amusement machine industry was that the president had gone too far in taking the matter to court. Nakamura, however, took legal action because he believed that imitating the product of another's intelligence is abominable conduct in an information-oriented society where intelligence creates value.

In line with his belief that the only way to protect your rights is to do it yourself, Nakamura led the industry in establishing an Intellectual Ownership Rights Section in his company. He sued a succession of pirate firms, and won the first court ruling in Japan that video game programs are entitled to protection under the Copyright Law.

In this way, Nakamura has found success in the quaternary industry, the world of intelligence. Now he has his sights set on the quinary industry of information. As a first step Nakamura has entered into a business tie-up with Warner Communications through his corporate purchase. The next step could well be the motion picture business. When the information revolution is done reshaping industrial society, Nakamura and Namco plan to come out on top. ●