

# Razor blades model is not the standard for consoles

Pook's Mill | 15 September, 2006 | by Pook

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✘ Nintendo says that it [will make money off of every console](#) it sells. Analysts are stunned that a console is actually profitable. But really, the 'razor and blades' business model doesn't apply to video game consoles despite what anyone tells you. The idea of the razor and blades model is to sell the razor at a no-profit or at a loss and reap the money back by people buying blades. This model is used on printers and their ink cartridges.

Only one console really does the razor and blades business model and that is the Xbox franchise. The Playstations are sold at a loss initially but, betting on falling computer part prices, the hardware soon becomes profitable. For example, the PSP was not profitable to Sony at launch. But around seven (or so) months, it broke even and became profitable. Sony can do this since it owns many of the factories involved.

Sega tried doing the razor and blades business model by selling hardware at a loss and making it up for games near the end of its cycle. But this failed for Sega.

Atari, NEC, Sega (for the most part), Sony (except at the beginning of each system) and Nintendo have never done the razor and blades model as is commonly understood today.

Keep in mind that the Xbox 360 has *sold* four million (according to independent sales charts) consoles so far which is pretty lame for a year being on a market with no competitors. PS3 is supposed to ship two million by the end of the year. Wii will ship four million by the end of the year. So despite being a year on the market, Xbox 360 may end up becoming quickly buried. What is humerous to me is that Nintendo will probably outsell both Microsoft and Sony with their Wiis *and* make money on all of it. I ask you: who has the better business model out of the three console makers? The answer is easily seen in who gets the most money.

Now, there is a real razor and blades model that game consoles can use but it is not in the way how people percieve it. The product of a game system is not the hardware. It is the hardware *and* the software (if you have just hardware, all you have is an empty silicon box). After all, when you buy a razor it often comes bundled with some sort of blades. This is why I think selling hardware, by itself, at a loss and expect profit from games is not a true comparison of the razor and blades model. A better example of it would be bundling in a hit game, not just any game, and once you put the console in someone's home, they then go and buy other software.

The best example of this would be Kalinske's decision for Sega with the Genesis. Sega makes this hit game, Sonic the Hedgehog, which is flying off shelves. What does Kalinske propose to Sega? Get rid of Altered Beast in the bundle and put in Sonic *and* drop the price of the overall system. The board was stunned at this. By putting their hit game into the system, they would lose all that great profit they were enjoying from Sonic. And by selling the system for less, it was as if the Genesis would not make that much money! Everyone was appalled at Kalinske, at this American, for telling the Japanese board how to sell their system in America. But the president of Sega went ahead with Kalinske.

By putting the hit title with the console, the system sold extremely well (people buy the hardware to get to the software. Steve Jobs says: "Software is the driver of hardware"). Once the system was in people's home, they would then get other games for it. This is how the actual razor and blades model would work with video game consoles.

Nintendo did something similiar with the NES. Super Mario Brothers would sell very well alone. But by bundling it with the system, it moved the NES to *new and bored video game players*. Since the Wii is aiming for that same strategy, it is no wonder Nintendo bundled in Wii Sports. But I don't think Nintendo went far enough. They should have tossed in a second controller (wii-mote and nunchucka) as well as Zelda: TP into the box and priced it at \$300. They would not make as much money as before, but it would drive the system sales by putting in their 'hit' title with the system. In the same way, Microsoft would be very smart for bundling Halo 3 with the Xbox 360 when it comes out. However, I doubt they will do this.

By the way, I feel sorry for you guys in the UK who have to shell out huge prices (and Australia too). To make it crystal clear for those of us on the outside:

Europe routinely gets shafted by not just console companies but by all the electronic companies. In the UK, their prices are a third more expensive then they should be.

Wii is \$250 in America. In UK, it is \$336. PS3 in America is \$599. In the UK, it is \$798.

Also,

I'll be busy this weekend. As you can tell, my life doesn't revolve around this blog. Even most of my writings are sent to someone else for another publication now. But there *will* be a website soon. It will not be in this blog-like fashion and feature more article type content than these 'malt-o-content' little posts.

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