

PS3 to sell for \$399, cost \$494 to make

By *srlinuxx*

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According to the latest issue of Japanese magazine Toyo Keizai, Merrill Lynch Japan Securities has recently calculated an analysis that the production of a single PlayStation 3 console will cost Sony approximately 54,000 yen to make (\$494), as of its initial release in 2006.

Merrill Lynch Japan estimates that the machine's main components--namely its Cell chip, RSX, and BD-ROM drive--will cost about 11,000 yen (\$101) each. After adding the other electronics that will be used in the PS3, the machine's production cost goes up to 54,000 yen.

Given that Sony's PS3 will face stiff competition from Microsoft's Xbox 360, the chances that Sony will release its console at its production cost is slim. Under the assumption that the Xbox 360 is expected to sell at around \$299, Merrill Lynch Japan predicts that Sony will sell each PS3 at the price of 44,800 yen (\$410) in Japan and \$399 in America. That would mean Sony would suffer a loss of more than 130 billion yen (\$1.18 billion) during the first year of the PS3's release.

It is normal for game companies to take a loss on hardware whenever a new console launches, since they typically focus on acquiring market share rather than generating a profit during the first year. During the second year and afterward, they can recover the losses with the savings that come from mass production and with licensing fees from publishers.

However, Merrill Lynch Japan warns that the normal console business cycle may be disrupted if Microsoft cuts the Xbox 360's price when the PlayStation 3 launches. The report goes on to say that such a move could hurt Sony's plans, bringing an additional loss of 80 billion yen (\$730 million) in its second year and 50 billion yen (\$457 million) in its third year. Thus far, Sony has already invested 200 billion yen (\$1.83 billion) into development and production for the Cell chip alone.

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