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A Strategic Analysis of the Nintendo Corporation

By

Thomas Carlton

An Honors Capstone
submitted in partial fulfillment of the requirements
for the Honors Diploma
to

The Honors College

of

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Abstract

Nintendo is a large, well-known, and historically successful company in the video game industry; however, many customers and industry professionals speculate that it may be losing its competitive advantage. The current analysis is an attempt to reveal more about Nintendo's current position in the market, its strategy, and its future potential. This will involve analyzing both the strengths and weaknesses of Nintendo and, through Porter's Five Forces, the opportunities and threats in the video game market. Afterwards, I will explain the main issues Nintendo has, or will have, to deal with and recommended actions they should take.

Introduction

As the savior of the video game industry in 1985 with the Nintendo Entertainment System, or NES¹, Nintendo has been a name associated with games for years. Some parents still use the term 'Nintendo' to refer to video game systems and 'Game Boy' to refer to handheld gaming systems. In recent times, other systems have begun to usurp Nintendo's once-monopoly over the gaming industry. First, Sega jumped into the market, then Sony and Microsoft. Now, Nintendo competes vigorously with both Microsoft and Sony to sell their consoles systems. Originally a card game company, Nintendo has evolved into a massive manufacturer of video game consoles, games, toys, and even short films. Nintendo prides itself in its quality products, stating in their mission statement that "We are strongly committed to producing and marketing the best products and support services available. We believe it is essential not only to provide products of the highest quality, but to treat every customer with attention, consideration and respect."². In this analysis, I will be examining Nintendo from two different angles. The first is the internal analysis, or their strengths and weaknesses. The second is the external analysis, better known as Porter's Five Forces. Using those two angles to properly understand Nintendo and its placement in the video game industry, I will then examine their critical issues and suggest actions to help them.

¹ Nintendo, "Company History," *Corporate*

² Nintendo, "Nintendo of America's Corporate Mission and Philosophy", *Corporate*

Chapter 1: Internal Analysis

Nintendo has been a strong company for years. As an innovative company, Nintendo has held a unique position in the market since creating the NES. In order to examine Nintendo's status in the market, we must first determine what strategy Nintendo is using, along with what strengths and weaknesses they have as a company. This will show how they place themselves in the market, and the competencies they have in order to reach their goals based on this position. It will also show what they have either purposely or indirectly dismissed to hone in on their strategy more.

Business Strategy:

Business strategy is a function of customer needs, customer groups, and distinctive competencies. Based on these factors, firms determine the best strategy for developing profits. Nintendo has set themselves separate for years as a unique business with an interesting approach to the market. From their initial entrance into the gaming industry, Nintendo separated themselves from their competition by being the first company to have strict quality controls on their system. Since then, each system has continued to differentiate itself from the competition in a unique way. Beyond the system, their games have also differentiated themselves from other companies. Unlike Sony (PlayStation) and Microsoft's (Xbox) offerings, Nintendo's system and games are known for being more family friendly and thus are marketed towards families instead of towards gamers. Nintendo is also known for their innovation. In this sense, Nintendo recognizes that there are many customer types; such as hardcore gamers, casual gamers, children, families, and non-traditional gamers such as parents and grandparents. Nintendo attempts to provide unique products targeted to each of these markets, managing many different brands for each. Moreover, Nintendo's competencies are in making products that customers find more valuable rather than making low price products. This information leads one to conclude that

Nintendo's business strategy is differentiation. For example, the Wii created a new market and aimed itself to specifically bring in women and families to play, rather than the typical gamer³. This was not always their strategy, however. Rather, they created value for their customers in a different way. Originally, Nintendo differentiated themselves with strict quality controls over their games, demonstrating their console to be a quality console with only games approved by Nintendo compared to Sega's large library of games⁴. Due to Sony and Microsoft's introduction into the market and change to the system offering, Nintendo had to improvise. While strict control measures were more vital in the past, now Nintendo markets to a separate market than Sony and Microsoft by aiming for the 'casual' gamer and families.

It could also be argued that Nintendo is aiming for a cost leadership strategy due to their systems normally being the least expensive systems in the market, or going for a differentiator strategy, but making decisions towards cost leadership, a phenomenon known as 'stuck-in-the-middle'. An example of this is the current pricing for the newest game systems. The Nintendo Switch, the most recent system, is retailing at \$299.99, while the PS4 Pro, Sony's newest system, retails at \$399.99. The Xbox 1 currently retails at \$265, however the system is older. With the soon release of the Xbox 1 Scorpio, it is likely to set the Xbox 1 price above the rest. The Nintendo Switch, while a price leader for the system, is not a price leader for games. New triple-A game releases, or blockbuster games, on all systems, barring a few companies, all cost \$60 no matter which system you purchase the game on. While the system can set itself to be a cost leader, if Nintendo were pursuing a cost leadership strategy they would also have their complementary products act as cost leaders rather than having some games on the Nintendo

³ Svend Hollensen, "The Blue Ocean That Disappeared - the Case of Nintendo Wii", *EmeraldInsight*

⁴ Leo Kelion, "Sega v Nintendo: Sonic, Mario and the 1990's console war", *BBC News*

Switch cost more. They also would have competed with the base versions of the systems they were fighting. Both the PS4 Pro and Xbox 1 Scorpio are enhanced versions of the original systems without any exclusive games for them. The PS4 and Xbox 1 both cost less than the Nintendo Switch. Instead, I believe Nintendo's low prices help them focus on being a differentiator. Making products for more markets, and containing items for more casual markets can demand a lower price. Many families will be looking for a cheaper game system, and children will not receive a large enough allowance to choose a more expensive system. By making their system cheaper than the competition, it allows them to more effectively differentiate themselves.

Strengths

The next part of determining Nintendo's place in the market is to determine what Nintendo is good at. Based on their differentiator strategy, we must determine if Nintendo's strengths align with their strategy, or if they need to develop competencies for their strategy. Since Nintendo has been around for many years, their strengths have shown more as time goes on.

Innovation

Nintendo's first main strength is innovation. Their games and consoles are based around innovation and being the first mover to perfecting new technology. A prime example of this is the Wii. While motion technology is nothing new, the Wii brought it in such a way that anyone could use it. They created games that worked flawlessly with the motion controls and made it accessible to a broader market. Nintendo consistently creates value innovation with each of its consoles⁵.

⁵ Svend Hollensen, "The Blue Ocean That Disappeared - the Case of Nintendo Wii", *EmeraldInsight*

Innovation stems beyond the Wii, however. Their innovations led to the popularization of the mobile market. Although not the first movers, Nintendo's Game Boy line not only led to popular series such as Tetris and Pokémon, but also fueled the 'gaming on the go' market we see today with the 3DS, PlayStation Vita, and to a lesser extent smartphones⁶. With the recent release of the Nintendo Switch, a system made to bridge the gap between console and handheld, Nintendo continues this streak of value innovation by providing customers with a new way to play games.

Market Segmentation

Nintendo is skilled in segmenting the market in such a way that they create new markets for their products. While Nintendo wrestles with Sony and Microsoft for the saturated gamer market, Nintendo created their own market by appealing to families, casual gamers, and women. This allowed them to hit a segment that Sony and Microsoft did not consider. Nintendo hit these segments in multiple ways. First, their innovative thinking allowed them to reach casual gamers in new ways. Both the motion controls of the Wii and portability of the DS allowed them to reach casual gamers with unique ways of playing that would appeal to them. Secondly, the software they made for their systems helped focus the market down. With games such as Wii Sports, Wii Fit, Brain Age, Big Brain Academy, Animal Crossing, and New Super Mario Brothers, Nintendo demonstrated how focused they were on appealing to these new segments by following through. This was added to unintentionally by a lower third party support. Without more of the T and M rated games, it kept the appearance of the 'fun for the whole family', rather than aimed more towards the gamer scene like the PS3 and Xbox 360 were at the time.

⁶ Ben Reeves, "The Nintendo Difference: Nintendo's Impact On Gaming", *Gameinformer*

Brand Appeal

Nintendo contains some of the most recognizable brands in the video game industry.

Mario, Zelda, and Pokémon are three of the most recognizable game series for the industry.

Since Nintendo is the oldest console maker out of Sony, Microsoft, and Nintendo, they also have a first mover advantage over the other companies in terms of brand appeal. They also have strength in the systems they have. The DS name has been in their handheld consoles, including the DS lite, DSi, 3DS, 2DS, and other systems, since the original DS came out in 2004. Not only do they keep these recognizable names for the systems, but they keep the image of quality, fun games that they have had since the beginning. Many games on Nintendo consoles rank high in 'Best Game of All Time' lists, and continue to receive high ranked scores from many reviewers⁷.

Global Appeal

Nintendo has a massive global scale to their consoles and games. Nintendo serves in over 25 countries, ranging anywhere from the United States of America to Poland⁸. As a Japanese formed company, their global presence allows them to reach economies of scale much easier. With their games including language options within the game itself, and instruction manuals being downloadable onto the systems now, this global market highly benefits Nintendo. Nintendo has a customer base in these countries before Sony and Microsoft have come, further instituting Nintendo's first mover advantage. The diversity of countries it operates in not only allows for a large market, but a stable market. For example, if a war were to break out in America, Nintendo would still have many sales in Europe, Asia, and Australia to keep them afloat. In FY2015, "the company derived around 24.6% of its revenues from Japan; 44% from the Americas; 28.1% from Europe, and 3.4% from other countries"⁹.

⁷ Metacritic, "Game Releases by Score: All Time", *CBS Interactive*

⁸ Nintendo, "Country Selector", *Nintendo*

⁹ Business Source Premier, "Nintendo Co., Ltd. SWOT Analysis." *EBSCOhost*.

Weaknesses

Nintendo, despite its age and experience in the industry, is not short of weaknesses. This does not mean that Nintendo is doomed to fail because it has a weakness, rather it shows what Nintendo has sacrificed to focus on other resources or has not fully understood the potential of yet.

Poorly implemented innovation

Nintendo's main strength is its ability to innovate. However, their radical thinking has turned up many flops. The Virtual Boy and Wii U are the two most notable flops. The Virtual Boy was Nintendo's experimentation with 3D technology in 1995. The system was held in front of your face similar to today's VR headsets. However, it would strain your neck, massively hurt your eyes, and most games had a red tint to them¹⁰. Their most recent bomb was the Wii U. In theory, it worked well as a successor to the Wii. It focused on playing games on a portable tablet, that way families could watch TV while their child gamed, or the whole family could game on the screen easily. The Wii U tablet also functioned as a remote for the television. However, the Wii U drastically underperformed, selling less than the Wii after it had been out for a year¹¹. This was due to lack of games and poor marketing. Nintendo does well innovating, however they have had flops before due to either rushing technology before it was ready for the mass market or poor complementary products for their system.

Single Market Business

Nintendo originated as a card company in the 1800's. Today, they are known purely for their consoles and gaming exclusively for their consoles. Unlike Microsoft and Sony, Nintendo does not diversify into other markets beyond the gaming industry. Should the gaming industry crash or shift in such a way that it is not profitable anymore, Nintendo does not have another

¹⁰ Ben Reeves, "The Nintendo Difference: Nintendo's Impact On Gaming", *Gameinformer*

¹¹ Sam Byford, "Nintendo sold just 160,000 Wii U systems worldwide last quarter", *Verge*

market they have current experience in. Similarly, they have only made games for their consoles, with their games often being the reason their consoles sell. If either the console market or gaming market become unprofitable for them, they lose a competitive advantage in the other. Nintendo has not had to collaborate with another console maker, nor have they focused on third party support for their systems. With the shift into more mobile gaming, Nintendo's lack of diversification could harm it tremendously.

Lack of Third Party Support

Before the Nintendo Switch, Nintendo has severely lacked in triple-A game titles that are not made by Nintendo. For example, series such as Call of Duty, Assassin's Creed, Mass Effect, Fallout, and Dragon Age have either not been on a Nintendo console or the remake has played drastically different than the PlayStation and Xbox versions of the games. This is partially due to the difficulties in porting games previously. Both Xbox and PlayStation could run a similar gaming engine, while the Wii U and Wii did not support it. This made handling games across platforms difficult on game creators. Nintendo has taken a step in the right direction with the Switch, as it can transition games easier, however time will tell how Nintendo's support of third parties will grow.

Reliance on Outside Manufacturers

Nintendo relies on many other companies in order to manufacture their products. This can include key products, such as graphic chips or the memory of the system. This lowers Nintendo's influence, and can cause problems if the manufacturers are unable to keep up with Nintendo's demand. An example of this happening already was amiibos. Nintendo released a toy series called amiibos that worked with their games, similar to how Skylanders entered the

market. However, most stores sold out of amiibos almost instantly, and many amiibos received a secondary market price of \$50 or more until they could settle labor issues¹².

This can also add additional issues with Nintendo having suppliers overseas. Issues in transit, especially over larger distances, can cause delays in shipments for Nintendo's systems and games. Furthermore, with Nintendo outsourcing key components, it can cause problems with negotiations. Other companies will be able to charge Nintendo a higher price since they handle key components, making switching costs higher for Nintendo.

Poor Online Support

With the introduction of online play for the Xbox and PS2, Nintendo has been very slow to get internet and even slower to get stable online services. For example, the GameCube, the direct competitor to the Xbox and PS2, did not have any online services. Nintendo introduced online with their DS in order to compete with Sony and Microsoft. However, many games did not have enough servers to handle online play leading to connection issues, and hacking was prevalent in many online games for them. Nintendo has been slow in handling online, and they have progress to go before they can catch up.

Chapter Conclusion

Overall, Nintendo has many strengths and weaknesses that coincide with each other. While Nintendo is skilled at innovating their products and services, some of their products sell poorly or are ahead of their time. Nintendo is known very well in the video game industry, but that's the only market they're known well in. Nintendo works well in the industry, but only in the video game industry. And while their older school philosophies may feel a bit outdated, they still deliver a fun and engaging product for different ages.

¹² Eddie Markuch, "Nintendo Apologizes for Amiibo Shortages, Promises Better Communication", *Gamespot*.

Chapter 2: External Analysis

Nintendo has sustained itself in the market long due to its valuable strengths, assets, and knowledge of the industry. In order to further understand how Nintendo has sustained itself, we must understand the video game industry as a whole. In order to do this, I will be examining Porter's Five Forces and how it relates to the video game industry. For the case of Nintendo and the gaming industry, I will be focusing on the console gaming market rather than the software gaming market. First, it is much simpler to examine as it is less saturated. Secondly, the video game industry as a whole relates to a razor-and-blade strategy. The system is typically sold at break-even or at a loss, but the profit is made from the games. Examining only the games would be ignoring the larger picture of how they obtained those games. This stress is only added when multi-platform games are added, since games tend to sell the system¹³. Games are tied to the console market; however, consoles are not always tied to games. Therefore, to get a broader understanding, it is better to look at the industry from the console perspective and zoom in for the software perspective if it is necessary to understand a force more closely.

For clarity, when I refer to a video game console, I mean a device that's primary purpose is used for gaming. This will rule out some devices that have games on them, such as calculators, phones, and most PCs. I will be including gaming PCs, such as Alienware computers, since their primary purpose is to run computer games. For the most part, mobile, PC, and other smaller gaming devices will not be included in this definition since they do not specifically focus on gaming.

¹³ Timothy Dardenger, "Technological tying and the intensity of price competition: An empirical analysis of the video game industry." *Quantitative Marketing & Economics* 12, no. 2: 127-165. Business Source Premier, EBSCOhost.

Threat of Entry

For the video game console industry, threat of entry is low. Although companies may enter the market relatively easily, becoming a threatening entry is a different issue. The gaming industry has very high brand loyalty, and high switching costs. Consoles require hard knowledge of them in order to attract developers to make games for them. A console that is unable to brand itself and market itself to attract game developers is unable to sustain itself. The console wars illustrate this point. With Playstation and Xbox, many people buy the newest console based on the console they currently have. With subscription programs and higher switching costs, this brand loyalty shows strong.

Switching costs are also high due to how games work on the consoles. Each console's games will only work on that system or some other systems by that company. For example, Wii games cannot be played on the Playstation 3 nor can Super Nintendo games be played on the Sega Genesis. If someone wants to get another console, they must get new games specifically for that console. Even games that are released on multiple consoles, such as Call of Duty, are unable to transfer between consoles. Switching costs are also high due to subscription services. More consoles have had exclusive services to use their online services that lose their features if you cancel the service. For example, Playstation Plus offers free games each month for users, but you can only play these games as long as you remain a Playstation Plus member. If you cancel your Playstation Plus subscription, you lose the ability to play all of the free games you have gotten, even those from previous months.

Rivalry

Rivalry in the console industry is also very high. This is seen especially before the rise of PC gaming and mobile gaming. A prime example is Sega Genesis against the Super Nintendo

Entertainment System, or SNES. Sega released a marketing plan that specifically targeted against Nintendo's SNES by claiming 'Sega does what Nintendo'n't'¹⁴. This has continued today to how people perceive the Xbox and PlayStation rivalry. PlayStation and Xbox have continued to try to outdo the other with timed price drops, exclusive games, and better processing speed.

Specifically, the current war of PlayStation 4 and Xbox 1 has shown between both companies offering similar benefits while continuing to try to add additional, exclusive benefits to their system¹⁵. This overall industry structure has highly increased rivalry, at least among the larger players. Plug-and-play game makers have yet to compete on the same scale as traditional console makers and PC gaming. Between these larger players, rivalry is very large, however it is simply high when put with all players in the market.

The conditions of the industry show this also. The console industry is faced with hefty fixed costs, and although variable costs can be high on the initial sell of the system, the services provide little variable costs. An example of this is the online services Sony and Microsoft provide. In order to play online, it costs money per month, or a sum per year, in order to use their online services. Although the costs for the system have made them lose money in the past per system, the additional revenues brought in by the services of the product make the overall variable cost small. With higher fixed costs, companies want to sell more consoles, thus more services their console can do, in order to cover it. These conditions also raise rivalry.

¹⁴ Sega "SEGA Genesis Commercials - Genesis does what Nintendo'n't!". YouTube

¹⁵ Matt Weinberger, "Microsoft vs. Sony's video game rivalry is seriously stressing me out".

Business Insider

Supplier Power

Supplier power is high for chip suppliers. For larger companies, they rely on a smaller supply of chip manufacturers that they trust to deliver key parts¹⁷. This allows for suppliers to more directly control price negotiations since they handle key functions of their products. While it is not very high since there are other companies who make the chips, RAM, and motion functions that consoles today use, it is still somewhat high due to switching costs, a smaller base of chip manufacturers than consoles, and the growth of technology forcing traditional consoles and PC gaming to look towards higher end chips to compete in the market. This can leave out companies focused more on cost leadership, allowing suppliers that focus on differentiation by higher end technology to have much power in the video game industry.

Buyer Power

Bargaining power for buyers is low for the console market. The first reason for this is due to the large customization each console has. For consoles, there are many options ranging from newer consoles such as the Wii U to older ones such as the Sega Dreamcast. While older systems are not as adept graphically as newer systems, they still have exclusive games for them. This means that if consumers want a specific exclusive game, they are locked into getting the system it is on. This trend, however, has been going down due to two different reasons. The first is rereleases of older games. Xbox 1, PS4, and the Wii U all have options to play games that were made for older systems, therefore reducing the need to obtain these systems to play their exclusive games. Similarly, the second reason is due to more games becoming cross-platform. Game series that were once exclusive to one brand of consoles or one company have been branching out into other markets. An example of this is the Final Fantasy franchise. Originally, Final Fantasy was released on the NES and SNES. After Square Enix switched to the PlayStation

¹⁷ Business Source Premier, "Nintendo Co., Ltd. SWOT Analysis." EBSCOhost.

1 for Final Fantasy VII, they made their games exclusive for Sony until their release of Final Fantasy XIII. Final Fantasy XIII was released for both PS3 and Xbox 360, and later on PC, allowing gamers to play this game on whatever console they had. This trend has been rising with many companies as more and more aim to diversify their platform.

The second reason buyer power is low is due to a change in the product offerings of consoles. This keeps bargaining power for consumers low, as each product has its own unique offering. Each console offers more unique parts that only that console can do. For example, the PS4 and PC are the only two consoles that allow for VR headset usage. While the mobile market has been working on it, it is still in its earlier stages. The Nintendo Switch can seamlessly switch between console and handheld, allowing it to create a unique experience for on-the-go and at home. This can be done with the PlayStation Vita and a PS4, however the Switch does it for a lower price and does not require internet to switch the games. As for PC, PC gaming allows for players to modify their games. This allows for games such as Minecraft to be given additional content created by the fans of the games. The multiple different, unique experiences that each console gives allows each to be its own kind of differentiator. With each one offering a different experience, this lowers buyer power. Buyers must choose which product offerings they want from a system.

Customers are also not very price sensitive. While some markets, such as families and children, are more sensitive, the console market in general is not very price sensitive. This is shown by both the offerings of the consoles and the games for the consoles. First, as I mentioned earlier, gamers will follow whatever brand they had previously. Even though one console may be cheaper, this brand loyalty shows customers care less about price compared to the product. The offerings on the console also show this. Games prices vary from \$20 to \$70. For many gamers, if

they truly want a game, they will pick it up regardless of price. Nintendo games are notorious for rarely, if ever, dropping the prices of their games. Many Mario games remain the same price they were released for. Although many PC gamers are a bit more price sensitive about their games, PC gamers are not price sensitive about building their gaming PC. Many PC gamers will spend up to \$1000 to build a high-end PC. Overall, the console market as a whole is not sensitive to price, lowering buyer power even more.

Substitutes

Substitutes for the video game console industry are high and going up. The substitutes for this market would be computer manufacturers and mobile phone makers. As I mentioned previously, the console industry is defined as something that's primary focus is to play video games. Phones do not contain this purpose, however they are capable of playing games. The mobile industry of gaming is on a massive rise currently, even to the point of causing companies who once dismissed the mobile trend to make games for it. Nintendo specifically has been under fire to stop making consoles, but rather make games for the mobile market since it has boomed so quickly. This has led Nintendo to create mobile games such as Super Mario Run, Pokémon Go, and Fire Emblem Heroes for smartphones²⁰.

This also includes PCs that are not specifically made for gaming. The PC market has massively affected the gaming industry, introducing topics such as e-sports and torrenting. Even those not specifically tailored to handle the newest, high-end games can still play many competitive and casual games ranging from Rocket League to The Sims. Torrenting adds another layer, allowing people to, albeit illegally, obtain games to their computers for free that are normally exclusive to a console. This does partially reduce the competitive advantage of a

²⁰ Matt Peckham, "Does Nintendo Have Any Big Ideas Left?". Time 185, no. 11 (March 30, 2015): B1-B4. Vocational and Career Collection, EBSCOhost.

gaming system having exclusive content. Similarly, they provide a unique experience in gaming through genres such as Multiplayer Online Battle Arenas(MOBA), Real-Time Strategy(RTS), and online party games that consoles could not support as well. The keyboard option allows RTS and MOBA games to work seamlessly with the number of shortcuts required for these games, and the ease of connectivity allow party games to work smoother.

Although it is high currently, substitutes continue to grow. The rise of 'PC Master Race' gamers, along with a casual mobile market has been steadily eating market share from consoles. Many third party companies are making games for both a console, or multiple consoles, and PC, allowing more users to focus on one gaming PC rather than multiple consoles to play the games they want. Mobile gaming allows for the same casual gaming that a handheld system allows without needing to carry around a mobile system. Many people keep their phones with them regardless of whether or not they bring a gaming system. These trends show promise to become a terrifying force against the console industry if left unchecked.

Chapter Conclusion

Overall, the console industry is very saturated with players. Recent advances in technology have made more devices capable of playing and handling games. With technology increases, this market can continue to rise. Video games have even come to the point of creating new markets. The e-sports scene exists because of competitive games such as StarCraft, DOTA, and League of Legends.

This market has led to intense rivalries. For larger console makers to stay relevant with technology changes, they have to continue to watch one another. They must also fight to keep customer's attention, as video games are a means of entertainment and art. Customers can substitute consoles for other means of entertainment. This has led to companies further focusing on their unique offering to the market by increasing switching cost, focusing on exclusives, and

making their system the best it can be. While this can be good for the customer, it means traditional console makers will have to innovate and increase efficiency constantly in order to not fall behind non-traditional consoles or other console makers.

Although it is high currently, subscription continues to grow. The ease of PC/Mac/Steam games, along with a casual mobile market has been steadily eating market share from consoles. Many third party companies are making games for both a console or multiple consoles and PC, allowing more users to focus on one gaming PC rather than multiple consoles to play the games they want. Mobile gaming allows for the same casual gaming that a handheld system allows without needing to carry around a mobile system, being people keep their phones with them regardless of whether or not they bring a gaming system. These trends show promise to become a reality and force against the console industry if left unchecked.

Chapter Conclusion

Overall, the console industry is very saturated with players. Recent advances in technology have made more devices capable of playing and handling games. With technology advances, the market has continued to rise. Video games have even come to the point of creating new markets. The e-sports scene exists because of competitive games such as StarCraft II, WoW, and League of Legends. This market has led to intense rivalries, even larger console makers to stay relevant with technology changes, they have to continue to watch one another. They must also fight to keep customer's attention on video games by a means of an advertisement and not. Customers can substitute consoles for other means of entertainment. This has led to companies further focusing on their unique offering to the market by focusing on exclusive titles, focusing on exclusives, and

Chapter 3: Critical Issues

Now that we understand Nintendo's strengths and weaknesses, along with the market in which it must compete, the next step is to determine what Nintendo's main issues are. As a longtime player in the video game market, Nintendo has set itself in a way that provides a unique experience, but can cause long-term issues. For each issue, I will explain what it can cause to the company if it is not thoroughly examined by Nintendo, and what the potential implications are.

Issue 1: Nintendo is very hit-and-miss

Nintendo is a company known for its massive successes. Everyone knows of Mario, Zelda, DS, Gameboy, Wii, and other brands that have had a lasting impact on the market. However, Nintendo has also had massive blunders such as the Virtual Boy, Wii U, and even blunders with games. Pokémon Rumble U scored a measly 49 on Metacritic, while Mario and Sonic at the Sochi 2014 Winter Olympic games scored a 55²¹. For their hits, Zelda: Breath of the Wild scored a 96, while Super Smash Brothers for Wii U scored a 92. Nintendo is very hit-and-miss with their games due to a variety of factors.

The first factor is Nintendo's innovation policies. Innovation has done amazing things for Nintendo, but they have also taken an idea that was poor on design to go for. The prime example of this was the Virtual Boy. Technology was not ready for 3D graphics yet, and the size of the system caused neck pain and straining on the eyes. The Wii U also demonstrated this. Rather than release it too early, the Wii U came out too late. Technology for tablet systems had evolved beyond what the Wii U was capable of doing²². This could in part be that Nintendo is a high-risk, high-reward company. Nintendo is used to taking many risks, and while a risk-taking company is

²¹ Metacritic, "Wii U Games", *CBs Interactive*.

²² Alex Newhouse, "Nintendo Boss Says That High Price Point, Tablets Led to Wii U's Struggles", *Gamespot*

not bad of itself, it can create issues in the gaming industry. Due to technological innovations and brand loyalty, if too many risks turn poorly, Nintendo could lose some long-time fans they had.

For the gaming industry, customers are somewhat used to hit-and-miss style. Many companies have had poor performers. However, Nintendo specifically as a console maker must tackle this beast to remain alive in the future. For consoles, the only other company who had the issues Nintendo has faced with their consoles was Sega, and they dropped out of the console market. Someone could argue the Playstation Vita or TV, but it has its unique niche of popularity in Japan. No other company has had this massive hit-and-miss ratio. For games that do, that brand is cut, such as the Tony Hawk series, or a reboot of the series is made, such as the Sonic franchise has done many times. Nintendo games are often cited as the reason to get a Nintendo console, especially due to their issues with third party game makers. If their games are poorly performing, it could harm Nintendo worse than any other company. This is why I feel it's an issue they need to address, or else they will face similar consequences to the ones Sega have faced, or worse.

Issue 2: Other Companies Invading Their Market Segment.

Nintendo has focused on the fun factor for many years. Their main audience is aiming for women, families, and non-traditional gamers. They offer games for traditional gamers, such as Splatoon, Metroid Prime, and The Legend of Zelda, however their main focus is for non-traditional gamers with titles such as Mario Party, Mario Kart, 1-2-Switch, Nintendo Land, and other party games. This market recently got a very large player added to it: the mobile gaming market. Non-traditional gamers have a much more accessible market to play casual and party games on their phone. This fierce competitor has caused issues for Nintendo, to the point where they have had to make games for the mobile market. Nintendo's higher quality games did take the mobile market by storm with Pokémon Go, Super Mario Run, and Fire Emblem Heroes,

however it was a move that had gone against what Nintendo had been doing for years. The mobile releases of these games were the first-time Nintendo has gone out to publish a game on a system that it did not create. Even with this move, the mobile market will likely continue to swallow parts of Nintendo's console and handheld markets if they cannot fine-tune their product offering.

Issue 3: Obtaining Third Party Support

Nintendo has had a bad history with managing third party games. From the times of the NES, where Nintendo had strict, perhaps overly strict, quality controls, third party companies have had to endure many complications in order to publish a game on a Nintendo console.

Integration with Nintendo has become worse over the years due to their innovative nature.

Games such as Call of Duty cannot perfectly transfer from the PS4 to the Wii U due to differences in controls, the engine it runs on, and the processing speeds of the systems. The Wii U also had a horrible programming interface, poor optimization, terrible support staff, and bad online infrastructure which turned many third-party game makers away²³. Nintendo has tried to fix these wounds with the Switch being more easily ported to, however it will take a lot for companies to want to come back or begin with Nintendo due to this poor reputation.

Additionally, due to this, Nintendo has not fostered relationships with as many companies. While some companies such as Ubisoft and Capcom remain loyal to Nintendo, they have missed out on forging good relations with other third party companies. As gaming becomes more multi-platform, this can become problematic. With less exclusive content from other third party game creators, it reduces the value perceived on Nintendo products.

²³ The Secret Developers, "The Secret Developers: Wii U – The Inside Story". *Eurogamer*

Issue 4: Supply Problems

As highlighted slightly while discussing amiibos, Nintendo products are infamous for being out of stock on release. Amiibos are the prime example of this Nintendo problem. Some amiibos continue to remain almost impossible to find, while others are just now becoming possible to obtain. Wii Fit Trainer amiibo is well-known for being one of the hardest to obtain since the Villager and Golden Mario amiibo rereleases. A normally \$12.99 retail toy is selling, as of April 2017, on Amazon currently for \$24.99²⁴. This price has been higher in the past, going up to \$50 for the amiibo. The Golden Mario amiibo, before being rereleased, was going upwards of \$200. Nintendo poorly supplied their amiibos due to poor demand forecasting and poor supplier management.

Amiibos are not the only example of their supply issues. The Nintendo Wii and the Switch currently face the same problems. The Wii was notorious for being almost exclusively first come, first serve for more than a year after it came out. While some have speculated that this could be a marketing ploy by Nintendo, for many families looking to buy a Wii, it was simply out of stock²⁵. A similar situation is currently happening with Nintendo's new device: the Nintendo Switch. While the Nintendo Switch has sold well, it is almost exclusively pre-order only in order to obtain one currently. Nintendo, whether it is due to poor suppliers or poor forecasting, cannot fully hit the demand for its products.

Critical Issues Conclusion:

Nintendo has many issues it needs to face. It needs to get up-to-date with technology and learn to work better with their suppliers. They also need to more properly analyze their market to determine both demand for what they are selling and if their innovative idea is worth investing in. Nintendo also must address new markets coming in, such as the mobile gaming market and

²⁴ Amazon, "Wii Fit Trainer Amiibo". *Amazon*.

²⁵ Thomas Wailgum "Nintendo Wii Shortage: Shrewd Marketing or Flawed Supply Chain?". *Cio*.

PC gaming market. Unless they can increase their systems perceived value, Nintendo may end up needing to drop out of the console race like Sega did.

It will be examining each of Nintendo's critical issues and providing one or more solutions to each problem. While there are many solutions to a problem, I will be providing what I think is the most optimal solution that agrees with Nintendo's mission and goals as a company.

Strategic Action 1: More Focused Market Analysis
For this solution, Nintendo must be able to examine the market more carefully.

Nintendo's main focus is innovation; however, their innovations can flop sometimes. In order to correct this, a more proper market analysis is needed. For example, the Wii U was primarily a failure due to coming out too late and past the local point of interest. If conducting a proper

market analysis, Nintendo could have fixed the problem by seeing that people did not want this kind of product. Nintendo's advertising also did not reach this market. Advertising for the Wii U was very low and not shown much on family shows or shows that teenagers would

watch. Game analysts the market they established and wanted to keep up with for the Wii U's launch release. The good thing is that Nintendo needs to be more vigorous in handling market analysis to determine whether the product are desired by the market or if their innovative technologies

are only timed.
Strategic Action 2: Increase Support of their Products

The second main issue is that other companies are taking Nintendo's market share. To fix this, Nintendo must increase the perceived value of its systems. There are many ways to do this, but perhaps the easiest one is to increase the number of things that the Switch and 3DS can do.

The Wii U can stream games, play VR games, run many different online TV and movie services along with allowing people to rent or download movies and games. If Nintendo can offer to find additional ways to increase what the system can do, it can attract more of the non-traditional

Chapter 4: Strategic Action

While Nintendo does have many issues, they are not unresolvable. For strategic actions, I will be examining each of Nintendo's critical issues and providing one or more solutions to each problem. While there are many solutions to a problem, I will be providing what I think is the most optimal solution that agrees with Nintendo's mission and goals as a company.

Strategic Action 1: More Focused Market Analysis

For this solution, Nintendo must be able to examine the market more carefully.

Nintendo's main focus is innovation; however, their innovations can flop sometimes. In order to remedy this, a more proper market analysis is needed. For example, the Wii U was partially a failure due to coming out too late and past the focal point of tablets. By conducting a proper market analysis, Nintendo could have fixed this problem by seeing that people did not want this kind of product. Nintendo's advertising also did not match this market analysis. Advertising for the Wii U was very low, and not shown much on family shows or shows that non-gamers would watch, going against the market they established and wanted to keep up with for the Wii U's release. To avoid future flops, Nintendo needs to be more vigilante in handling market analysis to determine whether its products are desired by the market, or if their innovative masterpiece is poorly timed.

Strategic Action 2: Increase Spectrum of Their Products

The second main issue is that other companies are taking Nintendo's market share. To fix this, Nintendo must increase the perceived value of its systems. There are many ways to do this, but perhaps the easiest one is to increase the number of things that the Switch and 3DS can do. The PS4 can stream games, play VR games, run many different online TV and movie services, along with allowing people to rent or download music and games. If Nintendo can offer additional services to increase what the system can do, it can attract more of the non-traditional

market it had. While gamers may focus purely on a system for the games and occasionally Netflix, non-traditional gamers are likely to put more emphasis on what a system can do beyond gaming. If Nintendo can add additional value to their system through these means, along with focusing on this market more with games, they can regain some of the market lost to mobile gaming. Considering both Nintendo's console and handheld can both be played on the go, it becomes more imperative that they gain an edge over the mobile market.

Strategic Action 3: Increase Diversity

Nintendo is very good at what it does: innovating the market it is in and making quality products. The main issue with this is that they are only in the video game industry. Nintendo has not diversified beyond the video game industry, or things to do with the gaming industry. This can cause issues if the video game industry drastically changes. Nintendo may not be able to keep up with the change and not have another division to fall on, or else be put in a situation that their method of innovating is not profitable anymore. Therefore, with Nintendo's experience, they should diversify into either another technological field or else into something that fits their market. Technology field, with Nintendo's expertise in both innovation and quality, Nintendo could put a footing into almost any technology-driven product from appliances to phones. If Nintendo does not wish to pursue this, they can use their brands to create toys. While Nintendo toys do exist, it is usually done by Nintendo selling the rights to make them. If Nintendo were to make their own, it would increase profits in the long run from making them, along with giving them something to fall back on.

Strategic Action 4: Working with Other Companies

This strategic action places well with the previous action. Nintendo's reputation of being hard to work with can harm it greatly with the Switch and future game consoles that come out. In order to mend this, they must begin to collaborate with companies that align with their goals.

Examples of companies might be Rovio Entertainment, the company who made Angry Birds, or Scott Cawthon, the man who made Five Nights at Freddy's. Both of these companies aim for quality products towards a more general audience, something that Nintendo strives for. By working with them to get an exclusive game out on their system and then progress towards larger third part companies, Nintendo can begin to repair relationships and gather more third party support for their systems. By working more closely with suppliers, it can also help to alleviate some issues with inadequate supply. By improving communications, companies reduce the lead time from communicating, help to eliminate the bullwhip effect, and can better adapt to sharp spikes in demand without supplying too much.

Strategic Action 5: Communicate to the Public

Lastly, Nintendo needs to communicate its own issues to the consumers quicker.

Nintendo may have problems with supply that are outside of their control, such as labor strikes or issues with parts suppliers. By communicating these issues sooner, Nintendo can help alleviate the stress put on them by certain items being out of stock. For example, amiibos had a very slow release for many characters, but Nintendo did not acknowledge their supply issues to the fans for a while²⁶. For consoles, while easy to switch between before buying one, have subscriptions and games that keep people to one or two systems. If Nintendo's systems are out of stock, people will just pick up another system. If Nintendo cannot properly notify the public of shortages, Nintendo could suffer from many lost sales. It can also help customers by notifying them of when more shipments will arrive so they don't get the resold product. Rather than paying an additional \$50 to get a Nintendo Switch sold by someone who bought multiple Nintendo Switch's, a customer can know that another shipment is coming in within a few weeks and can wait to get the Nintendo Switch then at a cheaper price.

²⁶ Eddie Markuch, "Nintendo Apologizes for Amiibo Shortages, Promises Better Communication", *Gamespot*.

Strategic Action Conclusion

Nintendo has a promising road ahead of it, if they can properly prepare for the changes in the market. With technology increasing drastically each year along with new entrants that have disrupted the market, Nintendo will need to work hard in order to keep their place as a top contender for unique systems, games, and experiences for their customers. However, unless they are more willing to communicate, diversify their assets, and learn more of the market they are in, they can potentially fall down in the gaming industry.

Chapter 5: Conclusion

Overall, we can see Nintendo's place in the market and how they have grown as a company. From humble origins as a card manufacturer, Nintendo now hosts some of the largest names in the gaming industry. We can see how Nintendo's strengths as a unique, high quality innovator has kept it strong throughout the years, and yet how their flops have come about. We can also see how the console industry has changed and formed itself, and how the gaming industry relates to the console industry. Although Nintendo still has problems to address to remain as strong of a business as they are now, Nintendo's future looks bright. With the recent release of the Nintendo Switch, Nintendo has seen their stock prices go up drastically²⁷. By utilizing their assets and focusing towards the future of gaming, Nintendo can highly influence the video game market, attracting people that neither Sony nor Microsoft would focus on. These casual gamers, although not usually liked by many hardcore gamers, are important to the gaming industry. Nintendo hits home by aiming towards these children, families, women, and other unique markets, along with continuing to impress older Nintendo fans who grew up with systems like the NES, SNES, N64, and other Nintendo systems.

²⁷ Yuji Nakamura, "Nintendo Shares Jump After Switch Sets U.S. Sales Records". *Bloomberg*

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