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Master Thesis

Nintendo’s Financial Crisis and its Strategic Dilemma

The case of a company that went from holding market leadership and industry record sales, to the most severe financial crisis of its 125 year old history.

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1. Abstract

This thesis analyzes “Nintendo Co., Ltd”, an undiversified hardware manufacturer and software developer active in the video-games console industry. After some extremely successful years during what is called the “seventh generation” of consoles, the Japanese company experienced its first-ever annual loss. Soon after, the eighth generation of consoles started and Nintendo launched, one year before the competitors, its new console named Wii U. Nintendo missed its sales projections for this brand new system by over 300%. The financial results registered in the first year from launch of the Wii U were lackluster. Based on the studies conducted on financial and qualitative data, it is argued that Nintendo’s lackluster financial results originated from a strategic dilemma. This dilemma consists in the issues of strategic management that Nintendo faced after having launched and positioned its new Wii U model in the industry. Specifically, this work investigates the strategic reasons capable of explaining why Nintendo’s next generation system underperformed at launch and then throughout the whole period of time ending with the Fiscal Year 2014. This work aims to understand if Nintendo’s latest console missed nearly every projection because of corporate-strategic missteps that occurred during this period of time. The objective is to identify those strategic oversights for then analyzing and discussing them. The method is tailored in a way that allows to collect relevant information from primary sources (interviews with top management and official document from company) as well as press articles from specialized newspapers and online magazines. The research question (and subquestions) aim to understand the nature of Nintendo’s strategic dilemma as well as to investigate the existence of its competitive advantage in the time frame considered. One of the main conclusion of the analysis conducted for this work shows that Nintendo did not adopt a clear strategy for the Wii U model hence resulting in an unsuccessful attempt of differentiation.
2. Nintendo: an introduction to the company

2.1 History

Nintendo is a multinational consumer electronic company founded in Kyoto, Japan by Fusajiro Yamauchi in 1889. The company originally started operating as a producer of playing cards but after several years of successful sales and expansion, Nintendo entered the business of kids’ entertainment for the first time in 1959 by producing playing cards representing the Walt Disney’s characters. A whole new market just opened up, revealing incredible business opportunities and unexplored possibilities for further expansion. Subsequently, in 1962, Nintendo went public and appeared on the Japanese stock exchange (first in Osaka and then in Tokyo). Right after, in 1963, Nintendo took a very crucial step forward not only starting the production of cards for kids, but also actual toys. At the beginning of the 1970s Nintendo introduced electronics in consumer goods such as toys for the first time ever, producing a toy laser-gun that adopts an electronic system to create lights. In 1973 the Japanese company developed a revolutionary virtual disk-shooting game that replaced bowling in Japan as main leisure activity (Nintendo’s Italian Corporate website, 2014, d.). The partnership established with Mitsubishi Electric in 1975 was crucial to give birth, later on in the decade, to a new business: the one of the home entertainment devices. Thus Nintendo managed to create and spread videogames in Japan’s homes by combining their commercial expertise, their experience in producing consumer goods (cards, toys) and other unique capabilities acquired through the partnership with Mitsubishi Electric. These conditions were those that allowed the Japanese company to create the very foundations of this newly formed industry. Thanks to the remarkable success that Nintendo was able to accomplish, it kept on expanding in size. In 1979 the American based headquarter of Nintendo was born in New York. This incredible step forward consecrated Nintendo, a relatively small company, as a global player in the industry, with a great international reach. In 1984 the revolutionary console called Nintendo Entertainment System (NES) was launched in Japan and, later on, also in the rest of the world. The NES introduced a vast library of videogames in everyone’s house for the first time. The NES managed to obtain an outstanding success worldwide (ibid.) entrenching Nintendo as world leader in the console industry. The expansion also continued in the 90s when Nintendo inaugurated its third headquarters in Europe. The
new console “Super NES”, launched in Japan in 1991, and reached the European markets a year later. The Super NES managed to attain a staggering 24 million units sold worldwide. This kept Nintendo at the forefront of console makers and led even further its already remarkable expansion even further. In 1993, a new subsidiary is founded in the Netherlands whilst others opened in the UK, France and Spain. Three years later, in 1996, the new console “Nintendo 64” is presented and launched in Japan, where it sold over 500,000 units during the launch day. The Nintendo 64 was the first 64 bit console in the whole world, and it soon confirmed its initial success in Europe too, where it shipped 2.3 million units during its first year of launch. The beginning of the XXI century for Nintendo started with the presentation to the public of a new entertainment device called “GameCube”, which was the first one in Nintendo’s history to not carry the name of the company and to adopt a disc-based system to run videogames. In 2001 more than 2.7 million units of GameCube were shipped and 95% of them had already been sold. One year after a historical event occurred, Hiroshi Yamauchi, the president of Nintendo, stepped down after 52 years at the head of the company. To take his place is the head of the corporate planning division, Satoru Iwata, who played a fundamental role for the future strategic plans and product development of the company. It can be argued that the game-changing year for Nintendo was 2006, when Nintendo launched it’s highly anticipated and eagerly awaited console, the Wii. This revolutionary project allowed Nintendo to reach an even wider audience, ensuring the greatest success in the company’s history. The Wii inspired several new game franchises, some targeted at entirely new market segments of casual and fitness gaming. At over 100 million units and 900 million software sold, the Wii is the best selling console of the seventh generation, regaining the market share lost during the tenures of the Nintendo 64 and the GameCube (Nintendo, Wikipedia, 2014, c.). After many successful years, it was time for Nintendo to replace its Wii with a new generation console. The Wii U was launched in 2012, the first eighth generation console on the market and the first Nintendo system to support high definition graphics. The Wii U sales though turned out to be “significantly lower than the original forecasts” (Iwata, President and CEO of Nintendo Co., Ltd., 2014, e.). In fact, Nintendo it had to drastically revise its sales expectations to an amount that is 69% lower than the previous estimates (Reisinger, Cnet, 2014, a.). Software sales projections for the Wii U were also revised downwards from 38 million units to 19 million, 50% less than original estimates (ibid.).
Moving on to the more recent history, Nintendo registered in 2012 its first loss since it started releasing consolidate earning reports in 1981 (Erik Kain, Forbes, 2014, a.). In the Fiscal Year ending March 31st 2012, Nintendo posted over half a billion in losses due to declining Wii sales and disappointing 3DS sales performance. With half a billion dollars of losses before the eighth generation even started, Wii U sales were extremely crucial for Nintendo to turn things around. The situation is particularly worrisome not only for financial losses but also their value on the financial markets. In fact Nintendo since reaching an all-time high of 72.1 Yen (per share) in November 2007, the company has lost more than 80% of its value since then (Yasu and Amano, Bloomberg, 2014, a.). When Wii U launched things did not get better but, if anything, they got worse. Last fiscal year in fact (from Nov 2012 to March 2013), Nintendo only sold 3.45 million Wii U’s worldwide, with the system being outsold, without any other competitor on the market yet, by the last-generation Wii at 4 million. From March to June 2013, Nintendo moved only 160,000 Wii Us worldwide, a massive 51.3% decrease from the previous quarter. “That’s 160,000 units sold. Over three months. Worldwide. With no next-gen competition released yet. “That isn’t just bad, it’s terrible, and no ‘historically slow first quarter’ excuses can change that” (Paul Tassi, Forbes, 2014, s.). “The Wii U has had the entire past year to be the first “next-gen” console released, and it simply didn’t take advantage of the market position” (ibid.). Paul Tassi, contributor at Forbes, went on to say that the Wii U would struggle even more when the competitors, Microsoft and Sony, release their next generation systems. This was exactly what happened, because when the other two players of the industry launched their consoles in 2013, they outclassed Nintendo under every single point of view. It is enough to mention that the others next generation systems, the PS4 (from Sony) and the Xbox One (from Microsoft), sold in 24 hours what the Wii U managed to sell in 9 months without any competition whatsoever (Amano and Edwards, Bloomberg, 2013, b.). These are not only signs of a severe financial crisis but more deep and troublesome strategic issues which need to be investigated.

The main goal of this work is to understand Nintendo’s financial difficulties as an issue of strategic management. The thesis is composed of three main sections: Analysis, Discussion and Conclusion. The Analysis attempts to provide an
understanding of the main problems, studying the company from various standpoints (External, Internal and Strategic) in order to create an inclusive picture of the current situation. In the Discussion, the main issues of this case are debated and addressed. This is done in order to clarify them and, at the same time, set up the basis for the last and final section. In the section of Conclusions, the whole work is summarized in its most important aspects and some recommendations are made for the company. The main results of this research show an incoherent strategy, a loss of competitive advantage and a misperceived value proposition. These facts, together with several other factors that will later be addressed in the analysis, perpetuated the company’s financial crisis.

2.2 The practical concern

Nintendo is facing its most severe crisis, both under a financial and a strategic standpoint.

“Unlike Microsoft and Sony, Nintendo is completely dependent upon the video games industry for its revenues”

(Robert M. Grant, Contemporary Strategy Analysis, 2013)

The main point is that, if Nintendo keeps following this path there won’t be much hope for its survival in the console industry. The company can’t keep loosing money by the day and hope to endure in this business. It is important to investigate the strategies and the decisions that lead Nintendo from the great Wii success to the current Wii U situation in just a few years. Nintendo achieved a consistent competitive advantage over the past years, manifestation of a coherent and successful strategy. The Blue Ocean strategy secured Nintendo a competitive advantage gained to the detriment of larger corporations such as Microsoft and Sony, operating in many diversified industries.

This thesis will focus on the strategic dilemma that saw Nintendo going from a position of competitive advantage (Wii) to a position of severe disadvantage (Wii U) within the time frame that goes from launch of their latest system to the end of the Fiscal Year 2014. This dilemma consists in an unclear strategic position and this work will put emphasis, in essence, in investigating the nature and the magnitude of this strategic dilemma.
3. Literature

This section is divided in literature review, hypotheses and research questions. In the literature review the theories and the models considered relevant for the case are illustrated and explained in details. In the following part it is explained how the main theories are relevant to empirically test the main hypotheses the case arises. Finally in the research question part the main research question, as well as the sub-questions, are presented.

The literature review is composed of three parts: the external analysis, the internal analysis and the strategic analysis. In the external analysis the model of the “Five Forces” by Michael E. Porter is the central one. It is utilized because very suitable for the external perspective adopted in this section. Other models and theories are explained in this section such as the one of market structure and the VCI model. In the internal analysis, on the other hand, it is adopted an antithetic perspective to the previous section, and for this reason the main theory utilized is the Resource Based View. This model provides an insightful look of a company seen from inside-out, investigating its key and distinctive resources and capabilities. The Resource Based View theory is then integrated and expanded with Barney’s framework. Finally, in the strategic analysis part of this literature, two other extremely relevant concepts by Michael E. Porter are addressed. These concepts are the “two strategic choices for competitive advantage” and the “three generic strategies”. Moreover, always in the above mentioned strategy section, the “four strategic outcomes for differentiation” by Invernizzi (2008) are also utilized. Later in the Discussion section instead, the notion of core competences by Prahalad and Hamel is taken into account, as well as the name issue that some journalists and analysts highlighted (Kohler, Weird Magazine, 2014, a.) and the “stuck in the middle issue” Porter addresses in relation to the choice of which competitive advantage and scope to pursue.

3.1 Literature review

For what concerns the external analysis, Michael Porter argues that “firm profitability is dependent on industry structure” (Porter, 1979). The structure of the industry “matters more than the firm’s capabilities” (ibid.). The industry-wide focus of this type of thinking makes it perfect for an external analysis. One of Porter’s well-
known models is the “Five Forces” model, generally acclaimed as one of the best business tools to describe the attractiveness of an industry. From this point of view, one of strategic management’s main purposes is to “guide the organization in achieving superior organizational performance as it develops a sustainable competitive advantage in the environment in which it operates” (ibid.). According to Porter a competitive strategy must emerge from an understanding of the rules of competition that determine market attractiveness. The rules of competition are shaped by five main forces: the bargaining power of customers; the bargaining power of suppliers; the threat of new entrants; the threat of substitute products; the intensity of competitive rivalry. This model is a great business instrument that provides a good qualitative evaluation of the industry from an external perspective.

Another relevant aspect to consider in the external analysis is the competitive situation in the industry with respect to the competition. This is also defined as market structure. The notion of market structure stresses the importance of recognizing “how different competitive environments can affect its strategic choices” (Clegg et al., 2011, p.57). Porter distinguishes four kinds of market structures: Homogeneous; Monopoly; Oligopoly; Hypercompetition.

Concluding the external analysis, it will be discussed the VCI model. The VCI model, developed by Hatch & Schultz in 2008, argues that every successful brand has a high degree of coherence in terms of “what the company’s top managers want to accomplish in the future (their strategic vision), what has always been known or believed by the company’s employees (lodged in its culture) and what its external stakeholders expect or desire from the company (image)” (Taking Brand Initiative, Hatch & Schultz, 2008, p.11). The key principle behind this model is that “the greater the coherence of Vision, Culture and Image, the stronger is the brand” (ibid.) and the better is perceived a company’s value proposition. Building an integrated Vision-Culture-Image alignment results in creating a “strong corporate reputation” (ibid.) that will, ultimately, make the company more durable. In fact, “the combination of Vision, Culture and Images represents in one way or another everything the organization is, says and does” (Taking Brand Initiative, Hatch & Schultz, 2008, p.13).

It is taken into account the Resource Based View (RBV) for the internal analysis. While this influential body of research within the field of strategic management was named by Birger Wernerfelt in his article “A Resource-Based View of the Firm”
(1984), the origin of the resource-based view can be tracked back to earlier research. Elements can be found in works by Coase (1937), Selznik (1957), Penrose (1959) Stigler (1961) and Williamson (1975). The RBV tries to respond to the very same question of Porter’s “Five Forces” model: what makes an organization capable of achieving a competitive advantage? The answer the RBV provides is simple: unique resources and capabilities. Therefore, instead of focusing to market positioning as key to strategic planning, the RBV concentrates on the bundle of assets every firm possesses within. They are defined as capabilities those assets that are not tradable and not represented by any specific individual. The capabilities have the capacity to become stronger and more profitable through the use, hence making them harder to imitate. On the other hand, resources asset “distributed unevenly across firms” (Barney, 1991) are tradable and uniquely tied to individuals. Resources can be seen as inputs for the production and they are often distinguishable in categories. Resources are studied and classified following the VRIN (Valuable, Rare, Inimitable, Non-substitutable) classification formulated by Barney in 1991. Barney states that an environmental analysis by itself cannot bring unique insights while the analysis of a firm’s distinctive skills and capabilities can. Consequently we have to look at the resources to find the source of the competitive advantage. And what are the resources that will enable a firm to achieve it? Barney says that those resources need to have four characteristics: Valuable; Rare; Inimitable; Non-substitutable; Organized. Hence “if each of the VRIN condition is satisfied then there is the possibility of a resource to provide a sustainable competitive advantage” (Clegg et al., 2011, p.88).

The last section of this literature is the strategic analysis. It is central, for this part of the narration, the concept of sustainable competitive advantage. According to Warren Buffet, not only we have to look for a competitive advantage, but for a competitive advantage that is also sustainable. A sustainable competitive advantage is defined as a condition that “allows a business to improve its competitive position in a market, against competitors, in the long term” (Porter, 1985). Porter claims that leveraging the company’s strengths we can achieve a sustainable competitive advantage and hence position the firm successfully on the market. The Harvard professor sustains that there are two choices managers have to undertake when it comes to competitive advantage:

1) Decide which type of competitive advantage to pursue
2) Decide which competitive scope adopt
For what concerns point one, it is argued that the firm’s strengths “eventually relate to two basic types of competitive advantage” (ibid.): cost leadership or differentiation. In the cost leadership strategy the advantage is originated by an overall ability to produce at a lower cost. This ability translates into the possibility of selling the products at a lower price than the competitors. This approach is “usually found in broad markets” (ibid.) and commonly “there is room just for only one cost leader” (Invernizzi, 2008) in an industry. Maintaining this kind of leadership position, through this strategic approach, is in fact extremely hard because it requires to “continuously improve productivity and efficiency” (Clegg et al., 2011, p.70). The differentiation strategy consists in offering a unique value proposition which can be differentiated both on tangible and intangible features. The key to make profits through this approach is to undertake “extra-costs” (Invernizzi, 2008) that will allow the firm to deliver to the consumer products with an extra-value. If this value is well perceived, then the company can charge an extra-price (premium price).

Regarding point two (“decide which competitive scope adopt”), once chosen the type of strategy, managers should decide which competitive scope to adopt. Regarding this concept we then find the third possible strategy: the focus strategy. This strategy is then the way competitors decide to operate in the market in relation to the scope: with a broad scope (mass-market) or with a narrow scope (niche). This is not a new strategy but rather a way the competitors decide to approach the cost leadership and differentiation strategies. Therefore it can be possible to observe broad-scope or narrow-scope cost leadership strategy, as well as broad-scope or narrow-scope differentiation strategy. Porter states that these strategies, if not well executed, won’t be profitable and the company undertaking them will be “stuck in the middle” (Porter, 1980) of two distinguished strategic paths. These three strategies are called the “three generic strategies” and they are also graphically illustrated in the following figure.

Figure 1: The three generic strategies
Another framework used in this section is the one of the possible outcomes of a differentiation strategy. These outcomes are: vulnerable competitive advantage; successfully built competitive advantage; competitive advantage halfway realized; failed attempt of differentiation. They are realized depending on the ability of the firm to both create unique value with regard to specific customers or specific needs and efficiency under a costs perspective (Invernizzi, 2008, p.170).

In order to complement the formerly mentioned concepts of competitive advantage, they will be integrated with the book “Good Strategy Bad Strategy” by Richard Rumelt. According to a principal stated in the book, “no one has an advantage at everything” (Rumelt, 2011, p.161) therefore, in order to properly use the advantage, one must only “press where you have advantages” (ibid.) and avoid competing where you do not have an advantage. To put it in Rumelt’s words, “you must exploit your rivals’ weaknesses and avoid leading your own” (ibid.). This consideration will be discussed and framed using a theory illustrated in “Good Strategy Bad Strategy” of “value-creating changes” (Rumelt, 2011, p.169). An advantage, in order to be valuable, it has to be sustainable and to be sustainable it must be increased in its value. This theory states that “increasing value requires a strategy to progress on at least one of four different fronts” (ibid.): deepening advantage; broadening the extent of the advantage; creating higher demand for advantaged product or services; strengthening the isolating mechanisms that block easy replication and imitation by competitors.

In the paper “Strategy and Organizational Evolution”, H. A. Simon uses the term “comparative advantage” as a synonym of “niche”. Simon shows how a company can
successfully switch from a position of advantage to the other, in an uncertain environment, through an appropriate strategic decision process. Moreover, an important concept is provided in the paper and it states that “the most important skills required for survival and success in the kind of uncertain, rapidly evolving world in which we live are” (Simon, 1993, p.134): skills in anticipating the shape of an uncertain future; skills in generating alternatives for operating effectively in changed environments; skills in implementing new plans rapidly and efficiently.

For what concerns the Discussion part of this thesis, amongst the case-specific papers that have been taken into consideration, “The Blue Ocean that Disappeared – the case of Nintendo Wii” (Svend Hollesen, 2013) stands out for the way it portrays a comprehensive picture of theories related to the case. Among these theories we find the Blue Ocean concept, opposed to the Red Ocean one and the value innovation-based strategy. Finally the paper by C.K. Prahalad and G. Hamel “The Core Competence of the Corporation” (Harvard Business Review, May-June 1990) is taken into consideration. The authors argue that Western companies underperform, if compared to Japanese companies, when it comes to long term competitiveness. This argument is supported by the authors’ belief that “in the short run, a company’s competitiveness derives from the price/performance attributes of current products” where Western companies are still capable of delivering good results, but “in the long run, competitiveness derives from an ability to build at a lower cost and more speedy than competitors, the core competences that spawn unanticipated products” (Prahalad and Hamel, 1990, p.81). Therefore “the real sources of advantage are to be found in management’s ability to consolidate corporatewide technologies and production skills into competences that empower individual businesses to adapt quickly to changing opportunities” (ibid.). The problem the authors find with Western companies is their “adherence to a concept of the corporation that unnecessarily limits the ability of individual businesses to fully exploit the deep reservoir of technological capability that many American and European companies possess” (Prahalad and Hamel, 1990, p.82). The way the authors think of a company is deeply interesting in that they conceive it as a large three, where “the trunk and major limbs are core products, the smaller branches are business units; the leaves, flowers and fruit are end products. The root system that provides nutrishment, sustenance and stability is the core competence” (ibid.). This focus on core competences is exactly what makes Japanese
companies more successful than Western companies in the long run. In fact, “unlike physical assets, competences do not deteriorate as they are applied and shared. They grow” (ibid.). Companies that embrace the core competences view of a corporation are those who recognize that “competences are the glue that blinds existing businesses. They are also the engine for new business development. Patterns of diversification and new market entry may be guided by them, not just by the attractiveness of markets” (ibid.). “In contrast, there are major companies that have had the potential to build core competences but failed to do so because top management was unable to conceive of the company as anything other than a collection of discrete businesses” (ibid.).

3.2 Hypotheses

In this section are displayed some of the main hypotheses that are fundamental to address in this case.

In an external analysis perspective, Porter’s “Five Forces” model puts the emphases on the construction of a sustainable competitive position. The hypothesis that is being addressed here is that it is possible to find some external factors that are a source of weakness for Nintendo. It is argued then that the Japanese company might have been unable to appropriately tackle these factors hence resulting in a long-lasting weakness. This hypothesis aims to verify if the structural configuration of the industry allows a company such as Nintendo to build a sustainable competitive advantage.

The theory of market structure enables to identify the industry’s category in which Nintendo belongs in terms competitive situation with respect to the competition. It will then be possible to understand how the competitive environment is solely in regard to the competitors, leaving aside for a moment all the others external factors shaping competition. This approach provides a more focused and impartial analysis of the competitive environment in that it will not take into account external factors. It is asked here whether in which kind of competition Nintendo is finding itself to deal with and if its strategy is proved to be effective. Finally, Nintendo is being looked at under the VCI perspective. This perspective enables us to understand how a company’s strategic vision is not characterized by continuous alignment but, conversely, by an incessant process of adaptation and reshaping its Vision-Culture-
Image interactions. It is argued that Nintendo, during the time frame considered, might not have had a coherent VCI alignment and thus not a strong competitive position resulted by a misperceived value proposition.

In the internal analysis the RBV model is utilized to identify which are Nintendo’s key resources and capabilities. This together with the VRIN framework allows us to understand if there is a resource-based issue within Nintendo to justify its recent financial crisis. Moreover, Barney’s framework will also prove if Nintendo still has a valid resource on which to base a sustainable competitive advantage.

In regard to the strategic analysis, the notion of sustainable competitive advantage is considered vastly relevant in that it will be argued if Nintendo correctly leveraged its strengths when launched its new model Wii U. On the other hand, “Good Strategy Bad Strategy” enables us to address Nintendo’s strategic dilemma with extremely interesting concepts. Thanks to this book it will be investigated whether the Japanese company correctly leveraged its own strengths and wisely exploited the competitors’ weaknesses. The pertinence of the book is reinforced by similar topics highlighted by certain sources, such as specialized magazines like Forbes, according to which Nintendo might have lost its competitive advantage because it tried to compete where it did not have an advantage anymore (Cramblet, Forbes, 2014, q.). It will be investigated whether or not Nintendo has worked to increase its already present competitive advantage, gained in the seventh generation, along the four dimensions previously mentioned in the literature section.

The paper “Strategy and Organizational Evolution” by H. A. Simon also addresses topics that are particularly pertinent for the Nintendo case, such as the one of the difficulties firms often encounter in “retaining substantial comparative advantages over competitors after brief periods of unusual success” (Simon, 1993, p.133). This is what happened at Nintendo when they experienced an outstanding success with their model Wii while and then, on the other hand, they are currently facing multiple difficulties with the new model Wii U. These conditions will be examined within the context of Nintendo in order to research whether its skills proved to be effective in the shift from generation seven to generation eighth.
3.3 The research question
The interest that led to the formulation of the research questions was triggered by the recent series of events that saw a great corporation like Nintendo experience incomparable success, reaching the stardom of this industry, to facing a severe financial crisis. The inspiration came from the curiosity in investigating the competitive dynamics in the console industry and the harsh competition amongst extremely large and complex corporations such as Sony, Microsoft and Nintendo.

The previous considerations, lead to the following research questions.

Research question:
➢ In what consisted the Nintendo’s strategic dilemma faced in the period of time from the Wii U launch to then end of Fiscal Year 2014?

Sub-questions:
➢ Does Nintendo still have a competitive advantage?
• According to Porter’s “Three Generic Strategies”, what strategies did Nintendo follow? Does it provide a competitive advantage?
• According to the RBV theory: what are Nintendo’s main resources? What resource originates a competitive advantage?
• According to the notions gathered from “Good Strategy Bad Strategy”, did Nintendo strengthen its advantage with its Wii U in the eighth generation?

4. Methodology
This section explains how the research has been conducted, including the methodological view, research design and data collection. The method adopted in this dissertation is aimed to support the research questions previously presented. The analysis of both qualitative and quantitative data is therefore intended to gather a comprehensive set of information that provides a complete understanding of Nintendo’s strategic dilemma to appropriately answer the research question. Since the financial crisis of Nintendo is considered as the result of a deeper and greater strategic problem, quantitative data could not have been neglected. Also the nature and the structure of the industry in which Nintendo operates require, for an appropriate and complete understanding, also an analysis from a quantitative standpoint. Quantitative
data are therefore functional to coherently answer the research question. It is to be noted that the high use of articles from economic newspapers and magazines is also due to the newness and the volatility of the events. The thesis in fact, had to be revised and updated as new events affecting this case were arising\(^1\).

In order to deliver a better response the case’s dilemma, some interviews have been conducted.

### 4.1 Key informants

Three interviews with key informants have been conducted. “Key informants are those whose social positions in a research setting give them specialist knowledge that is more extensive, detailed or privileged than ordinary people” (G. Payne & J. Payne, 2004, p.3). Key informants are indeed ‘leading players’ in the community or organization who have more information than most ordinary people. They speak from their own perspective, although are quickly accessed and may be the only sources. As the author G. Payne and J. Payne explain: they are a “valuable sources of information” (ibid.) because they can provide “a lot of rich information from relatively small numbers of interviewees” (ibid.). Not only that but also “the way these data are conceptualized can produce an analysis of considerable depth and insight” (ibid.). “Key informants they have more information to impart, and are more visible because they occupy formal positions of authority” (ibid.). This approach was applied to the case because of the impossibility of reaching out to the Japanese top management where the corporate decision-making process is being taken at a global level.

The key informants interviewed were:

- **Simona Portigliotti** - Senior Brand Manager Nintendo of Europe GmbH

  [Interview One]: Mrs. Portigliotti is a Senior Manager at Nintendo with 10 years of experience within the company. Her role in the company requires her to work with the strategy planning for marketing consumer, co-promotion & licensing, planning launch of new hardware-software, strategy implementation for events. Being the highest brand manager in the Italian headquarter, Mrs.

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\(^1\) An example of this was Nintendo’s strategy presented at E3 2014 in June
Portigliotti was able to convey, during our interview, some key information regarding the effect that the strategic choices Nintendo undertook had on the Nintendo brand. Not only that, but she also portayed an extremely inclusive picture of what it means to work for Nintendo, sharing its mission and what are the company’s main traits in terms of Values, Culture and Vision. At least but not last, Mrs. Portigliotti addressed a central concept for this work, the Blue Ocean Strategy, in other words the strategy that allowed Nintendo to win the seventh generation of console war and to reach its all time record in revenues, console sales and software sales.

- **Stefano Calcagni - Brand Manager Home Entertainment Wii & Wii U, Nintendo of Europe GmbH** [Interview Two]: The information obtained by Stefano Calcagni where much more focused on a strategic perspective. Being his role the one of Brand Manager for the home entertainment devices Wii and Wii U, he is the perfect candidate to be interviewed on the topic analyzed in this thesis. His insights were vastly precious in that they covered the strategic perspective Nintendo adopted both during the launch of the Wii and, more recently, for the launch of the Wii U. Mr. Calcagni highlighted how, in his opinion, Nintendo’s strategy, as well as its vision, have shifted with the launch of the new console. He also addresses an interesting topic regarding a long-term vision Nintendo could have had since the beginning of the Wii U project, focusing more on a wider target for its latest console. Mr. Calcagni then concludes stating what are Nintendo’s objectives for the future.

- **Paul Tassi – contributor at Forbes Magazine** [Interview Three]: It was not possible to reach Paul Tassi for this round of interviews. Although the Forbes contributor was previously interviewed on a related topic concerning the very same industry. The interview was conducted on Microsoft and Sony and the competitive dynamics that recently affected the console gaming industry. This interview was designed to allow the interviewee to express his own, and strong, opinion about the industry’s recent events. The questions were semi-structured and allowed Forbes’ contributor to freely express his thoughts without any specific frame imposed by the questions. This made the data collected vastly relevant in that they are the pure and direct result of the interviewee’s opinion. Paul Tassi wrote countless articles about Nintendo’s financial and strategic situation every time a major announcement happened.
This makes him one of the major experts about the industry in Forbes. The interview was conducted in English and it has not been recorded.

The interviews with the top management included initial warm-up questions, some semi-structured questions about Nintendo’s Vision, Culture and Image, structured question on the topics of strategy and competitive advantage, semi-structured questions on the topics related to the resource-based view such are the company’s distinctive resources and capabilities, and finally some open questions about the top management’s thoughts on Nintendo’s future perspectives. There was room for the interviewees to expand on the topics they had a stronger opinion on. Follow up questions were also asked after having had the opinion of the interviewees. The language in which the interviews with Nintendo’s top management have been conducted is Italian. The interview with Nintendo’s Senior Brand Manager have been recorded after the consensous of the interviewee and it lasted 45 minutes.

It is worth mentioning that the interviewees from Nintendo’s top management “regularly meet with Mr. Iwata” (Simona Portigliotti, Interview One, 2014), hence making their insights even more valuable because extremely close to the top decision makers in the corporation. The last interview undertaken with Paul Tassi from Forbes Magazine is considered purely an interview with a key informant. Mr. Tassi in fact has been following the Nintendo case for years and he has been writing innumerable articles on the topic, not to mention that, working at Forbes, he has access to extremely accurate information. This makes his contribution to the dissertation very precious, being him not only a person well informed on the facts but also an influencer in the community.

Other primary sources utilized, besides the interviews with Nintendo’s top management, were the Nintendo’s Corporate Website and thanks to this resource it was possible to get information about the history of Nintendo as well as its mission and its culture. These researches were useful to investigate the company in terms of corporate values and history. For what concerns the history it was found on Nintendo’s Italian website a very detailed and inclusive series of events that are described at the beginning of this work. It was also utilized Nintendo’s Annual Report with the purpose of obtaining accurate financial data on Nintendo’s recent performances throughout the last years. The data were in Japanese Yen but those that
were included in this work have been converted. Other fundamental primary sources were the videos and the transcripts of Nintendo Co Ltd’s press conferences and strategy briefings such as the one that took place in Tokyo on January 30th 2014. Those were unique opportunities to hear the top management’s thoughts on the current situation and what they were planning to go back to being profitable. Another primary source were the so-called Nintendo Directs, live streaming events in which Nintendo’s President Iwata himself talked to Nintendo fans across the globe to present the future plans of the company in terms of new releases both on the software and on the hardware side. Moreover also Nintendo’s CSR Reports have been studied and analyzed for this dissertation. Lastly, a vastly important primary source was the acclaimed Nintendo “Digital Event” at E3\textsuperscript{2} 2014.

4.2 Secondary Sources

Quantitative Data

The quantitative data from secondary sources was obtained from researches on the databases Morningstar, VGchartz, VGsales, from websites like Bloomberg, Wall Street Journal, Financial Times’s website and from other online sources such as the channels IGN news and Machinima. The quantitative parts of this work are relevant to convey to the reader the magnitude of the crisis that has been affecting Nintendo as well as the urgency that the Japanese company has in stabilizing the situation. The quantitative data are key for the case because they portray the situation of difficulty that the company is facing. They are an empirical evidence and a symptome of the deeper strategic dilemma Nintendo has been fronting.

- **Articles**: quantitative articles were obtained by sources like Bloomberg, Reuters and Cnet. These articles portray the financial situation of Nintendo and highlight with great accuracy the several difficulties the company has been recently going through.
- **Charts**: the charts that are going to be displayed in the thesis were created autonomously with excell, after having read the articles and collected the quantitative data.

Press

\textsuperscript{2} The E3 is the “Electronic Entertainment Expo” that takes place every year in Los Angeles, California – USA. Every competitor in the industry holds a big press conference (with thousands of people in the audience) while Nintendo decided to opt for this “Digital Event” that they streamed and subsequently released on the Internet via Nintendo’s YouTube channel.
o **Articles**: some of the articles that are going to be used are coming from *Forbes Magazine* and *Wired Magazine* where very talented and young journalists, specialized in the console industry, describe Nintendo’s situation, and the challenges they are facing, in great details. Other material has been obtained by looking at the newspapers Financial Times and Il Sole 24 Ore, two specialized economical newspapers that provided crucial insights for the understanding of Nintendo’s case throughout the whole period of time from the launch of the Wii U until today.

o **Websites**: researches have been undertaken on several websites in order to obtain both qualitative and quantitative data. The websites that have been mostly used are Morningstar, Bloomberg, IGN, Financial Times, Il Sole 24 Ore, Cnet, WebPro News, Reuters, Milano Finanza, Linkedin, Forbes, Wired.

### 5. Analysis

#### 5.1 Industry Overview

**The Video Game Console Industry**

The video game console industry is an industry that develops and sells entertainment devices on which it is possible to run certain software. These entertainment devices are called consoles. The consoles are pieces of hardware that have, as main task, the one of running the previously mentioned software, commonly known as video games. This industry originated in 1967, when a rudimental first console was launched. Since then, there have been major technological enhancements that have shaped and redefined the competition in this business. Nintendo (Kyoto, Japan) is a hardware/software manufacturer that produces two types of hardware: the handheld devices and the gaming consoles. The handheld devices are small portable consoles that can be used virtually anywhere. The gaming consoles are living room entertainment devices that are meant to be utilized in conjunction with a TV and a controller. This work is solely focused on the hardware part of Nintendo’s business and, more specifically, on the aforementioned entertainment systems called consoles. Beside Nintendo, there are other two main competitors currently forming this industry: Sony (Tokyo, Japan) and Microsoft (WA, USA).

The industry’s competitive dynamics, that will be later analyzed, are described by partitioning the life span of a company’s products into “generations”. Every time a
major technological enhancement occurs and a new product is launched, a new “generation” of consoles has just started.

This is how the market has been divided amongst the three main players in the industry during the last generation of consoles:

Graph 1: Competitors’ Market Shares Globally during the Seventh Generation

<table>
<thead>
<tr>
<th>Market share</th>
<th>Nintendo</th>
<th>Microsoft</th>
<th>Sony</th>
</tr>
</thead>
<tbody>
<tr>
<td>31%</td>
<td>39%</td>
<td>30%</td>
<td></td>
</tr>
</tbody>
</table>

[Source: VGsales, 2014. Data on the seventh generation of consoles based on global sales]

These three competitors have different geographical scope, highlighting different approaches towards the expansion in foreign/domestic markets

Graph 2: Revenues per Geographic Markets

**Nintendo**

- **Japan**: 12%
- **Americas**: 48%
- **Europe & others**: 40%

**Microsoft**

- **Japan**: 3%
- **Americas**: 48%
- **Europe & others**: 49%
As we can deduct from the charts, Microsoft is the player in the industry that relies the most on the domestic market. Roughly half of Microsoft’s revenues are in fact coming from the Americas, making the Redmond’s giant the most affected company in the industry by domestic market fluctuations. But Microsoft, on the other hand, also registers a 53% of revenues coming from a foreign geographical region, of which only 3% though are coming from the competitor’s domestic market, Japan. Sony, even though still makes a good 17% of its revenues in the domestic market (Japan) it relies for almost half of the total revenues on the foreign market of “Europe & others”, while it has a remarkable 36% in Microsoft’s domestic market, the Americas. Always according to the data, Nintendo is the company that has been relying the least on the domestic market for its revenues. While it has almost a quarter of revenues coming from Japan, it registers an 88% from the foreign markets, divided in 48% for Europe & others and 40% in the Americas. This makes Nintendo the company in the whole industry that relies the most on the foreign markets, and they are also less likely affected by market fluctuations because of their revenues spread in the two foreign geographic areas. At the same time though, this also indicates that the Kyoto based company is greatly affected by the global financial crisis that is currently experiencing.

<table>
<thead>
<tr>
<th></th>
<th>Dependency on Domestic Market</th>
<th>Dependency on Foreign Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microsoft</td>
<td>49%</td>
<td></td>
</tr>
<tr>
<td>Sony</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>Nintendo</td>
<td>12%</td>
<td></td>
</tr>
</tbody>
</table>
For what concerns the magnitude of the industry, it is possible to state that it is remarkable. Measuring the industry’s size in terms of units sold globally, by the three main players, it is evident that the industry is in expansion. This expansion also led to an increase in video games sales during the seventh generation, due to increased demand of the systems and expansion into different markets (Memorandum, NKU, 2010, a.). This affected positively the remunerability of the overall business.

Looking at the data we can observe how, from the fifth generation onwards, the global sales units of consoles have been steadily increasing.

![Figure 4: Global sales growth in the console industry for each generation](image)

According to these growth rates in hardware sales, which in the recently launched eighth generation are not only a confirmed trend but also higher than the seventh generation, it is plausible to infer that the industry still hasn’t topped its full potential. Therefore, from an industry’s life-cycle perspective, the video game console industry has not yet reached the maturity phase, characterized by low growth rates. Hence this industry is firmly placed in the “Growth” phase of the life-cycle, as displayed by the following figure.

![Figure 5: Industry’s life cycle](image)
The software sales: the loss strategy
Software sales play an extremely important role in this industry. Therefore they heavily affect the pricing policies of the consoles themselves. Pricing strategy is in fact crucial in order to gain maximum market share (Riley, 2013, a.). Manufacturers usually rely on software sales, rather than console sales, to make profits. This means that the consoles are sold at a price that is inferior to the manufacturing costs. Console manufacturers then recover with the revenues they make through software sales. It is also possible for a console manufacturer to eventually make a profit on the systems sold. This happens down the road when over time, as components get cheaper, technology gets better, and economies of scale increase, the cost to manufacture usually drops until the company can turn a profit on each console sold (Bangerman, 2006, a.). But in the short term, most console manufacturers rely solely on software sales to make profits.

At the moment the loss strategy is a feasible strategy for the console manufacturer and it will keep being feasible as long as the console market is forecasted to grow, as it is right now. The following chart shows how the console industry has been steadily increasing its video game market revenue over time and it is still going to be growing in 2015.

**Figure 6: Video Game Market Revenue, Worldwide, 2012-2015 ( Millions of Dollars)**

<table>
<thead>
<tr>
<th>Segment</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consoles</td>
<td>37,400</td>
<td>44,288</td>
<td>49,375</td>
<td>55,049</td>
</tr>
</tbody>
</table>

(Source: Garner Inc., 2013)
For what concerns sales of existing console hardware, they are forecast to grow from $15.9 billion today to $22.7 billion in 2015 (Van der Meulen and Rivera, Gartner, 2013, a.). This is a positive sign for console manufacturers in that selling more consoles also means selling more software: therefore registering higher profits.

**Figure 7: The roles of software for the industry**

![Diagram showing the roles of software for the industry](image)

[Source: Technological Tying and the Intensity of Competition: An Empirical Analysis of the Video Game Industry]

**Industry’s competitive dynamics**

**Graph 3: Global sales figures for each generation in the industry**

<table>
<thead>
<tr>
<th>Generation</th>
<th>Sony</th>
<th>Nintendo</th>
<th>Microsoft</th>
</tr>
</thead>
<tbody>
<tr>
<td>fifth gen.</td>
<td>102</td>
<td>33</td>
<td>0</td>
</tr>
<tr>
<td>sixth gen.</td>
<td>155</td>
<td>22</td>
<td>24</td>
</tr>
<tr>
<td>seventh gen.</td>
<td>80</td>
<td>101</td>
<td>80</td>
</tr>
<tr>
<td>eight gen.</td>
<td>7</td>
<td>6</td>
<td>4</td>
</tr>
</tbody>
</table>

[Source: own elaboration based on vgdata sales data. Numbers in millions of units]

**Figure 8: Names of the Consoles sold in each generation**

![List of consoles by generation](image)
The video game console industry is a highly dynamic market that has had many important corporations as major protagonists. Today the industry presents three main players, all of which are remarkably large corporations. They are Nintendo, Sony and Microsoft. Sony is one of the most successful players in the business, it entered the market in the fifth generation with its vastly acclaimed PlayStation and it took the market leader position (which, in the previous generation, belonged to Nintendo). Microsoft instead is the newcomer, it entered the industry in 2001 and started to aggressively attack Sony’s market-share. Finally, Nintendo is most known player and the company that has been present in this industry for the longest amount of time; it alternates generations in which it is highly successful to others where it struggles to keep up with the competition and the technological changes.

As previously mentioned, the video game console industry is extremely dynamic and this can be easily deducted by illustrating two simple facts:

1) Many players have been driven out of the market during the shift from one generation to the other (Atari, Intellivision, Sega)
2) There are frequent and abrupt changes of market leadership

This industry is a very dynamic and volatile one, were players are constantly forced to outsell the competitors in order to make profits and stay in the market. To better convey the sort of competitiveness characterizing the industry, let’s now briefly illustrate the dynamics that brought to the changes in the market leadership throughout the various console generations. The illustration, of the industry’s competitive dynamics, will start from generation five for three main reasons: first, the console industry in the fourth generation was a completely different competitive environment with four main players (NEC, Sega, Nintendo and SNK) three of which have been completely driven out of the market. All of the above players, beside Nintendo obviously, are not relevant for this thesis. Second, in the fourth generation the technology was extremely different. Therefore the fourth generation is less
relevant for the topic this narration is focused on. Third, Sony entered the market in the fifth generation and Microsoft in the generation after that. These two players are relevant for this work because they form, together with Nintendo, the competitive environment in which this narration is set. It would not be beneficial for this work to start narrating the facts before these competitors even existed.

As illustrated in the above chart “Global sales figures for each generation”, starting from the fifth generation, in the year 1994, we witness the entrance in the market of a new player, Sony, that with its model PlayStation is capable of taking and early lead and then transform that advantage in a solid market leadership position. All of this to the detriment of Nintendo64 by Nintendo, a company that was market leader up until this generation. Nintendo, with its fifth-gen console, did not intend to switch to a disc-based technology, cheaper and with greater capacity, and instead decided to stick with the Rom cartridge system, a much more expensive one.

Figure 9: Fifth Generation Consoles
[From left to right: the Nintendo 64 and the PlayStation]

Later in the year 2000 during the sixth generation, the market leader Sony launches its new console called PlayStation 2 while Nintendo unveils its GameCube. An interesting fact about this generation is that, a year after Sony’s launch, the great corporation Microsoft enters the industry of gaming consoles with its model called Xbox. This new player though doesn’t quite manage to achieve remarkable sales results. The Xbox console faced many struggles at launch and this lead Microsoft to decide to implement a price cut on their device to make it more competitive. In the meantime, Sony was crushing records after records with its PlayStation 2 that, still today in 2014, holds the record of best selling console ever. The third player Nintendo, decided to launch a model called GameCube following a more conservative
vision that did not intend to offer the possibility to also play DVDs and audio CDs like the competitors’ devices. This generation ended with Sony managing to keep the market leadership position while Nintendo and Microsoft struggled in selling their devices. But things were about to change for Sony since Microsoft already had a new and aggressive plan to attack the Japanese leader in the next generation.

**Figure 10: Sixth Generation Consoles**

![Figure 10: Sixth Generation Consoles](from left to right: PlayStation2, Xbox, Nintendo GameCube)

The **seventh generation** started in 2005 with Microsoft anticipating by a whole year the launch of the competitors’ devices with its brand new Xbox 360. People at Microsoft worked around the clock to launch this model before the competitors, hence taking an early market lead in the hope of catching a lot of demand before the competitors. The Xbox 360 was an impressively successful model, it had a captivating design combined with top performances in terms of hardware. Many of the customers didn’t want to wait one year to buy a next-gen console and therefore switched to Microsoft, which could also count on great third-party developers support. A year after, Sony and Nintendo launched respectively their models PlayStation 3 and Wii. Sony not only was one year in delay if compared to Microsoft, but it also priced its console too high and was forced to operate a price cut along the way in order to increase sales, even though this also made the console highly unprofitable. It all looked like Microsoft was going to be the next market leader, but here is when the big surprise of this generation occurred: the Wii. Nintendo in fact, instead of competing on high-performance and high-end products like Sony and Microsoft, decided to adopt a completely different strategy, a strategy of non-competition. The goal of Nintendo for this generation, aware of their poorer
technology, was to catch all the demand that was not served by the other two players, the so-called “casual gamers”\(^3\). The casual gamers were all those customers who were not interested at all in high performances or in top level graphics, they were though intrigued by Nintendo’s innovative value proposition, which adopted motion-control and interactivity to deliver a whole new gaming experience. The casual gamers’ demand happened to be extremely wide and Nintendo was capable of detecting and targeting it in an optimal way. Console sales for Nintendo’s Wii stated to grow in double digits and soon this simple but innovative console was capable of surpassing the competitors and winning this generation’s console war.

**Figure 11: Seventh Generation Consoles**

[From left to right: Nintendo Wii, PlayStation3, and Xbox 360]

Microsoft and Sony soon realized that they have left completely uncovered a gigantic portion of the market. They then decided to strike back in the attempt of catching some of Nintendo’s market share in the casual gamers segment. It was not an easy task because Nintendo’s Wii was registering remarkable sales growth and, since it launched already in 2006, it had already established a solid customer base. The two high-end competitors understood that they needed to include in their offers also the motion-control experience. Therefore they came up with renewed value propositions, which took this new market trend into account. Microsoft created the Kinect and launched it in 2010, a motion-control device that enables the user to interact with the console without the use of anything but the movement of its own body. Sony, on the other hand, adopted a more “me-too” approach and created a product that is very similar to the Wii’s controllers: the Sony Move. Sony Move is a motion-control device that allows the user to play with some software just by moving the controllers.

\(^3\) The “casual gamers” category includes all those gamers that could not be defined as “expert gamers”. They are kids, teens, adults and families that are not interested in a console’s high performances.
As we can infer from the data displayed in the chart “Global sales figures for each generation”, these counter attacks did not prevent Nintendo from keeping the market leadership position for the rest of this generation.

5.2 The Case

The 8th generation

The eighth-generation, current generation of consoles, started in late 2012. This time, just like Microsoft in the previous generation, one player decided to anticipate the other competitors launching its system one year before them, in the hope to catch the demand of those customers willing to switch to a next-gen device earlier. This player was Nintendo that, with its Wii U, officially started the new console war in late 2012. One year later in 2013, also Microsoft and Sony launched their devices, respectively Xbox One and PlayStation4 (PS4).

The early launch
There are two main reasons why Nintendo decided to launch its next-generation device earlier. Firstly, the one-year advantage over the competitors could have been a solid strategic move. Just like Microsoft with Xbox 360 in the seventh generation, being able to get ahead of the competitors, catching the consumers willing to switch immediately to a next-generation device, was an intriguing opportunity to grasp. Secondly, Nintendo’s seventh-generation device, the Wii, was “behind the [innovation] curve in terms of hardware specifications. That doesn’t make it less of a console, but it does put the Wii at a bit of a disadvantage as the system begins to show its age compared to its competitors—the lack of HD video and scarce online community for example, being a key arguments in favor of a new Nintendo system” (Fleming, Digital Trends, 2010, a.). This lead (towards the end of the seventh generation) to declining profits and sales, Nintendo’s Wii in fact became obsolete earlier than the competitors’ devices. This explains the urgency Nintendo had to launch its system earlier than the other players.

Underwhelming sales
The Wii U was released at the end of November 2012. It came in two versions, the Basic Model and the Deluxe Model, at the price of $300 and $349 US Dollars, respectively. Unfortunately for Nintendo, the strategy of an early launch did not turn out to be a winning one. Sales, after a quite promising launch week in the US with more than 400,000 units sold (The Telegraph, 2013, a.), started to alarmingly slow down right during holiday season. Nintendo had to make statement to explain the reason of these underwhelming sales:

“For the Wii U system, launched in the fiscal year ended March 31, 2013, there were some delays in software development that resulted in intervals between new software title releases at the early stage of this year”
– Nintendo Co., Ltd (Reported by Reisinger, Cnet, 2013, b.)

This however wasn’t enough to justify such poor sales during the time of the year, winter holidays, where a console system is supposed to be at its peak. The situation was to be considered highly unusual also because many hopes and dreams of Nintendo’s executives were relying on the Wii U to be the next big hit in Nintendo’s universe after the phenomenal Wii. Nintendo President Satoru Iwata claimed, back in 2012, that the “Wii U redefines the structure of home entertainment by fundamentally
changing how the TV, the game console and the Internet function and interact together” (The Telegraph, 2012, b.). Moreover, some researchers speculated that the Wii U would have witnessed an even greater acclaim in terms of sales than the Wii in the short term (Ewalt, Forbes, 2012, b.). It was in fact predicted that the Wii U would have sold 3,5 million units from launch to December 2012, while the Wii sold 3,1 million units in the same period when it was launched (Bedigian, Forbes, 2012, c.). These expectations though were not met until later at the end of the Fiscal Year in April 2013. Right in April 2013 Nintendo announced that they would not have revised their sales forecast for the next Fiscal Year and that they were committed to deliver 9 million Wii U consoles by the end of that year. As we can observe from the following chart, things did not go as Nintendo planned.

Figure 14: Wii U initial sales projection compared to actual sales

<table>
<thead>
<tr>
<th>Wii U sales</th>
<th>Sales (million of units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prediction for the FY from April 2013</td>
<td>9</td>
</tr>
<tr>
<td>Revised forecasts in January 2014</td>
<td>2.8</td>
</tr>
<tr>
<td>Actual Sales</td>
<td>2.7</td>
</tr>
<tr>
<td>Differential from original prediction</td>
<td>- 331%</td>
</tr>
</tbody>
</table>

[Source: own elaboration based on data from Forbes magazine]

Nintendo in fact was not able to achieve even one third of what they expected. By January of 2014 they finally decided to revise their sales projections cutting them from 9 million to 2.8 million units. As displayed in the chart, they barely managed to achieve also that heavily revised projection.

Figure 15: A sign of a misconceived strategy: the price cut

<table>
<thead>
<tr>
<th>Model</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Xbox One</td>
<td>$499</td>
</tr>
<tr>
<td>PS4</td>
<td>$399</td>
</tr>
<tr>
<td>Wii U</td>
<td>$349</td>
</tr>
</tbody>
</table>

[Source: own elaboration based on data from Wikipedia.org]

The price cut

Nintendo, in the hope of boosting the Wii U sales, decided in favor of a $50 price cut. On October 4th 2013, the Deluxe model received a price cut from $349 to $300. This was had a positive influence on sales since they jumped 200% in the U.S. in the month after Nintendo cut the struggling console's price tag by $50 (Lejacq, NBC
However this resulted in the console being unprofitable especially due to the high cost of its main differentiating factor: the GamePad.

Figure 16: The Wii U GamePad

The GamePad in fact costs nearly $100 to Nintendo to make and it impacts quite strongly the profitability of the whole device (Matt, CNN Money, 2013, a.). Moreover it has been estimated that, already before the price cut, the Wii U was “initially going to be sold at a loss” (ibid.).

The salary cut

In January 2014, when Nintendo had to revise its sales projections of 9 million units, the President Satoru Iwata announced that he would be taking a major salary cut of 50% for the next six months. Other top executives in the company followed this initiative and took a 30% salary cut (Yasu and Amano, Bloomberg, 2014, a.). The president also stated that he has no plans in replacing his top management team.

Figure 17: Confidence in Iwata

<table>
<thead>
<tr>
<th>Iwata’s Approval Rating</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>96%</td>
</tr>
<tr>
<td>2011</td>
<td>92%</td>
</tr>
<tr>
<td>2012</td>
<td>90%</td>
</tr>
<tr>
<td>2013</td>
<td>77%</td>
</tr>
</tbody>
</table>

As the above charts highlights, Iwata is gradually coming to lack the support of Nintendo’s board of directors. Iwata’s internal approval rating, which has been decreasing for three consecutive years, is now at its lowest (Jorge, Cubed3, 2014, a.). Moreover, investors are increasingly becoming irritated by the inability of Nintendo to generate new profits, and this does not help Iwata’s position (Campbell, IGN...
News, 2014, a.). Some timid signs of recovery for Iwata’s situation have been shown at the last meeting of the boards of directors for 2014. In fact his approval rating now sits at 80.64%, an increase of 3.38% from 2013’s major slump of 77.26%.

5.3 External Analysis
As it was mentioned in the conceptual review, to start off investigating the case from an external perspective, it is utilized the Five Forces model by Michael E. Porter. This model consists in the analysis of an industry from an external point of view through the lens of the competitors. The competitors find themselves to interact with four main actors: the customers, the suppliers, the new entrants and the substitute products. These actors interrelate within a context of some specific competitive dynamics. It is worth reminding that the current analysis is not an industry-wide analysis of the gaming industry but a specific work tailored solely on the console industry.

Figure 18: The Five Forces Model

[Source: tanbots.wikispaces.com]
Force 1: The bargaining power of customers

The first force analyzed is the bargaining power of customers (or buyers). We can distinguish two categories of buyers: the retailers (GameStop, BestBuy, Walmart, etc.) and the final consumers. Consoles are distributed from manufacturers to the retailers across the globe, therefore they are not sold directly to the final consumer which will have to refer to one of these retailers to purchase a gaming console.

For what concerns the retailers it is possible to state that they possess a fair level of bargaining power (Memorandum, NKU, 2010, a.). They, in fact, do not have any kind of switching costs: they can freely decide which system they want to buy and sell in their stores. Moreover, retailers are often very large and well spread across the globe hence capable of imposing their influence to the mainstream players of the industry. They do also purchase large quantities of products and therefore they are key stakeholders in this business. They have almost full information about the products they decide to buy and sell and they are also capable of keeping 100% of the profits on used consoles and software, and also to decide which price to apply to those aforementioned categories of products. Nowadays though, their power has been reshaped and decreased. Retailers have found themselves to compete with the Internet and its cloud-based technologies, a battle they will struggle to win (Morgenstern, 2013, a.). They still possess a considerable amount of power, but it is not going to be sustained in the long term.

Secondly, we find the final consumers, or otherwise known as gamers. This category of stakeholders does not directly buy the systems from the players in the industry but they do buy software from them\(^4\) and they are also capable of exercising a great force on the mainstream competitors. Gamers have been steadily increasing their power

\(^4\) Consumers directly buy software through the e-shops of the three companies in the industry. These e-shops are called Nintendo Network (for Nintendo), PlayStation Network (for Sony) and Xbox Live (for Microsoft).
over the past few years thanks to the advent of the Internet and of the e-shops (ibid.). They are an extremely well informed category of stakeholders that, thanks to specialized magazines, free online news blogs, digital magazines and social media in general, are capable of obtaining very easily all the information they need to make informed decisions. This fast and cheap access to information though is counterbalanced by the high switching costs gamers experience within products of this industry. Console manufacturers in fact tend to create their own ecosystem, allowing consumers to utilize only software specifically designed for that very same device. Being the price of a console generally high (current generation consoles are in a price range that goes from $300 and $500) gamers tend to buy only one console each generation (Conrod, 2007, b.) and they then keep that device until the next generation is released five or six years later. This means that once a consumer has purchased a console, he is then locked into that ecosystem for years.

These last considerations though must not deceive; gamers and retailers do still have a considerable amount of power. An example of this is provided by the case of Microsoft (Musso, 2014, a.). Microsoft in fact, in June 2013, announced its new polices on used games with the precise purpose of preventing the retailers from profiting on their software. Software were not going to be sold on a physical disk anymore but they were digital-only and just licensed by Microsoft to the final consumer, which did not have the full ownership of the software he purchased. This arose countless protests amongst the retailers and gamers that firmly opposed the new policies. The protests highly threatened Microsoft that was forced to change them, just like the final consumers and the retailers demanded (Tassi, Yahoo News, 2013, a.). These stakeholders saw these new policies as a menace and they reacted. Paul Tassi from Forbes also attributes a great influence to this category of stakeholders, he believes that Microsoft deliberately tried to reduce their power: “I think they were going to cut GameStop in somehow, but overall yes, it would have largely benefited them while bringing GameStop closer to extinction. If they can make all sales digital, that 100% of profits will be theirs” (Paul Tassi, Interview Three, 2014). He then goes on talking about how strong this category and the force it exercises is “They [at Microsoft] failed to implement their original strategy because their hand was forced to change things around by the outcry of the gaming public. They believed that fan
outrage would put the Xbox One at a huge disadvantage at launch and in the future if they retained these policies” (ibid.).

**Force 2: the bargaining power of suppliers**

We distinguish two kinds of suppliers: the suppliers manufacturing hardware and the suppliers creating software. The first category includes many components’ manufacturers that supply all the necessary parts to assemble the console. Some examples are NVIDIA, Taiwan Semiconductor Manufacturing, Flextronics, Wistron and Hon Hai. There are many suppliers; they are highly competitive, fragmented but large in dimensions. Their large scale though is not enough to decrease the power that the console manufacturers still have over them. Manufacturing is quite a standardized process, and it is difficult for hardware suppliers to lock-in console producers who can change their suppliers with relative ease and low costs (Lim et al., Insead MBA Program, 2001, a.). Moreover, some of the competitors in the console industry are already large and diversified corporations themselves, meaning that if they wanted they could threaten the components suppliers to manufacture in-house some parts. It is to be noted that, right because the competitors of the console industry are large and diversified, the suppliers often have interdependencies with some other correlated business belonging to the console manufacturers. This makes the suppliers’ position even weaker. Sony, Microsoft and Nintendo therefore usually manage to keep the prices of components low, exercising their bargaining power. It is possible to conclude that this category of suppliers has a low power.

The software suppliers are those companies that develop software for the consoles, in other words the actual games. Some of the most important software developers are Electronic Arts, Ubisoft, Rocksteady Studios, Rockstar Games, Warner Brothers Games and Activision Blizzard. Consoles and games are fundamental complements (ibid.) and this fact gives somehow more power to these suppliers. The empirical evidence that good software titles increase consoles sales (ibid), if not single handedly
change the fate of a system (My Nintendo News, 2014, a.), reinforces this power. This is not sufficient though to provide the suppliers with a bargaining power influent enough to effectively undermine the console manufacturers’ one. Suppliers of this category are also less concentrated than the players of the console industry, making the former less powerful. Moreover in the industry there are very important customers of these suppliers, which are largely depending on them. The suppliers’ position is endangered even further because the console manufacturers are often vertically integrated and they are capable of developing software themselves. Microsoft for instance possesses its own video game production branch called Microsoft Studios, responsible for the development and publishing of video games for the company’s consoles. Nintendo is another example of a company that heavily relies on in-house software development, without depending on third-party developers. This goes to severely hinder the software suppliers’ power making it just moderate. To conclude, console producers and software developers are interdependent but the control is in the console producers’ hands. They are more concentrated, financially stronger and they can control the value chain through sales and distribution channels (Lim et al., Insead MBA Program, 2001, a.). Console producers can secure their power over game developers by relying on their in-house game development capabilities and their investments in game development companies.

Summarizing, components suppliers are large companies but they are less concentrated than the players of the console industry making the latter category usually the most powerful in terms of bargaining power. This makes the bargaining power of this actor low. The software suppliers on the other hand have more power than the components suppliers: software are in fact a fundamental part in the console industry and they can, according to Nintendo’s CEO and President Satoru Iwata, drastically change the fate of a system (My Nintendo News, 2014, a.). But the power of software suppliers is always mitigated by the capability of console manufacturers to develop in-house their own software. Software suppliers’ power is therefore medium.

**Force 3: The threat of new entrants**

5 “Third-party developers” is another expression for “software suppliers”. They are those companies that develop software for a console.
The threat of entrants can heavily impact businesses. How significant they are depends on the barriers to entry. These barriers can include: regulatory policies, patents, capital requirements and financial resources, economies of scale, R&D costs, marketing costs, sales volumes, product differentiation, access to distribution channels, brand reputation and established business relationships (Business Strategy – Involvement of Regulatory Affairs, PmpConnect, 2014, a.). The main entry barriers to this kind of industry are the following.

**Economies of scale**

The console industry requires a high scale in order for a company to be successful. Economies of scales are the decreases in the unit costs of a product, as the absolute volume per period increases. This force the entrants to either come in at a large scale (risking strong reaction from incumbents) or a small scale (forcing a cost disadvantage) (MaRS Library, 2013, a.). Nintendo, Microsoft and Sony make no exception. They are large corporations listed on the stock markets, capable of manufacturing in vastly large scale. Sony and Microsoft for instance for the launch day for their next generation systems, managed to ship and sell over one million units each in just one day (Nayak, Business Insider, 2013, a.).

**Capital requirements**

These are the financial resources required for infrastructure, machinery, R&D and advertising. The console industry is a capital intensive one. The incumbents usually spend solely on R&D costs hundreds of thousands of million, requiring the sales of several millions of hardware units (and the corresponding software sales) to break even (Lim et al., Insead MBA Program, 2001, a.). Just to quote one example, Nintendo in the Fiscal Year 2013 spent $568 million (Nintendo Annual Report, 2013, a.) just on R&D. Manufacturing facilities require high investments and scale in production to be efficient. Moreover the three companies of the industry Microsoft, Sony and Nintendo, are worth respectively $371,45 billion (Yahoo Finance, 2014, a.), $20,35 billion (Yahoo Finance, 2014, b.), $13,27 billion (Yahoo Finance, 2014, c.). When a company is worth this much and has access to the financial markets to raise
further capitals, it makes it is hard for new entrants to enter the industry because of the sheer financial power of the incumbents.

**Access to distribution channels**

This is another key barrier and it can be a tough challenge to overcome if incumbents have locked up logical distribution channels. Since consumers do not buy the consoles directly from the manufacturers, the access to the distribution channels is a vital factor in this business.

**Brand reputation**

Sony’s PlayStation, Microsoft’s Xbox, and Nintendo’s gaming systems are very well established names in the industry. The brand identities of these products are so strong that it would be very difficult for a new player to enter the game (StudyMode, 2011, a.). Console manufacturers managed to create an actual fan-base around their systems that is strengthening their brand with its enthusiasm and unconditioned support.

**Switching Costs**

These are one-time costs the buyer faces when switching an existing supplier’s product to a new entrant. As it was mentioned before, consoles’ manufacturers aim to create an ecosystem within which consumers are locked in for years. Therefore a new entrant will have to face this issue and provide consumers with a value proposition strong enough to convince them to switch from one ecosystem to the other.

During the previous generations, the three current competitors had a much stronger hold on the industry (ibid.). Several factors, such as the Internet connectivity arising, have severely lowered some of the previously mentioned entry barriers, which in the past have been protecting the industry from new entrants. At this point in time the industry is more accessible and companies with advanced Internet skills, enough financial resources to afford the manufacturing of the hardware and good distribution channels, are capable of entering the market. As reported by Forbes magazine these are for instance companies such as Apple and Google

“Both Google and Apple are also reportedly developing set-top boxes capable of streaming and games” – Erik Kain (Forbes Magazine, 2014, t.)

Apple and Google are both extremely large corporations with great IT and Internet skills, capable of manufacturing hardware and they possess their own operative
systems, iOS and Android. These companies are big threats for the console industry and when they will enter the market they will severely alter its competitive dynamics.

Those are not the only companies that are about to enter the console market. In fact, also Amazon and Valve Corporation are planning to heavily impact the competition of this industry with the launch of their consoles, respectively the Amazon Fire Tv (Rubio, IGN News, 2014, b.) and the Steam Machines (Steam Store, 2014, a.). Starting with Amazon, it is one of the most successful internet-based companies of the last decade and it is nowadays the world’s largest Internet company (Wikipedia, 2014, a. and O’Connor, Forbes, 2013, d.). It started as an online bookstore that soon after diversified into many other businesses including the one of consumer electronics with its e-book reader called Kindle (Wikipedia, 2014, a.). Amazon already possesses its own large and efficient distribution network, through which is capable of selling its own products without having to rely on intermediaries.

Valve Corporation on the other hand, it’s an extremely successful software company that revolutionized PC gaming with its software Steam, an online gaming and social networking platform that allows the users to purchase games directly from their computer. Valve then expanded the Steam concept and it created the Steam Machines, consoles run by a Linux-based OS\(^6\) (called SteamOS). Unlike other consoles, the Steam Machine has no set hardware; its technology is implemented at the discretion of an hardware manufacturer (some examples are Alienware, Falcon Northwest, CyberPowerPC) and is fully customizable in the same lieu as a personal computer (Wikipedia, 2014, b.). This is going to be a great competitor for the incumbents.

“Top that off with the Xbox One, PlayStation 4, and Wii U from Microsoft, Sony and Nintendo respectively, and you begin to paint a portrait of an increasingly crowded market” (Erik Kain, Forbes, 2014, t.). “Meanwhile, we may be nearing a place in the video game industry where we have an unsustainable number of choices, with too many platforms competing while offering too few differentiating benefits” (ibid.). The threat of new entrants is therefore an increasingly strong menace.

\(^6\) OS stands for “Operating System” which is a software that manages both hardware and subordinate software. Other examples of OSs are Android by Google and iOS by Apple.
Force 4: Threat of substitute products

Threat of substitutes occurs when companies within one industry are forced to compete with industries producing substitute products or services. Substitutes limit an industry’s potential returns by placing a ceiling on the prices that firms within that industry can charge to make a profit. As the price-performance alternative offered by substitutes becomes more attractive, it becomes even more difficult for those firms to make a profit. Demand for substitutes can also reduce the demand for industry products and services (MaRS Library, 2013, b.). The substitute products in the console industry are PC computers, laptops, smart devices such as smartphones, tablets or MP3 players. But the real substitute for a video game console would be a personal computer (and laptops). They can both be used for playing different types of video games and for other entertainment activities (StudyMode, 2011, a.). Personal computers are also subject to trends that improve their price-performance tradeoff with the industry’s product in that they share fundamental parts and components with consoles (MaRS Library, 2013, b.). In fact, sometimes personal computers and consoles also have even the same suppliers of components. In recent years this threat has been increasing because of the advent of smart devices as a mainstream product in the consumer electronics. These devices are portable and they are capable of running games, challenging consoles on this kind of entertainment. To use a specific example, when the iPhone was released in 2007 it had a deep impact on the gaming industry even though it was not a device developed solely for games. The iPhone has ever since been a threat for consoles as a gaming device. From the launch of the App Store in 2008 to the beginning of 2010, over 30,000 games have been released for iPhone (Farago, 2010, a.). Already by 2009, Apple was responsible for the sale of 19% of all portable game software, which is an increase of 5% from their 2008 numbers (Memorandum, NKU, 2010, a.). The need to buy a console after these devices have become so popular has lost its urgency. It appears then that the video game industry is certainly losing ground to substitute products (ibid.). The threat of
substitute products wasn’t as strong of a force in the past years (StudyMode, 2011, a.), but it has definitely started to exercises a power to be reckoned with.

**Force 5: Internal rivalry**

Industry rivalry usually takes the form of jockeying for position using various tactics (for example, price competition, advertising battles, product introductions) (MaRS Library, 2013, c.). This rivalry tends to increase in intensity when companies either feel competitive pressure or see an opportunity to improve their position (Porter, 1980). In most industries, one company’s competitive moves will have a noticeable impact on the competition, which will then retaliate to counter those efforts. Companies are mutually dependent, so the pattern of action and reaction may harm all companies and the industry. Some types of competition (for example, price competition) are very unstable and negatively influence industry profitability. Other tactics (for example, advertising battles) may positively influence the industry, as they increase demand or enhance product differentiation (ibid.).

**Equally balanced competitors**

When companies are relatively balanced in strength, they are more likely to engage in competitive battles and attack and retaliate as they strive for market leadership (ibid.). As proven by the market shares displayed in “Graph 1” of this analysis, the three competitors of the console industry are equally balanced in terms of market share and they are all fighting for the same customer base. Not only they are balanced under a market share standpoint, but also they are comparable in terms of financial strengths and access to distribution channels. This often turns the competitive dynamics of this business in a zero-sum game, where the only way of gaining new market share is by targeting the competitors’ one.

**High fixed costs**
High fixed costs create pressure for all companies to fill capacity, thus leading to price cuts when there is excess of capacity. In the console industry the fixed costs are high in order to allow the incumbents to manufacture large quantities of consoles and thus satisfy the great and global demand. The high fixed-costs push competitors to saturate capacity and sell high volumes of their products even if that means cutting the price of the console. This is what happened to Nintendo that was forced to adopt a price cut strategy on its latest model Wii U in order to keep the capacity as high as possible. These price cuts might result in a price war that can seriously hinder the profitability of the industry.

**Lack of differentiation**

The console market has always had low product diversity (Conrod, 2007, b.). With the exception of generation seven (PS3, Xbox360 and Wii) where one of the players, namely Nintendo, went after a slightly different an uncovered customers segment (casual gamers), in all the other generation the systems sold were very similar and they were targeting the same customer base. When products are perceived as commodities, choice is often determined by price and service, which then leads to increased competition in price and service (MaRS Library, 2013, c.). The most significant difference between the consoles manufactured by Sony, Microsoft, and Nintendo was in the games available for each system (Conrod, 2007, b.). This, once again, leads to price wars that have a negative impact on the overall profitability of the video game console industry. To quote an example, the two systems recently launched by Microsoft and Sony, respectively Xbox One and PlayStation4, are considered incredibly similar when it comes to the hardware. In fact “the Xbox One, without the Kinect, is basically the PS4” (Dave Thier, Forbes, 2014, e.).

**High exit barriers**

Economic and strategic factors can prevent companies from leaving the industry, even when they are earning low or negative returns on investments (MaRS Library, 2013, c.). This prevents companies from leaving the industry and, at the same time, it keeps the competition level high. The aforementioned high fixed costs are a great barrier to exit barrier in that it wouldn’t be beneficial for companies operating in this industry to disinvest after they devoted so many resources in fixed assets. On the other hand since the manufacturing in mostly outsourced (Memorandum, NKU, 2010, a.), companies
in the console industry do not have many specialized assets that are not easily convertible or replaceable. Therefore this counter balances the high level of fixed costs required to enter the industry. The high exit barrier in the form of fixed cost scare away competitors from undertaking exit strategies to leave the industry.

The rivalry in the industry is high. Companies are competing for the same customers and they have very similar value propositions. There are price wars that decrease the profit levels of the industry. The competitors are large corporations with great financial resources capable of making these price wars endure. The high fixed costs push competitors to manufacture in high volumes to saturate the capacity, also sacrificing the margins on the single unit sold. This enhances the competition and lowers the profits. Moreover the firms also have a similar market share and this makes them compete more intensely to achieve the market leadership (Clegg et al., 2011, p.62).

Summary:

- **Force 1 - The bargaining power of customers**
  - Retailers: High (decreasing)
  - Customers: High (increasing)

- **Force 2 – The bargaining power of suppliers**
  - Hardware manufacturers: Low
  - Software manufacturers: Medium

- **Force 3 – The threat of new entrants**
  - High (increasing)

- **Force 4 – The threat of substitute products**
  - High

- **Force 5 – The internal rivalry**
  - High

Concluding, overall it is a complicated industry to enter. But companies with the technology to develop the software and/or hardware, the required capitals and with access to distribution markets are going to be capable of entering this business. The advent of the Internet lowered the entry barriers and increased power of consumers,
hence making the industry more vulnerable. However the industry is still growing steadily and new opportunities are constantly opened by new technological advancement (Morgenstern, 2013). This makes the console industry still attractive.

**Implications of the Five Forces Analysis for Nintendo**

These considerations lead to some implications for Nintendo. Firstly, customers are increasingly gaining power. The problem for the Japanese company is that customers themselves have repeatedly labeled Nintendo as a stubborn (Plafke, 2010, a,) and conservative (Dave Thier, Forbes, 2014, f,) company, especially when it comes to the expert gamers. This means that Nintendo is finding itself in a weak position with an actor on the market (the buyers) that has previously had little bargaining power but it is now capable of imposing its influence. This could result in a weakness for the Japanese company that has to take into account the new and stronger power of this category. Secondly, Nintendo has been overlooking the Internet connectivity and the competition from smart-devices for far too long. In fact, the Japanese company has recognized only in recent years that it needed a feasible online network (Erik Kain, Forbes, 2014, g,) HD graphics and that it needed to face the competition from smart devices.

About the HD graphics:

“The company is nothing if not stubborn, avoiding, for instance, the adoption of HD graphics until 2012” - (Erik Kain, Forbes, 2013, h.)

About the Internet connectivity:

“The lack of online engagement that we see on Wii U [is troubling]. [The online engagement] it’s so integral to what we do. [Wii U] They’re so small it’s hardly worth running the servers. It seems like a box that’s out of sync with the future of EA – which is one that gives a real social feel to our games. The Wii U feels like an offline experience right now.” – Moore, EA Games (Reported by Forbes, 2013, h.)

About the competition from smart devices:

“At the beginning people were trying to deny that we were suffering from the competition from the smart devices” (Simona Portigliotti, Senior Brand Manager Nintendo of Europe GmbH, Interview One, 2014).
This has made Nintendo more vulnerable to the menace of new entrants as well as the one of substitute products in the console industry, losing ground if compared to the current value propositions of competitors or the one of future competitors. The competitors’ value propositions\textsuperscript{7} focus on consoles with solid internet capabilities and an efficient operating systems. According to Erik Kain, contributor at Forbes, “Nintendo has failed to anticipate the need to stay competitive from a technical standpoint” (Erik Kain, Forbes, 2014, g.). This has made the Kyoto based company suffer more from the threat of more technologically advanced new entrants. Moving on, another weakness Nintendo is definitely suffering from is the lacklustere relationship with third party software developers. This translates in a substantial lack of software titles for Nintendo’s most recent console, the Wii U, which has been contributing consistently to the underwhelming sales: “Gamers don’t care if their console is small and quiet if it doesn’t have any games, and the Wii U catalog, while filled with a handful of real gems, remains surprisingly thin” (ibid.). Also according to Nintendo’s CEO and President Satoru Iwata, “the Wii U price is not the issue, the real issue is the lack of software” (Iwata’s statement reported by Makuch, 2013, a.). The suppliers of software have a good amount of bargaining power\textsuperscript{8} and they are definitely able to exercise it by just avoiding developing software for the Wii U if Nintendo won’t. Erik Kain from Forbes attributes a great importance to the third party support for Nintendo’s latest system: “Maybe it’s time for Nintendo to dip into its reserves and expand its software operations as quickly as possible. If third-party support is waning, Nintendo will need to support its own platform more than ever. Either that, or go back to the drawing board” (Erik Kain, Forbes, 2014, h.). Also according to Paul Tassi, contributor at Forbes, the third party support is “one of the Wii U’s biggest problems, if not the biggest problem” (Paul Tassi, Forbes, 2014, i.) and he also believes that the relationships with this category of suppliers have now “crumbled into almost nothing” (ibid.). This situation could result in a long lasting weakness for Nintendo in this industry.

All these implications, if paired with the increasing internal rivalry in the industry, create an harsh environment for Nintendo to deal with all the external contingencies that the Japanese company is finding itself to deal with. It is possible to conclude that

\textsuperscript{7} Sony’s, Microsoft’s, Amazon’s and Valve’s

\textsuperscript{8} According to the categorization adopted in this work they have a “medium” bargaining power
the analysis of structural configuration of the industry shows that Nintendo is having a hard time to build a sustainable competitive advantage. Basing the considerations purely on external factors, Nintendo is suffering from some crucial external weaknesses.

**Market Structure**

The next phase of the analysis is going to be centered on the concept of market structure. This is a detailed analysis of the competitive situation in the industry. The market structure describes the state of a market. This analysis allows to understand how the strategic choices are affected by the competitive environments. A market can be, in different degrees, homogenous or heterogeneous. This means that it can present similar/different conditions to the players competing in that market. Amongst the four basic market structures, the video game console industry is placed in the category of the *Hypercompetition*. The structural configuration of the industry might mislead into believing that this is an Oligopoly. In fact there are only three players left, a very limited number. These players, especially Microsoft and Sony, act in a quite predictable way by offering in every console generation a more powerful version of their most recent product through a sustaining innovation\(^9\). It would be plausible then to assume that each player “will be generally aware of the actions of the others” (Clegg et al., 2011, p.57) and that the strategic planning in such an industry “involves taking into account the likely moves of the other market participants” (ibid.). But the fundamental trait of the console industry, and what sets it apart from the Oligopoly categorization, is that the sources of competitive advantage change quickly. Therefore this establishes that the industry is indeed a Hypercompetition, “where maintaining above-average profits over a long time is difficult” (Clegg et al., 2011, p.58). As a matter of fact if this industry was an Oligopoly the competitors would cooperate with each other (sometimes also in illegal ways\(^10\)) to keep their market share and control the market by stabilizing it and reducing its risks. What occurs instead are frequent market leadership changes, tough battles to attack the competitors’ market share and major technological chances that disrupt the dynamics of the competition. One of the

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\(^9\) In contrast to disruptive innovation, a sustaining innovation does not create new markets or value networks but rather only evolves existing ones with better value, allowing the firms within to compete against each other's sustaining improvements.

\(^10\) “Oligopolistic industries are prime candidates for collusion. Such collusion occurs when competitors within an industry cooperate illegally for mutual benefit” (Clegg et al., 2011, p57)
main disrupting factors that affected this industry was the Internet, that shaped the competition in unforeseen ways. Competitors had to rethink their strategies in order to include into their value proposition also internet-friendly features. This is still an ongoing process that is changing the industry as the internet is evolving. Therefore sustaining a competitive advantage when the rules of the game are constantly shifting, it is a great challenge. “Technologies such as the Internet and related offerings were so new that the standards and rules were not yet developed and competitive advantage could not be sustained in the long term. Hence, any long-term sustaining competitive advantage has to come from continually disrupting the status quo, changing the rules of the game, by taking the industry in new directions where competitors’ strengths become irrelevant. A firm will, therefore, aim for a sequence of short-term advantages that can span that can span numerous competitive arenas” (D’Aveni, 1994). This makes the industry characterized by a rapid and dynamic competition where the competitive advantage is only sustainable in the short term. This also explains the frequent markets leadership changes in the industry.

It is possible to state that the competitive environment in which Nintendo finds itself into, solely with regard to the competition, is a hypercompetition based on short-term competitive advantages. Nintendo, in order to compete in this environment, focuses its strategy on “collective entertainment” (Stefano Calcagni, Interview Two, 2014). The collective entertainment is delivered to gamers through “the originality of the gaming experience” (ibid.). For a company to stay competitive in such an environment it must innovate (Plant, 2006, a.). Nintendo innovates by trying to “always deliver something new to the gaming experience” (Jose Otero, IGN News, 2014) and this is how it manages to stay in the game in this hypercompetition and compete with two corporations like Microsoft and Sony. Nintendo’s strategy, in the time frame considered for this thesis, is failing to deliver results from a market structure perspective. The competition, solely in regard to competitors, and the fast changing sources of competitive advantage have seen Nintendo fall behind other players and underperform during this eighth console generation.

**VCI model**

Figure 19: the VCI model
Lastly in this the external analysis it is utilized the VCI model. Following the assumption that “misalignments between vision, culture and images indicate an underperforming corporate brand” (Hatch & Schultz, 2008, p.12) we can consider Nintendo’s issues as a matter of misalignments amongst these three categories. In the case of Nintendo, an underperforming corporate brand leads to misperception of the company’s value proposition, which also has as a consequence the declining sales.

**Vision**

One of the most important questions a corporation needs to ask itself for the creation of a strong identity is “who do we want to be and how will we be known?” (Hatch & Schultz, 2008, p.67). And “the answer for this future-directed question taps into the company’s strategic vision” (ibid.). Once the company has brought together the strategic vision with its identity it will benefit from a strong and coherent corporate brand. Not only that but also “when organizational culture supports top management’s envisioned future, strategy will more likely to be executed successfully” (Hatch & Schultz, 2008, p.68). It is to be proven then if Nintendo’s strategy is failing to deliver results because of the an unclear vision. Nintendo’s vision is based on the concept of “shared gaming” (Simona Portigliotti, Senior Brand Manager Nintendo of Europe GmbH, Interview One, 2014) and it has as its main goal the one of “bringing smile to our consumers” (Nintendo CSR Report, 2011, a.).

“We strive to put a smile on the face of everyone Nintendo touches”
Nintendo’s vision it is not a common one and it is not communicated through a statement that is easy to embrace, in fact “it seems weird at the beginning what the company is trying to communicate with its vision, but then you end up fully embracing it by falling in love with it” (Simona Portigliotti, Senior Brand Manager Nintendo of Europe GmbH, Interview One, 2014). At Nintendo they believe that the choice of not diversifying into other businesses, like the competitors Microsoft and Sony, is part of their vision. They see that choice as a sign of full commitment of the company towards the consumers. “By non-diversifying we ensure that we are coherent with our vision and that we stay focused. Our aim is to provide a gaming experience with a strong sharing element, and operating solely in the videogame business is the only way to achieve our vision’s goals” (ibid.). This vision though is in the process of being shifted and extended. As Satoru Iwata said at “Corporate Management Policy Briefing/Third Quarter Financial Results Briefing for Fiscal Year Ending March 2014” Nintendo is going to be focusing in the near future on “improving people’s quality of life” (Iwata, Corporate Management Policy Briefing, 2014, c.) which is of course a much broader focus than the origial vision of bringin smile to people. Nintendo’s president goes on saying: “While we will continue to devote our energy to dedicated video game platforms, what I see as our first step into a new business area in our endeavor to improve QOL [quality of life] is, the theme of ‘health’. Of course, defining a new entertainment business that seeks to improve QOL creates various possibilities for the future such as ‘learning’ and ‘lifestyle’, but it is our intention to take ‘health’ as our first step”. Mr. Iwata did not give any further information about the topic and he concluded saying “I would like to limit my presentation to the general direction of our new business, but I plan to announce more details within 2014. I then plan to talk about its specific features and a clearer vision” (ibid.). According to Simona Portigliotti, Senior Brand Manager at Nintendo, top management like herself usually have some information about Iwata’s often enigmatic statements, but this time they don’t. “At the moment we do not have any kind of information on what Mr. Iwata meant with ‘focusing on improving people’s quality of life’ or the theme of ‘health’, we also just met him last month and

11 The goals Nintendo’s vision wants to achieve are: bringing smile to people and provided a unique, shared gaming experience.
for now he hasn’t given out any other information” (Simona Portigliotti, Senior Brand Manager Nintendo of Europe GmbH, Interview One, 2014). This ongoing shift in Nintendo’s vision might then have affected the strategy of their current console Wii U, a system which found itself in the middle of two different corporate visions in a moment of transition for the company. Nintendo’s vision is in the process of being shifted. Specifically, the original vision (“Putting a smile on people’s face”) will have a much broader extent and a different goal: improve people’s quality of life through the focus on “Health”.

Figure 20: Original Vision

Everyone Nintendo Touches

We strive to put smiles on the faces of everyone we touch, whether they are directly or indirectly involved with Nintendo, now and in the future.

[Source: Nintendo’s CSR Report, 2011]

Figure 21: Nintendo’s New Vision

Redefining Entertainment

Improving People’s
QOL (Quality of Life)
in Enjoyable Ways


Figure 22: Nintendo’s first step to attain its new vision
Culture
In many ways organizational culture is a silent partner in companies (Hatch & Schultz, 2008, p.131), in that so much of what can be known about the culture is implicit, or tacit (ibid.). Japanese companies have a peculiar culture that provides them with the capacity to grasp tacit knowledge and make it available to everyone, then embodying it into actual technologies (Nonaka, 2000, p.96). This translate into the ability “to respond quickly to customers, create new markets, rapidly develop new products, and dominate emergent technologies” (Nonaka, 2000, p.97). People’s ideas turn the company into a goldmine (Hatch & Schultz, 2008, p.126) and giving people the opportunity of sharing those ideas is what will make the company improve. All of this is possible only if the company possesses an adequate culture. Evidences have been found that Nintendo does possess such a culture: “In every single country, managers manage to embrace Nintendo’s culture even though at the beginning its not easy because its hard to grasp. But this makes Nintendo a very coherent company, even though sometimes considered stubborn. We share best practices, information and knowledge among offices, when we meet every month” (Simona Portigliotti, Senior Brand Manager Nintendo of Europe GmbH, Interview One, 2014).
Under an entertainment standpoint, Nintendo is a company with “an inclusive gaming culture that originated starting from the generation born in the 80s” (ibid.). Its main goal is to “make the product accessible to everyone by semplifying it” (ibid.). It is a “multitarget culture” (ibid.) which ensures that everyone feels included in Nintendo’s
world, from the hardcore gamers, to the silver gamers\textsuperscript{12}, from casual gamers to consumers interested in fitness. Therefore the aim of Nintendo’s culture is to create an environment that allows the company to widen its users base. Nintendo therefore seeks to be an open company that includes all the consumers from different customer segments and tries to make them feel like at home\textsuperscript{13}. Nintendo’s culture hasn’t been changing during the last years. Therefore it is possible to conclude that, during the last years, the culture has remained the same.

\textbf{Image}

The image of a company is what the stakeholders think about it, how they see the organization and the way they perceive it. Nintendo has always been trying to be perceived as an open and listening company, but “saying you are a customer-driven company does not make you a customer-driven company” (Hatch & Schultz, 2008, p.61). In fact there are several evidences that Nintendo is actually perceived as a stubborn (IGN News, 2011, c.; Forbes, 2013, i. and j.; Gamnesia, 2014, a.) company. According to Paul Tassi, contributor at Forbes, one of the main issues “stems from Nintendo stubbornly refusing to embrace the current reality of technology” (Paul Tassi, Forbes, 2013, i.) and from often turning a blind eye (Rumphol-Janc, Gamnesia, 2014, a.) to third parties requests; stakeholders perceive this as a stubborn attitude. Also Simona Portigliotti, Senior Brand Manager Nintendo of Europe GmbH, admits that Nintendo’s image has worsen in the last years and then the company has to regain consumers’ trust. For what concerns the image gamers have of Nintendo “there has been a decrease, it seemed like Nintendo didn’t want to follow gamers’ requests. But the situation has gotten better after E3, thanks to the announcement we made people have started to regain their enthusiasm” (Simona Portigliotti, Senior Brand Manager Nintendo of Europe GmbH, Interview One, 2014). In regard to casual gamers “I am afraid there we have lost some ground because we were not capable of explaining what the next generation of console was. An still, those who understood what was our offer for next generation of consoles didn’t feel the need to switch to a new system”

\textsuperscript{12}“Silver Gamers” is the definition used for consumers with more than 50 years old. "Silver Gamers", are typified by the fact that they didn't grow up with video games and often would consider themselves outside the market of games’ players.

\textsuperscript{13}“Making Things Easier to Understand, Easier to Use: At Nintendo, we work hard to develop products and services that appeal to the widest range of people, including males and females of all ages, regardless of their level of gaming experience.” (From Nintendo CSR Report, 2011, a.)
“The world of stakeholders […] is filled with opportunities to engage with people who are as concerned about and willing to serve your enterprise as you are. Stakeholders have their particular reasons to engage with your organization and increasingly demand to do so” (Hatch & Schultz, 2008, p.150). There are clear evidences that Nintendo has been neglecting some categories of stakeholders. For example, with the model Wii they targeted a very wide customer base of casual gamers but they left uncovered the hard core Nintendo fans (the enthusiasts); more recently they have been neglecting third party developers, who couldn’t bring their software on the Japanese company’s platforms (Forbes, h., j. and l.). This has not benefitted Nintendo since “organizations that attend to the demands of all their stakeholders will outperform organizations that privilege some stakeholder groups over others” (E. Freeman, 2007). We can conclude that Nintendo’s image has been the element, out of the three described in the VCI model, that has been compromised the most.

**Misalignments**

Misalignments amongst Vision, Culture and Image occur when environmental or organizational changes lead companies to reorganizing themselves. The case of Nintendo shows some interesting similarities with the Lego case. Lego in fact after enjoyed some years of solid financial performances that ended up creating an atmosphere of illusory complacency in the company. But then “rapid market changes in the market coupled with product management missteps soon placed the firm in a precarious state” (Hatch & Schultz, 2008, p.179). The same happened to Nintendo, that after its all-time record in sales and revenues with the model Wii, it struggled to adapt to the market changes such as: the arise of internet connectivity (they did not create an efficient online store to compete with Sony’s PSN and Microsoft’s Xbox Live), the competition from smart devices, the “decrease in popularity of motion control” (Review Tech USA, 2011, a.)

**Vision – Culture gap**

Listening and responding to employees aligns culture with vision. “When Culture aligns with Vision, employees personalize top management’s aspiration for the organization. They then have motivation to pursue strategic vision that goes well

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14 PlayStation Network
beyond following the boss’s orders” (Hatch & Schultz, 2008, p.129). According to the researches conducted for this dissertation, in the past Nintendo did not provide any significant evidence of Vision-Culture misalignments. In recent years though, with this significant shift in Strategic Vision, together with the lack of communication from Japanese top management, a misalignment between Vision and Culture has been arising. At the moment, the European top management has no information on what the company’s new Strategic Vision will be and on what it will focus on. This of course could be only a temporary issue but it is enough to demonstrate that in the current state Nintendo does have a Vision-Culture misalignment, because “employees do not understand the strategic vision” (Hatch & Schultz, 2008, p.75)

Figure 23: the Vision-Culture Gap

Vision – Image gap

The Vision-Image gap occurs when outsiders’ image conflicts with management’s strategic vision. “Listening and responding to external stakeholders aligns vision with image” (Hatch & Schultz, 2008, p.129). It has been proved in the previous sections that Nintendo did not carefully listen to some key stakeholders, e.g. their more enthusiast fans and the third party developers. These two categories demanded respectively a value proposition that would satisfy Nintendo’s their needs, and a console architecture that will allow third party developers to develop their software also for Nintendo. They are an example of stakeholders who do not see Nintendo as the open and welcoming company they are trying to be (accommodating the desires of every customers, bringing simle and joy to everyone they touch).
Image - Culture gap

“The Image - Culture gap opens when employees do not understand the strategic vision” (Hatch & Schultz, 2008, p.75). If Culture aligns with Image, employees will receive positive feedback from customers and other stakeholders. At Nintendo this might be a possible issue in the next months, in that the Japanese company has not communicated at all (yet) the new strategic vision. It might not be a matter of “non-supporting” the new vision because, as it was shown, Nintendo’s executives fully embrace the company’s culture and vision, but it can certainly be a problem of “understanding”. In fact it is clear that Nintendo’s executive have very limited information regarding the new course of action Mr. Satoru Iwata intends to undertake. This most certainly creates a, even if temporary, misalignment between Culture and Image in Nintendo

After having analyzed Nintendo from the VCI perspective it is plausible to conclude that, during the launch of the Wii U, the Japanese company did not have a coherent VCI alignment and, therefore, consumers did not appropriately perceive the company’s value proposition. This is a fundamental reason of why a great part of Nintendo’s original customers target did not feel the need to purchase the Wii U, its value proposition was unclear and incoherent according to customers’ needs. Thus Nintendo did not have a coherent VCI alignment and therefore it did not possess a strong competitive position because of a misperceived value proposition.

5.4 Internal Analysis

After having analyzed the company from an external standpoint, it is now time to look at it from inside. The Resource-based view allows us to investigate a company attributing the competitive success to the internal resources and capabilities. According to this approach “firms should seek to develop inimitable resources over time. It is the possession of these resources […] that will produce a meaningful long-term competitive advantage” (Clegg et al., 2011, p.84). This perspective recognizes that important resources are inscribed in the complexity of an organization’s culture, human resources and IPs\textsuperscript{15} that will provide the ingredients for a superior long-term performance. Following this theory Nintendo could focus internally on its resources

\textsuperscript{15} IPs stands for “intellectual properties”, intangible assets
and capabilities to achieve a competitive advantage. In fact, when markets are fast-changing, such as the video game console one, “an external orientation does not provide a secure foundation on which to develop a successful strategy. Moreover when a market-based strategy is successful it is likely to be copied by competitors – thus reducing any competitive advantage” (R. Grant, 1991). In the RBV, resources and capabilities are those assets that allow the firm to attain a successful strategy. Here are going to be analyzed the main resources and capabilities of Nintendo. These resources/capabilities are identified as a strenght or a weakness for Nintendo in this specific point in time.

There most important resources for Nintendo belong to the following categories.

**Financial Resources**

Financial resources, plants and any kind of capital are included in this category. Nintendo, from 2007 to 2014, has lost over 80% of its value because of this financial crisis (Yasu and Amano, Bloomberg, 2014, a.). Its market capitalization now amounts to $13 billion (Yahoo Finance, 2014, c.), a decrease of -57% form January 2014 where the company was worth over $23 billion (Kinsley, Wii U Daily, 2014, a.). This means that Nintendo has been surpassed by Sony which is now a bigger and more valuable company (Google Finance, 2014, a.). Nintendo’s financial resources were a fundamental strength in the seventh generation when the Japanese company from Kyoto managed to dominate the competition and impose itself as the market leader in the console business. Nintendo’s financial resources have definitely become a key weakness for the company. Satoru Iwata’s company has never registered a loss before this crisis, and it is now on the path to enter the most troublesome time of its 125 years old history.

**Relational Resources**

Relational resources include aspects such as customer loyalty and customer relationships. As stated by Nintendo’s executives (Simona Portigliotti, Senior Brand Manager Nintendo of Europe GmbH, Interview One, 2014) Nintendo has lost some ground on customer relationship because they haven’t been able to effectively communicate the uniqueness of their value proposition. This in the past was a fundamental strength for Nintendo, that managed to both address a young and an adult audience with the Wii. “With the model Wii we worked really well on the adult customers. And even though it is much more expensive to work on them, we were helped by the strengths acquired through the sales of our handheld device NintendoDS,
which appealed particularly the silver gamers. This is also why the Wii was so successful” (ibid.). Nintendo has now lost that ability of communicating effectively with their customer base. The result has been that they “were not effective in explaining what the new console generation was really about” (ibid.). Also according to Mr. Satoru Iwata states: “Unfortunately, as the current situation of Wii U shows, we have not been able to fully communicate the value of the GamePad. We also realize that we have not been successful in answering consumers’ questions such as, ‘What is the difference between Wii U and the previous platform, Wii, and what is the benefit of upgrading it?’ By looking at the current sales situation, I am aware that this is due to our lack of effort” (Iwata, Corporate Management Policy Briefing, 2014, c.). Therefore the relational resources in Nintendo need to be drastically improved.

**Human Resources**\(^{16}\) (and their expertise)

One of the greatest assets in Nintendo is “the genius and the creativity of hardware and software developers. They are capable of coming up with unexpected products that create new trends” (Simona Portigliotti, Senior Brand Manager Nintendo of Europe GmbH, Interview One, 2014). This is definitely Nintendo’s most predominant resource and it is also what should be leveraged in order to come out of this situation. Nintendo’s developers have been capable of creating ever lasting legacies of characters and consoles. To name some of them: Super Mario, Luigi, Zelda, Pokémon and many others. These are names that anyone in the industry, and also non-gamers, immediately recognize and attribute to Nintendo. Thanks to these intellectual properties Nintendo has always been capable of attracting consumers to their systems: “The initiatives I like to create the most are those that bring the characters to the kids’ houses thorough products appreciated also by the parents. When the characters become a part of the family they create a sense of attachment and loyalty” (Simona Portigliotti, Senior Brand Manager Nintendo of Europe GmbH, Interview One, 2014).

Right because Nintendo has this talented pool of creative developers, their aim is to keep their characters on their systems and attract people thanks to these unique IPs. “Our characters will stay on our systems, and they will not go on other platforms” (ibid.).

\(^{16}\) Not intended as the commonly known “HR” division in companies but as a resource. This term “Human Resources” originates from the classification of main resources in three categories: Financial, Human and Physical
Moving on to Nintendo’s main capabilities we can identify several kinds of them.

**Communications Management and Brand-building capability**

These are the abilities that allow to create and manage customer value perceptions leading to high levels of brand equity, using effective: positioning, advertising message delivery, personalized communications, & integrated marketing communications (Voss, SMU, 2014, a.). As admitted by Mr. Iwata, Nintendo has lacked in effort to create a sharp and effective communication strategy (Iwata, Corporate Management Policy Briefing, 2014, c.). Moreover, Iwata adds that Nintendo has failed in communicating what was the single greatest differentiating feature of their next generation console: “What’s even worse is that there even appear to be not a small number of consumers who think the GamePad is one of the accessories for the previous platform, Wii” (Brian, Nintendo Everything, 2014, a.). This capability should be leverage by Nintendo to improve the current situation, because as of now this has become a weakness for the company.

**Culture**

Nintendo differentiates itself from the other competitors for its unique approach to the customer experience: “For us, it’s all about the experience” (Perrin Kaplan, vice president of marketing and corporate affairs for Nintendo of America, 2006, reported by Rosmarin, Forbes, 2006, m.). The Kyoto based company always seeks to add something new to the gaming experience, and while doing that it tries to discover new and uncharted markets.

“Seeing a Blue Ocean is the notion of creating a market where there initially was none—going out where nobody has yet gone. Red Ocean is what our competitors do—heated competition where sales are finite and the product is fairly predictable” - Perrin Kaplan, vice president of marketing and corporate affairs for Nintendo of America, 2006 (Reported by Rosmarin, Forbes, 2006, m.)

Nintendo’s culture will always be a great differentiating factor in this industry. This culture was and it will be a key strength for the Japanese company.

**Customer Relationship Management**
This term refers to the ability to identify profitable customers and prospects and initiate, maintain, and leverage relationships with these customers to create superior customer-level profits. Requires data collection and interpretation capability for individual customers, individual customer targeting capability, and personalized communications capability (Voss, SMU, 2014, a.). This capability was what made Nintendo succeed and then win the console war of the seventh generation: they identified an uncovered customer target and created a value proposition to satisfy that otherwise unserved market. This did not prove to be true with the newest console, the Wii U, that failed to achieve its sales projection by a great margin. Nintendo believed that with their new console they could target a customer base that would lead them to sell 9 million units of its console in the fiscal year ending in March 2014. This customer base just proved not to be there because Nitnendo only managed to sell 2.7 million units, less than one third of the original estimates. Nintendo has turned what in the past was a crucial strength in a weakness that lead the company to misinterpret the identification of profitable customers on the market. Moreover the Japanese company turned out to be unable to leverage their existing relationship with their customers in generation seven (with the Wii model) and introduce them to the next generation of consoles in generation eight (with the Wii U).

Barney’s VRIN Framework
After having listed Nintendo’s main resources, it is now possible to identify which one of them are capable of creating a sustainable competitive advantage. According to Barney’s framework these resources are those that present the characteristics of being valuable, rare, inimitable, non-substitututable. It is here analyzed the resource that resulted to be still a great strength in Nintendo: Human Resources\(^\text{17}\). This resource is listed as the first amongst Nintendo’s key resources also by Nintendo’s Senior Brand Manager, Simona Portigliotti (Interview One, 2014).

\(*\)Valuable

Nintendo’s Human Capital is certainly a valuable resource in that it contributes significantly in the success of the company and, at the same time, delivers outstanding hardware/software products that exploit opportunities on the market and counter threats.

\(^{17}\) A synonym of Human Resources is Human Capital
Rare
In the video game console industry, Nintendo is the only one to possess this resource. This makes it rare and therefore even more precious.

Inimitable
Nintendo’s employees are formed in a company that has more than a century of history and traditions. The complexity and the depth of Nintendo’s set of values and culture form unique employees. It is impossible to recreate the same conditions in another company thus this resource is inimitable. Competitor companies can of course try to have access to Nintendo’s executives and their expertise, but those individuals and their knowledge are directly bound to Nintendo’s environment and culture, meaning that they might not work in another corporate environment.

Non-Substitutable
The expression “non-substitutable” means that the resource is not easily supplied in the market and this is exactly the case of Nintendo’s Human Capital. Nintendo’s executives are formed within the company’s boundaries and their expertise are shaped within the company’s peculiar culture and environment. You cannot supply this sort of resource in the market. This resource is created, not supplied.

Concluding, there is definitely a resource based issue within Nintendo to justify this recent financial crisis. Some resources, that used to perform successfully, are now failing to be as effective as before. But it is also evident that Nintendo can count on a valuable, rare, inimitable and non-substitutable resource: its human capital. This is “something that is unique to the firm” (Clegg et al., 2011, p.87) that can provide the Japanese company with a sustainable competitive advantage on which they can rely on.

5.5 Strategic Analysis
The strategic analysis aims to understand the reasons why, under a strategic standpoint, Nintendo failed to deliver on its expected results with their latest system Wii U.
Sustainable competitive advantage: the two choices
“Companies can achieve above-average results in the industry if they manage to create an advantage based on cost leadership or differentiation” (Invernizzi, 2008, p.169)

Type of competitive advantage: cost leadership or differentiation
Nintendo, in order to compete in this market, has adopted a differentiation strategy. In word of Invernizzi: “This strategy is based on the creation of a unique value in relation to specific consumers or needs, and it is achieved by having higher costs than competitors” (ibid.). If the advantage obtained through this strategy is sustainable, then the company will benefit from above-average profitability in the long term. This means that the Kyoto based company aims to achieve a sustainable competitive advantage by having extra costs that will allow it to then offer an extra value to consumers. The following figure clarifies this concept, which is the core principle of the differentiation strategy.

Figure 23: The Extra Costs

\[ \Delta C \rightarrow \Delta V \rightarrow \Delta P \]

[Source: own elaboration]

The capital Greek letter “Delta” (“Δ”) stands for “differential” which is an increment in a specific measure. The symbol “ΔC” signifies the extra costs that a company choosing a differentiation strategy approach is undertaking. These extra costs have as main objective the one to deliver extra value (“ΔV”) to the consumer. When this value is perceived and recognized by consumers, then the company will be able to charge an extra price, or premium price (“ΔP”), for the product, achieving in this way a superior profitability than competitors and, consequently, a competitive advantage. In order to obtain this advantage Nintendo had to:
• Identify relevant variables for its customer base and build around those variables a value proposition that would be perceived as unique in the industry. This is what allows the company to ask a premium price. 

• Keep under control the activities generating costs throughout the whole value-chain: the premium price must be higher than the costs undertaken for the differentiation.

A proof that Nintendo adopts this competitive approach is given by the Wii U GamePad, “which is its main differentiating factor” (Paul Tassi, Forbes, 2014). As previously mentioned, Nintendo has been undertaking very high extra costs in order to develop and sell the Wii U GamePad, which is by far the most expensive part of this latest Nintendo system. As also stated by CNN Money: “The most expensive part of the Wii U is the Wii U controller, the GamePad” (CNN Money, 2013). The Gamepad is a 6,2 inches controller with a touch-screen display and several features such as motion sensing, a camera, gyroscope, microphone and Bluetooth technology. It is therefore plausible to assume that Nintendo had to undertake higher costs than competitors, throughout several activities of its value-chain network, to design, develop and manufacture the GamePad.

As a further evidence of Nintendo’s extra cost for its value proposition, let’s now analyze the estimate costs the three companies operating in this industry are currently facing when it comes to manufacture a fundamental part of their systems such as the controller.

Figure 24: the Wii U controller, the GamePad

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18 A price that is higher if compared to the one asked on average by competitors.
Nintendo appears here to be the most differentiated competitor when it comes to its value proposition in relation to the controllers. It presents in fact a price that is, on a retail base, 250%\(^{25}\) higher than the average of the competitors’ prices. This trend is also confirmed at a manufacturing level where Nintendo asks 364%\(^{26}\) the price of what competitors are asking on average. The very same trend occurs also when it comes to analyze the price of the whole console. It has been estimated that Nintendo’s Wii U costs around $230 to make and it has a retail price of $299. But this doesn’t

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19 CNN Money, 2013  
20 WiiUdaily, 2013  
21 Gamerant, 2014  
22 Gamestop, 2014  
23 Allthingsd, 2013  
24 Gamestop, 2014  
25 own calculation: 150/[(60+60)/2]  
26 own calculation: 80/[(28+16)/2]
have to mislead because “typically consoles take years and millions of dollars to develop, an aspect that is not reflected in the sum of the prices of the parts” (CNN Money, 2013). Therefore, according to CNN Money, Nintendo is actually “losing money on every Wii U sold” (ibid.). Currently there is no information on Nintendo’s margins on the Wii U because Nintendo, as reported by CNN Money, “refuses to discuss about the margins they have on their products” (ibid.). It would still be beneficial though to make a comparison with the competitors’ production costs and retail costs for the consoles.

**Figure 27: consoles’ estimate and retail prices**

<table>
<thead>
<tr>
<th>Console</th>
<th>Estimate Production Costs</th>
<th>Retail Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nintendo’s Wii U</td>
<td>$230$27</td>
<td>$299</td>
</tr>
<tr>
<td>Sony’s PS4</td>
<td>$381$28</td>
<td>$399</td>
</tr>
<tr>
<td>Microsoft’s Xbox One</td>
<td>$471$29</td>
<td>$499</td>
</tr>
</tbody>
</table>

[Source: own elaboration, prices derived from the articles listed in the footnotes]

As highlighted by “Figure 27”, Nintendo should be the company with the highest margin in order to be able to ask a premium price. This seems logical since Nintendo must have a higher margin to compensate for the higher differentiation costs due to more expensive R&D and manufacturing activities (an example of which is the GamePad). As mentioned before, this is not the case because Nintendo is losing money on every Wii U sold$30 especially after the price drop of $50. Moreover, the other two companies in the industry adopt the already mentioned “loss strategy” according to which margins are not fundamental, what matters are the high sales volumes. Thanks to those volumes Sony and Microsoft are capable of make the money back for their initial investments (thanks to software sales and other components’ sales). This is not the strategy Nintendo is following because the Kyoto based company always aims to manufacture a profitable console, and the Wii was a clear example of this: high volumes achieved through a console which also possesses margins to be profitable.

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27 CNN Money, 2013  
28 AllthingsD, 2013  
29 IGN, 2013  
30 CNN Money, 2013
Nintendo initially charged a retail price of $350 for the Wii U, the highest price tag a Nintendo console has ever had. If compared to the previous console from Nintendo, the Wii, the retail price has been increased by 40%\(^{31}\) in the shift from the seventh to the eighth generation. With the new price drop Nintendo is finding itself in a very difficult situation, because it does not have the margins anymore to make a return on its extra costs. Nintendo’s situation can be illustrated with the next figure.

**Figure 28: Nintendo’s Extra Costs exceed the Premium Price**

\[ \Delta C > \Delta P \]

[Source: own elaboration]

Nintendo’s differentiation strategy therefore failed to keep under control all the activities generating extra costs throughout the value-chain for then ask a higher than average price. The price that is now being asked is not sufficient to cover the extra costs. This is also due to the fact that the Japanese company has failed in identifying relevant customers or needs around which built a uniquely perceived value proposition.

**Type of competitive scope**

Once determined the type of competitive advantage Nintendo based its strategy on, it is time to identify the competitive scope. Within the context of the differentiation strategy, if the competitive scope is narrow (niche) then the strategy is going to be called “focus strategy”, whereas if the competitive scope is broad (mass market) we would then refer to it as “pure differentiation” strategy.

**The comparison with the Wii Strategy in the seventh generation**

**Figure 29: Wii strategy and the Wii U strategy**

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\(^{31}\) Wii’s retail price was $250 whereas the Wii U retail price was $350 (before the price drop).
During the seventh generation Nintendo adopted a differentiation strategy. Their Wii model was in fact a successful attempt to:

1) Identify key variables for their targeted customer base and build a unique value proposition around those variables that would allow the company to ask for a premium price.

2) Keep under control the value chain activities to ensure that the premium price asked, thanks to the unique value proposition, it is not tarnished by the extra costs.

Nintendo’s Wii was the company’s greatest success. It targeted the whole market and therefore presented a broad competitive scope. According to the researches conducted for this work, Nintendo’s latest console instead was not targeting a broad market, even though the strategy behind it was aimed to include all the gamers within its value proposition. Therefore it is here argued that Nintendo’s Wii U is a differentiation strategy focused on a narrow customer segment. This is also proved by Nintendo’s Brand Manager Home Entertainment Wii & Wii U, Stefano Calcagni, who states: “When Wii U launched we took into great consideration the expert gamers, even though the long term strategy has always been the one of promoting a collective
entertainment system that would appeal both to gamers as well as kids & families” (Stefano Calcagni, Interview Two, 2014). This proves that Nintendo since the beginning, had the intention focus their competitive scope to core gamers as well as the one to then expand to other customers segments. Sale data though shows that this did not happen as the Wii U’s units expected to be sold by the end of the FY\textsuperscript{32} 2014, around 9 million, never even came close to that number, stopping at just 2,7 million.

Nintendo’s intentions with Wii U were to achieve the competitive advantage through a pure differentiation leadership (broad competitive scope), but as a matter of fact their actual value proposition and strategy was a differentiation focus strategy (narrow competitive scope). In fact the Wii U appealed solely to Nintendo’s core gamers (the enthusiasts) and not to the casual gamers (“kids & families”). The Wii could count on a broad customer base of casual gamers but “the Wii U has no such luxury, and once again, has to rely on people who actually like playing video games regularly [expert gamers]” (Paul Tassi, Forbes, 2013, i.). This customer segment, the expert gamers, did not switch to the Wii U if not for a very small part: the Nintendo enthusiasts\textsuperscript{33}. They currently are the main category of customers who purchased the Wii U (Erik Kain, Forbes, 2014, n.; Chris Kohler, Weird Magazine, 2014, a.).

**Figure 30: Expected and Actual customers targeted**

![Figure 30: Expected and Actual customers targeted](source)

Unclear Differentiation Strategy

\textsuperscript{32} FY stands for Fiscal Year

\textsuperscript{33} Nintendo’s enthusiasts are a subset of the expert gamers. Nintendo therefore, even though intentioned to focus on expert gamers with their Wii U, it ended up appealing only to a small group of them: the Nintendo’s enthusiasts.
“Considering the results obtained under the point of view of the uniqueness of the value proposition and the premium price obtained, it is possible to identify four different strategic outcomes of the differentiation strategy” (Invernizzi, 2008, p.170).

Figure 31: The four outcomes of the differentiation strategy

<table>
<thead>
<tr>
<th>Competitor Advantage half-way realized</th>
<th>Successfully built Competitive Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failed attempt of differentiation</td>
<td>Vulnerable competitive advantage</td>
</tr>
</tbody>
</table>

\[ \Delta C > \Delta P \quad \Delta C < \Delta P \]

Premium Price

[Source: Invernizzi, 2008, p. 170]

Nintendo’s premium price is tarnished by the differentiation costs (\(\Delta C > \Delta P\)). Some of the customers Nintendo was hoping to target (expert gamers, kids, families) did not perceive the uniqueness of the Wii U value proposition. In fact only a narrow customer base, represented by the Nintendo’s core gamers (the enthusiasts), perceived this value proposition as unique and valuable. Stefano Calcagni states what Nintendo could have done differently was “having since the beginning a broader customer target, without forgetting about the expert gamers” (Stefano Calcagni, Interview Two, 2014). Therefore, in Figure 31, Nintendo would be placed half way between the outcomes of “Failed attempt to differentiation” and “Competitive Advantage half-way realized” since they have higher costs than their premium price and their value proposition’s uniqueness is only partially perceived by a niche of customers (the Nintendo’s enthusiasts gamers) and not by the whole market they intended to target.

Figure 32: How Nintendo is positioned according to the four outcomes
Figure 32 illustrates how Nintendo is placed, according to the four strategic outcomes (Invernizzi, 2008, p.170) on the differentiation strategy, in the time laps that goes from the launch of the Wii U to then end of the FY 2014. The Japanese company thus presents an unrealized competitive advantage due to the lack of uniqueness perceived and by the high differentiation costs that erode the margin granted from the price premium. Nintendo is therefore placed in a borderline position between a “competitive advantage half-way realized” and a “failed attempt of differentiation”.

Using the Advantage

Thus Nintendo has had troubles in leveraging its strengths. The Wii U seems in fact an attempt of incremental hardware upgrade (Hollensen, 2013, p.28) of the Wii project rather than a strategically coherent approach to the competition. “No one has an advantage at everything. You must press where you have advantages and side-step situations in which you don’t” (Rumelt, 2011, p.161) and Nintendo’s advantage relies in “disrupt markets with new an unexpected products” (Simona Portigliotti, Interview One, 2014) rather than relying on sustaining innovation (from Wii to Wii U). Also Satoru Iwata, Nintendo’s CEO and President, states very clearly that this is not their way of doing business, because Nintendo doesn’t intend to compete in already
existing crowded markets through heavy financial investments (Iwata, Corporate Management Policy Briefing, 2014, c.). What Nintendo is good at is: finding new undiscovered markets. In the Wii U case evidences have shown that they tried to upgrade the Wii concept simply by adding more features (such as HD graphics, a camera on the controller, etc.). “The vision behind the Wii U included the HD support, it had to be in our value proposition. Although the focus was always on the unique gaming experience, which was not communicated well enough by the GamePad” (Simona Portigliotti, Interview One, 2014). Therefore Nintendo, instead of focusing on providing more value, ended up creating a product that was a sustained innovation if compared to the older version of their previous system. “By providing more value you avoid being a commodity” (Rumelt, 2011, p.165). By increasing the value you strengthen your competitive advantage. According to Rumelt, there are four ways Nintendo could have strengthen its competitive advantage:

**Deepening advantage**

Deepening the advantage means either increasing value to buyers or reducing costs. Nintendo clearly belongs to the first category since, as it has been proved, the Japanese company tried to compete by having higher costs in the attempt to provide the buyers with a unique value proposition (higher value). It is reasonable to state that, according to the data, Nintendo failed to deepen its advantage with the Wii U model because buyers did not perceive the increased value of the company’s value proposition.

**Broadening the extent of the advantage**

“Extending an existing competitive advantage brings it into new fields and new competitions” (Rumelt, 2011, p.171). Nintendo had to extend its competitive advantage by building on its own strengths, “looking away from products, buyers and competitors, looking instead at the special skills and resources that underline a competitive advantage” (ibid.). “Corporate resources can be put to good use in other products or markets” and this is exactly what Nintendo is implementing at the moment with the shift in their vision (form videogames to “health” and “quality of life”) but the Wii U at this point does seem like a model of transitions between two eras. The Wii U is indeed a model that was not conceived by broadening the extent of Nintendo’s advantage but rather by upgrading an older concept tied to motion control and physical engagement of the consumer (the Wii model).
Creating higher demand for advantaged product or services

As Nintendo itself stated, they failed in communicating the value of their console. This lead to a significant decrease in the number of buyers. Thus the competitive advantage of Nintendo was reduced. In fact, “a competitive advantage is more valuable when the number of buyers grows” (Rumelt, 2011, p.173). By focusing on gamers and since the casual gamers did not switch to Wii U, Nintendo drastically reduced its number of buyers (Nintendo’s enthusiasts only), even tough their strategy from launch was aimed to embrace both categories of consumers (casual gamers and expert gamers).

Strengthening the isolating mechanisms

“Isolating mechanisms inhibits competitors from duplicating your product or the resources underlying your competitive advantage” (Rumelt, 2011, p.175). This strategy for progress in increasing value it is not relevant for the Nintendo case in that, the Japanese company, operates in the console industry as a diversified player if compared to the other competitors. In the eighth generation of consoles (Wii U, PS4 and Xbox One) Nintendo did not need to worry about the imitation from the other two competitors. What it rather needed to be doing from the launch of Wii U was to highlight its differential value to avoid being considered too similar to its predecessor Wii and to the substitute products such as smart devices (the main cause of the loss of casual gamers for Nintendo).

Strategic planning to assure a stream of new ideas

Nintendo not only did not strengthen the competitive advantage gained in generation seven (Wii), but also didn’t ensure a strategic planning capable of delivering a constant stream of valid ideas after that. H. A. Simon argues that a firm specializing in one kind of “comparative advantage” (Simon, 1993, p.131) or niche needs to understand that this kind of advantage “typically has a half-life of years rather than decades”. This signifies that Nintendo should have been able to find, through appropriate strategic planning, new sources of comparative advantage. This seems logical since, according to the author, the advantage gained by Nintendo with the model Wii was destined, by nature, to quickly fade. Therefore Nintendo, with the launch of Wii U, was expected to deliver a new sort of advantage capable of
renovating the company’s success. What happened to Nintendo and Wii U, after great accomplishments with the model Wii, is though a common phenomenon: “firms seem to experience great difficulty in retaining substantial comparative advantages over competitors after brief periods of unusual success” (Simon, 1993, p.133).

The term “unusual success” is perfectly fit for the Nintendo case in that it accurately portrays the company’s success in the seventh generation. Nintendo identified a new market, the one of casual gamers, a new trend, the motion control one, and it created a coherent value proposition. Now the casual gamers have shifted from consoles to smart devices and the trend of motion control in consoles seems to be faded. “One interpretation of the short half-life of rapid growth is that business firms make innovations of man different kinds that are gradually copied, or that only have value over a period during which certain industry or environmental conditions exist” (ibid.). And this is precisely the case of Nintendo’s success with motion control and the casual gamers in generation seven. According to Erik Kain, contributor at Forbes, “There will be no repeat of the Wii’s success. The casual gamer still exists, but they’ve largely moved on to the much more casual smartphone/tablet market” (Erik Kain, Forbes, 2014, g.). And Nintendo’s mistake was the one of thinking they still had access to the same customer base of the previous generation even though environmental conditions have changed. “In order to grow, or even maintain the current size, business firms have to seek continually (or invent) new marketable products, new methods of marketing them. They have to try to anticipate changes in the environment, in the economy and in the industry” (Simon, 1993, p.134). All of this is possible thanks to accurate strategic planning, which will allow the firm to reduce uncertainty and survive in the “rapidly evolving world in which we live” (ibid.). The skills Nintendo should leverage at this point of time are the followings.

**Skills in anticipating the shape of an uncertain future**

Simon suggests: to detect “novel features in the environment that may affect the firm significantly in the future, and determining at what point in time attention should be focused on them and energy devoted to dealing with them” (Simon, 1993, p.135). “Priorities for attention, planning and action need to be revised continually” (ibid.). This is vastly pertinent for the Nintendo case because “effective strategic planning seldom calls for accurate estimates of the time paths of new trends”. Identification of trends resulted fundamental for Nintendo in the seventh generation for the Wii
success, but it turned out to be lackluster when the Wii U was launched. The skills in identifying new trends are crucial to allow a company to be the first mover within that new trend and “establish a position that is hard to challenge” (Simon, 1993, p.136). This approach was successful for Nintendo in the seventh generation where, even though attacked by other competitors in the trend of motion control, still managed to win that console generation with more than 20 million units of hardware sold over Microsoft and Sony. These very same skills though did not prove to be as effective with Wii U, where Nintendo did not foresee the decline of the motion control trend and, at the same time, did not look for a new, emergent one.

**Skills in generating alternatives for operating effectively in changed environments**

“Companies frequently begin to search for alternatives only when the result of their current operations fall short of expectations. But a time of crisis, when prompt action may be imperative, is not the ideal time to undertake strategic planning for change” (Simon, 1993, p.137). It is plausible to assume that, since also the top management of Nintendo of Europe is unaware of the company’s future plans, Nintendo did not promptly generate and communicate new alternatives when Wii U was launched and, subsequently, failed to attain the expected results. This leads to believe that there was no clear alternative course of action to be undertaken, whereas “the search for new courses of action need not to be postponed until a company is in trouble” (ibid.). Most importantly “the time when a company is enjoying its most recent success is the time when it needs to be planning its next initiatives. This is understood in industries whose products have a short life and whose firms live by innovation” (Simon, 1993, p.138). Therefore according to Simon, during the great Wii success Nintendo should have carefully planned its future, including the strategic planning of several alternatives to allow the company to have different solutions also in difficult times.

**Skills in implementing new plans rapidly and efficiently**

To coherently implement new plans a company must ensure that “the mission statement becomes part of the mind-set of every member of the organization who is responsible for making or helping to make decisions of any consequence. Only if this conception of mission and guidelines is evoked whenever the occasion for decision arises, will decision be shaped by it” (ibid.). Under this point of view Nintendo seems to have a quite solid handle of the situation, since all employees fully share and support the company’s guidelines (Simona Portigliotti, Interview One, 2014). Simon
states that “one of the advantages that Japanese manufacturing firms have exploited in their international competition is the speed with which ideas are converted into actual production lines” (Simon, 1993, p.140). Therefore Nintendo, being a Japanese company, should have an advantage when it comes to these specific skills. In the meantime Wii U has been out for a little over one and a half year, only time can tell if the Kyoto based corporation will manage to implement new strategic plans to reshape the otherwise problematic future of their console.

6. Discussion

After having investigated the Nintendo case it is time to discuss the main issues.

6.1 The name issue

On top of Nintendo’s problematic strategy that was perceived as unclear by consumers, there are other issues worth mentioning. Right after Nintendo’s next generation console launch, one of the main consumers’ concerns was certainly the name of the new system: Wii U. As Mr. Iwata stated, many consumers think that the GamePad was simply an accessory for the Nintendo’s old console named Wii. This fact according to some journalists writing for specialized magazines, such as Chris Kohler form Weird Magazine, it was not the main cause of the Wii U’s failure but it was definitely a factor that contributed to make Nintendo’s strategy unclear. “Wii U, on its own, does not communicate ‘This is a new console’ in the manner that ‘PlayStation 4’ does. But this is not the cause of its [Wii U’s] failure, just a missed opportunity to overcome the messaging issues created by Nintendo’s misguided strategy” (Chris Kohler, Weird Magazine, 2014, a.). Other magazines such as Forbes reported the words of a Nintendo’s former developer Dan Adelman who agrees in stating that “the value of the GamePad hasn’t been justified. But the name Wii U is abysmal. I think that cut sales in half right there. […] The console is by no means out of the running, but there’s no denying that it started off at a major disadvantage when even large media sources weren’t clear on whether or not it was a new console” (reported by Dave Their, Forbes, 2014, o.). This proves that at launch Nintendo’s strategy was not perceived as the company wanted also because of the name issue, adding one more concern to the numerous strategic problems that discussed in the previous sections.

6.2 The “Stuck in the middle” issue
The definitive strategic issue of Wii U is its unclear strategic positioning. This topic brings to the question of: who is the Wii U for? According to Nintendo “Wii U is the console that more than any other addresses the families, the teens and the kids” (Stefano Calcagni, Interview Two, 2014). Chris Kohler from Weird Magazine believes that the console industry at the moment presents “on one flank the high-end videogame consoles [Microsoft & Sony], which are actually not that much more expensive than a Wii U. On the other are tablets and smartphones, which represent a much better value for more casual players. Wii U isn’t the perfect fit for anyone who isn’t already motivated to buy it because they’re fans of specific pieces of Nintendo software34” (Chris Kohler, Weird Magazine, 2014, a.). The following graph illustrates the concept addressed by the journalist Kohler of the Wii U not being “the perfect fit for anyone”. As it is evident the Wii U stands in a middle ground in between the high-end console and a possible low cost alternative (that in the past was the Wii).

And here is the big strategic mistake of Nintendo: being so influenced by their past success with the model Wii and the causal gamers that they believed they could retain that same market share even though the competitive landscape has completely changed during the last decade. The past success lead Nintendo to create an idea of “imagined success” (Paul Tassi, Forbes, 2014, p.) which lead them to believe they could keep the very same customer target they had a decade before. A sign of this is

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34 “Fans” refers here to the “Nintendo enthusiasts” addressed in the Strategic Analysis
the previously discussed name of the console. Naming a next generation console (Wii U) just like your previous system (Wii) demonstrates that the company is still attached to their past success and they are trying to replicate it, even though in a totally different competitive environment. Nintendo did not understand that “the casuals [gamers] certainly aren’t coming back, as their Wiis have all been given to goodwill or are packed away in a closet somewhere. So that leaves active gamers [expert gamers] who have to be persuaded to upgrade their PS3s [PlayStation 3] or 360s [Xbox 360] to a just-as-powerful Wii U, or to buy a Wii U alongside their Xbox Ones and PS4s” (ibid.). This misconception resulted in a distorted approach to strategy planning in the Japanese company, that conceived a market-wide differentiation strategy when their value proposition was clearly targeting only the Nintendo fans, their core gamers. In this was Nintendo ended up being in the middle of two distinctive strategic approaches (“stuck in the middle”): a differentiation strategy that targets all consumers (families, kids and expert gamers) as opposed to a focus strategy based on differentiation that is appealing to a niche (only Nintendo’s core gamers). Therefore “the Wii U has staked out a weird middle ground that nobody seems to be standing” (Chris Kohler, Weird Magazine, 2014, a.), a no man’s land where there are very few consumers, and certainly not leading to 9 million hardware sales as forecasted by Nintendo. The three generic strategies, if not well executed, won’t be profitable and the company undertaking them will be stuck in the middle of two distinguished strategic paths (Porter, 1980). These strategies are alternatives viable approaches to dealing with the competitive forces. The firm failing to develop its strategy in at least one of the three directions, a firm that is stuck in the middle, is in an extremely poor strategic situation (ibid.).

6.3 The blue ocean turns red

Nintendo’s executives are faithful to former president Hiroshi Yamauchi’s mantra (Mayumi Negishi and Kana Inagaki, Wall Street Journal, 2014):

"The worst thing for an entertainment company is do the same thing as someone else"
(Hiroshi Yamauchi's statement reported by Wall Street Journal, 30/01/2014)
And this is why Nintendo’s way of doing business is centered on the “blue ocean” concept: a new and undiscovered market to conquer with innovative and unexpected value propositions. The ocean is used as a metaphor of competitive space (Kim & Mauborgne, 2005, reported by Hollensen, 2013, p.25); the expression ‘Red Ocean’ instead refers to “frequently accessed market spaces where the products are well-defined, competitors are known and competition is ‘bloody’ and based on price, product quality and service” (Hollensen, 2013, p.25). On the other hand the Blue Ocean strategy is adopted by those companies “beating the competition by focusing on developing compelling value innovations that create uncontested market space” (Kim & Mauborgne, 2005, reported by Hollensen, 2013, p.25). Nintendo with Wii U contradicted the Blue Ocean way of doing business by not trying to discover a new one. “Following others into the exceedingly crowded market [the Red Oceans] […] and fighting with brute force is not our way of doing business. Yet again, it is our intention to go into a new blue ocean” (Iwata, Corporate Management Policy Briefing, 2014, c.).

Nintendo did not adopt this approach with the Wii U, and this is also why Nintendo’s president this year mentioned that in the future they will expand into a new blue ocean, since during this console generation they have not done it. “We didn’t give up the blue ocean strategy, but the ocean became red because Sony and Microsoft started to target our consumers” (Simona Portigliotti, Interview One, 2014). The Japanese company therefore did not attempt to do what they were good at: finding a new blue ocean. They instead opted for a value proposition that would upgrade and partially replicate (also in the name) an older system which was their most successful one, the Wii. Thus Nintendo’s strategy with the Wii U was unsuccessful “because it tried to replicate unrepeatable” (Gavin Cramblet, Forbes, 2014, q.) and the term ‘unrepeatable’ is referred to the Wii success with a value proposition based on motion control and that targeted casual gamers. That market has evolved in the meantime and, almost a decade later, Nintendo tried to replicate a similar value proposition even though the competitive landscape and consumer technology completely changed since then: the blue ocean they once found has now turned red, and as mentioned by Nintendo’s president, this is not the way they do business. Nevertheless the Kyoto based company, probably still deeply influenced by their recent success, opted for the same old strategy which, as it was demonstrated, it resulted incoherent with the current times. “In other words, the Wii tapped into an undiscovered market. But that market fulfilled its needs elsewhere and evolved with
the times. When the Wii U tried to tap into it a second time, it missed. Badly” (ibid.). This lead Nintendo to be stuck in the middle of past and present, between old success and future success, between a differentiation strategy and a focus strategy.

This strategic dilemma can only be solved with a major shift in the corporate strategy. As reported by Takashi Watanabe, Tokyo-based analyst for Goldman Sachs Group Inc., “we think that a strategy upgrade is needed” (Yasu and Amano, Bloomberg, 2014, a.). A change in the strategy is also advised by Forbes’ contributor Paul Tassi “Nintendo can weather this Wii U storm as they have before, but with the video game landscape growing increasingly crowded between Microsoft and Sony's huge-selling next-gen systems, and new future entries from Steam, Oculus Rift and even Amazon, they’re going to have to find a way [a strategy] to stay relevant, and do so rather quickly” (Paul Tassi, Forbes, 2014, r.).

7. Future Perspectives

7.1 Why Nintendo might still succeed

Nintendo though might still manage to succeed and turnaround this console generation. Of course at this point it is highly unlikely that the Japanese company is going to win the current console war, but there are possibilities that they can at least manage to avoid a financial catastrophe. Nintendo then might be able to successfully tackle this crisis by leveraging the distinctive attributes and resources that come with being a Japanese company. According to Noble companies that succeed in strategy implementation are those that are “fairly fluid in their ability to adapt to changing environmental conditions and new strategies” (Noble, 1999, p.132). This attribute is typical of the Japanese companies which, as also previously stated through Simon’s words, seem to be speedier than competitors in this process. This favorable characteristic is to be attributed to their unique approach to strategy and to competition. Their approach is in fact based on competences rather than on discrete products. Prahalad & Hamel define these competences as “core competences”, and they attribute to them the long-term competitive advantage that Japanese companies retain if compared to western competitors. The roots of competitive advantage lay in the creation of core competences thanks to which “Japanese rivals are inventing new
markets, creating new products, and enhancing them” (Prahalad & Hamel, 1990, p.81). They are in this way capable of anticipating the evolution of these vanguard markets. Nintendo adopted this approach brilliantly during the seventh generation with the model Wii: they created a whole new market by reconfiguring their value proposition. This reconfiguration was possible because Nintendo bases its long-term competitiveness not on products but on core competences that are capable of generating new and unexpected value propositions. Because of these core competences the company can adapt and change. This is evident in Iwata’s recent statements where the company’s president announced major changes in Nintendo. These changes include a new and expanded vision that will lead Nintendo to focus on the health business.

Nintendo, leveraging its core competences, is going to drastically change in the near future. This fact is also proved by the answer received by Nintendo of Europe Senior Brand Manager, Simona Portigliotti, at the question: ‘How do you see Nintendo in 10 years?’: “It is impossible to say. You really need to be a creative and visionary individual to predict that. I think that the scenario where Nintendo will give up the hardware manufacturing is unrealistic. I find instead realistic the idea of seeing the company change, a change in the company’s nature” (Simona Portigliotti, Interview One, 2014). This refers exactly to Nintendo’s ability to adapt and reconfigure its businesses.

This dissertation started with a short description of Nintendo’s history. As mentioned in that section, Nintendo started as a playing card company. It then evolved and expanded into the toys business. From that, the next development was the introduction of electronics in toys. Later on the company manufactured hardware that enabled consumers to play videogames on their home television. Most likely, it is now the time for a further Nintendo’s evolution: a reconfiguration of the company that will transform it and project it into new businesses and undiscovered markets. A further sign of this is the fact that Nintendo, during the investors’ meeting on May 7th 2014, confirmed that it had spent over $150 million on an acquisition of an unspecified, non-Japanese, non-gaming technology company (Wikipedia, 2014, d.). The company is therefore adapting and getting ready to change its nature.
8. Conclusion

This thesis aimed to grasp the strategic dilemma faced by the software and hardware corporation Nintendo from launch of Wii U in late 2012 to the end of the FY 2014. The thesis structure was focused on capturing the nature of this recent event, by investigating facts through a strategic management perspective. The aforementioned structure led to the following outcomes:

<table>
<thead>
<tr>
<th>Thesis Structure</th>
<th>Outcome</th>
</tr>
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<tbody>
<tr>
<td>Practical Concern</td>
<td>Nintendo’s financial crisis is an issue of strategic management.</td>
</tr>
</tbody>
</table>
| Key Concepts | o External Analysis: Porter’s Five Forces model; Market Structure; VCI model.  
o Internal Analysis: RBV; Barney’s Framework.  
o Strategic Analysis: Porter’s two choices for sustainable competitive advantage; the four strategic outcomes for differentiation (Invernizzi); using advantage (Rumelt); strategic planning (Simon). |
| Method | Interviews with top management and journalists writing for dedicated magazines (key informants); press articles from economic newspapers and specialized magazines; official corporate documents. |
| Results | On an external level Nintendo showed significant weaknesses. The Five Forces Analysis in fact demonstrates that the company is having a hard time dealing with the current forces shaping competition in the industry.  
On an internal perspective Nintendo proves to still possess a reliable resource on which basing a long-term competitive advantage.  
On a strategic level the company failed to achieve the competitive advantage through a differentiation strategy. |

[Source: own elaboration]

Through this structure, based on information gathered thanks to the interviews with two Nintendo’s top managers and a specialized journalist (the key informants), together with the investigation of specialized press as well as official reports from the company, it is possible to summarize the results of this research as follows:
Figure 34: Main conclusions

<table>
<thead>
<tr>
<th>Thesis’s Main Conclusions</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Does Nintendo still have a competitive advantage?</strong></td>
<td>No, the company’s strategy at the moment does not present the characteristics to create a coherent competitive advantage.</td>
</tr>
<tr>
<td><strong>According to Porter’s “Three Generic Strategies”, what strategies did Nintendo follow? Does it provide a competitive advantage?</strong></td>
<td>Nintendo follows a focus strategy based on differentiation. The strategy at the moment fails to provide a competitive advantage.</td>
</tr>
<tr>
<td><strong>What resource originates a competitive advantage?</strong></td>
<td>The analysis shows that the Nintendo’s Human Capital is the resource that, if correctly leveraged, could still provide a stable long-term competitive advantage.</td>
</tr>
<tr>
<td><strong>Did Nintendo strengthen its advantage with its Wii U in the eighth generation?</strong></td>
<td>Nintendo with the Wii U model failed to strengthen the advantage they previously achieved</td>
</tr>
</tbody>
</table>

In reply to the main research question, the strategic problem the company faced when launching the Wii U consisted in an unclear strategy aimed to both target the casual gamers and the expert gamers. Adopting Porter’s perspective, this strategy consists is a differentiation approach with a broad competitive scope. Nintendo’s strategy assumed that the company was capable to achieve a competitive advantage by, once again, targeting the same customers they attracted in 2006 when the Wii launched and, on top of that, including the expert gamers in their value proposition. The Strategic Analysis demonstrated that the strategy was instead a differentiation strategy with a narrow competitive scope, because Wii U’s value proposition appealed only to a small segment of customers. As mentioned in the Discussion, Nintendo has been blinded by their past success (Paul Tassi, Forbes, 2014, p.) and it has been ignoring the technological changes affecting the industry on a global level. Thus Nintendo found itself to deal with a strategic dilemma that resulted in pursuing a strategy that lead it to be “stuck in the middle” of different strategic approaches. This strategic dilemma prevented the company from performing successfully, up until now, during the eight generation.

Starting with the analysis conducted from an external perspective, it is evident that Nintendo is finding itself to compete in an extremely harsh environment. The increased competition on all fronts resulted by the rise of the consumers bargaining
power, the threat of substitute products and the threat of new entrants, have severely hindered the company’s profitability and increased the internal rivalry in the industry. The market structure of this industry, a Hypercompetition in which the sources of competitive advantage change abruptly, is not helping the Japanese company to keep up with the technological changes. The environmental and organizational changes generated misalignments in Nintendo’s Vision, Culture and Image. These misalignments contributed to alter how consumers perceived the Wii U’s value proposition, making it unclear in the customers’ eyes. The internal analysis shows how Nintendo’s unique resource to leverage, for long-term competitive advantage, is their human capital and their expertise. This resource is in fact valuable, rare, inimitable and non-substitutable. The strategic analysis indicates, that Nintendo’s strategy is a “failed attempt to differentiation” borderline with a “competitive advantage halfway realized”. Nintendo failed in fulfilling the two fundamental variables for a successful differentiation strategy: it did not identify key variables for their targeted customer base in order to build a unique value proposition around them and ask for a premium price; and it did not succeed in keeping under control costs to ensure that the premium price was not affected by the them. The company adopted a differentiation strategy with broad competitive scope whereas it turned out to be, de facto, a focus strategy based on differentiation with a narrow scope. Nintendo’s strategic position is therefore “in the middle” of the two mentioned different strategies, failing to achieve a competitive advantage. Even though Nintendo’s strategy results to be problematic, the company does still possess the skills to improve the current situation and stop the bleeding\textsuperscript{35}. These skills rely on the company’s ability to discover new markets, the “blue oceans”, thanks to which Nintendo can generate new and unexpected value propositions. The company’s focus on core competences is also going to help Nintendo to end this crisis in that they provide the basis for a long-term competitiveness and they allow the company to reconfigure itself, changing and adapting as the decades pass. It is now evident that Nintendo is about to change. The Kyoto based company is in fact going to be different in the near future, embracing new fields such as “health” and including them in their value proposition within the field of entertainment, with the aim to improve people’s overall quality of life. This move does seem to be the correct one in that it makes good use of

\textsuperscript{35} Financial expression signifying “putting an end to the loss of money”. 
Nintendo’s distinctive ability to discover new markets. Nintendo’s strategic dilemma from the launch of the Wii U was originated by the previously illustrated strategic missteps, and it was enhanced by the fact that the company is on the verge of a deep transition that will change forever the nature of Nintendo.

The advice that would be given to Nintendo after having analyzed this case consists in: first, improve its external positioning by effective tackling the current environmental weaknesses such as the internet connectivity; adopting a clear and coherent competitive strategy and scope to compete in the industry. It would be beneficial a differentiation strategy with a narrow scope to highly satisfy Nintendo’s enthusiasts and expert gamers (move away from casual gamers). Second, create a system architecture that would not scare away third party developers in order to increase the customer base. Third, leverage its key resources to set the basis of a long-term competitive advantage. Fourth, use (instead of fight) the smart devices to its advantage to promote Nintendo’s software and hardware.
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10. Appendix

Interview with Simona Portigliotti

Warm-up Questions

- Describe your position and your role within the company
- What are your goals and challenges as Senior Brand Manager at Nintendo?

VCI model questions

- How would you describe Nintendo’s Vision?
• How would you describe Nintendo’s Culture and why is it distinctive?
• How would you describe Nintendo’s Image? How did it change after the Wii U launch?

Strategy Questions
• How do you think Nintendo has tried to shift its strategy to achieve the competitive advantage when substituting the Wii with the Wii U?
• What did Nintendo intended to achieve with the launch of the Wii U? What was the vision behind it?
• Why did Nintendo give up the extremely successful Blue Ocean strategy?

RBV Questions
• What do you think are Nintendo’s most valuable Resources and Capabilities?
• What are the resources Nintendo should leverage internally to exit this situation?

Future Perspectives
• How do you see Nintendo in 10 years?
• Do you think that the scenario some analysts foresaw, in which Nintendo will get rid of its console division and just keep the software part, is plausible?

Interview with Stefano Calcagni

Strategy Questions
• How do you think Nintendo’s strategy has changed when shifting from the Wii to the Wii U?
• What was the vision behind the Wii U? What did Nintendo intend to achieve?
• Do you think that Nintendo made some strategic mistakes with the Wii U model?
• What would you have done differently if you were to launch a next gen console that had to replace the Wii? Would you have kept targeting the casual gamers or shift the focus on core gamers? (My reasoning: it seems that the Wii U is in between these two approaches, a mass market approach opposed to a differentiation strategy that targets the core gamers. This factor might result in an unclear strategy and therefore in a not-so-well perceived value proposition).

Future Perspectives
• What kind of company do you expect Nintendo to be in the next years?
• Do you think that the scenario some analysts foresaw, in which Nintendo will get rid of its hardware division and just keep the software part, is plausible?
• What do you think about the decreasing approval rates of Mr. Iwata?

Confidence in Iwata
Iwata’s Approval Rating

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>96%</td>
</tr>
<tr>
<td>2011</td>
<td>92%</td>
</tr>
<tr>
<td>2012</td>
<td>90%</td>
</tr>
<tr>
<td>2013</td>
<td>77%</td>
</tr>
</tbody>
</table>

[Source: Nintendo’s Financial Statements reported by IGN News]

Interview with Paul Tassi

What are in your opinion the main reasons of Microsoft’s failed strategy?

Do you think that Microsoft aimed at the control of 100% of the profits of used games sales by imposing their policies? (Hence making disappear the retail stores such as GameStop ecc.)

Do you believe that they failed in their original plan because their idea was too ahead for today’s gamers?

Do you think they could have succeeded in their original Xbox One project if they would have done something different? (For example: avoid saying things like "those who do not have a internet connection can buy an Xbox 360" and focus on games instead of everything else)

Do you believe they have committed some mistakes in implementing their strategy?

Second Quarter Financial Results Briefing for the 74th Fiscal Term Ending March 2014 - Q & A

In terms of how we view our relationship with third-party publishers, I think it is natural that there is a difference between publishers who have the software development resources like Nintendo’s to build a software lineup of their own and publishers who do not. Since former President Yamauchi passed away, I have been considering what he taught us in the end, and his words that the worst thing we can do in entertainment is to follow what others are doing spoke directly to my heart. Following and imitating others is the kind of reasoning that Nintendo tries to avoid the most, and while we certainly do not have a negative attitude toward strengthening our ties with third-party publishers, employing the same methodology as the other manufacturers would only lead to the most simplistic competitive approaches, such as price wars or money-giving that would never end. We would like to take a unique approach of our own and build sustainable relationships with our third-party publishers.

Corporate Management Policy Briefing/
Third Quarter Financial Results Briefing
for Fiscal Year Ending March 2014
Jan. 30, 2014
Satoru Iwata, President Nintendo Co., Ltd

As a platform in its second year, Wii U is currently in a very difficult position. I would like to begin with what we are going to do with Wii U.

Obviously, under the current situation where the company has to report an operating loss, simply executing a price reduction as a way to defuse the situation is not an option. In the short-term, Nintendo will focus on thoroughly enriching the value of the most significant feature of Wii U, the Wii U GamePad.

Unfortunately, as the current situation of Wii U shows, we have not been able to fully communicate the value of the GamePad. We also realize that we have not been successful in answering consumers’ questions such as, “What is the difference between Wii U and the previous platform, Wii, and what is the benefit of upgrading it?” By looking at the current sales situation, I am aware that this is due to our lack of effort. What’s even worse is that there even appear to be not a small number of consumers who
think the GamePad is one of the accessories for the previous platform, Wii. It is more challenging to convey the appeal of the GamePad to consumers who do not engage with video games that often since they do not actively gather information about video games. Therefore, we intend to take on this challenge, and I would like to have this solved before the year-end sales season. In order to do this, it is obvious that

Our top priority task this year is to offer software titles that are made possible because of the GamePad. We have managed to offer several of such software titles for occasions when many people gather in one place to play, but we have not been able to offer a decisive software title that enriches the user’s gameplay experience when playing alone with the GamePad. This will be one of the top priorities of Mr. Miyamoto’s software development department this year.

[...]
I would like to tell you about something different from our traditional business. We will definitely maintain dedicated video game platforms as our core business, but We will also take on the challenge of expanding into a new business area. In order to cope with the challenge of consumers’ apathy, we adopted a means to extend the definition of video games and thereby focused on expansion of the gaming population as our strategy. I feel that we achieved tangible results with Nintendo DS and Wii.

Ever since I succeeded Mr. Yamauchi as the president of Nintendo, a company specialized in entertainment, I have deliberated on the meaning of entertainment and in this decade, I have run Nintendo with the belief that the raison d’etre of entertainment is to put smiles on people’s faces around the world through products and services. In addition, as the business environment around us has shifted with the times, I am willing to redefine the meaning of entertainment. As the extension of the definition of video games gave new potential to video games, I think now is the time we need to extend the definition of entertainment. This time, we decided to redefine our notion of entertainment as something that improves people’s quality of life in enjoyable ways, and take a step forward in expanding our business areas. Being an entertainment company, making “enjoyable improvements” is something that Nintendo excels at, and this definition provides us with a clear distinction from simply “improving QOL.”

Ever since Nintendo was founded 125 years ago as a manufacturer of Hanafuda, Nintendo has continued to transform itself into offering various propositions to consumers from toys, electronic toys, and then video games, improving, in my view, people’s QOL in enjoyable ways. What Nintendo will try to achieve in the next 10 years is a platform business that improves people’s QOL in enjoyable ways.

This definition includes, of course, dedicated video game platforms. While we will continue to devote our energy to dedicated video game platforms, what I see as our first step into a new business area in our endeavor to improve QOL is, The theme of “health.” Of course, defining a new entertainment business that seeks to improve QOL creates various possibilities for the future such as “learning” and “lifestyle,” but it is our intention to take “health” as our first step. Please note, however, that rather than simply setting health as our theme, Nintendo will also try to expand it in a new blue ocean. It has been a long time since people started to say that the console era has now shifted to a new mobile era, with wearable technology in the spotlight at CES this month. However, as I said at the beginning of the presentation today, Nintendo is a company that sees the true value of entertainment lies in its individuality. Following others into the exceedingly crowded market of mobile applications or the market of wearable technology that is expected to become increasingly competitive and fighting with brute force is not our way of doing business. Yet again, it is our intention to go into a new blue ocean.

With that said, we wish to achieve an integrated hardware-software platform business that, instead of providing mobile or wearable features, will be characterized by a new area of what we like to call “non-wearable” technology. When we use “health” as the keyword, some may inevitably think about “Wii Fit.” However, we are considering themes that we have not incorporated to games for our existing platforms. Including the hardware that will enable such an idea, we will aim to establish a blue ocean. As we attempt to challenge ourselves with the area of health from a new perspective, we are
considering unique approaches by leveraging our strengths. First, I feel that there is strong public awareness for health around the globe. As those who are already suffering from illness can seek medical care, our new business domain would be providing preventive measures which would require us to enable people to monitor their health and offer them appropriate propositions. However, what is generally good for health requires some kind of effort to be made by the individual, and, as I am sure that many of you have experienced this, it is sometimes difficult to stay focused and engaged, and it is not uncommon to give up after a few days. This is where our strength as an entertainment company to keep our consumers engaged and entertained comes into play, assisted by the non-wearable feature, which is the biggest differentiator of this new business field, as well as user experiences that integrate into people’s daily lives, all of which help us overcome this difficulty. If we do indeed succeed in doing so, we will be able to provide feedback to our consumers on a continual basis, and our approach will be to redefine the notion of health-consciousness, and eventually increase the fit population. I feel that not only can this QOL-improving platform utilize our know-how and experience about video game platforms but also we can expect it to interact with games and create a synergistic effect.

Nintendo has released a series of games entitled “Touch Generations” that seek to expand the definition of games by releasing games in various fields including health-themed titles such as “Brain Age” and “Wii Fit,” or educational titles such as “English Training” and “Art Academy,” or lifestyle software such as “Cooking Navigator” (translation of Japanese title, only available in Japan). The know-how and experience we have acquired about entertainment through these games, or to put it differently, the ability to keep consumers engaged and entertained on a continual basis and the hospitality we can offer is something that we can take advantage of now in order to increase the value of our QOL-improving platform. On the other hand, while we feel that this is going to take two to three years after its launch, we expect the QOL-improving platform to provide us with new themes which we can then turn into games that operate on our future video game platforms, too. Once we have established such a cycle, we will see continuous positive interactions between the two platforms that enable us to make unique propositions. Through our new endeavors with the QOL-improving platform, we strive to promote our existing strategy of expanding our user base even further. As all dedicated video game platforms ever since Famicom (Nintendo Entertainment System) in 1983 have continued to expand the gaming population as well as Nintendo’s user base, our QOL-improving platform will attempt to create an environment in which we can expand the population of those who are conscious about their health and use that expansion to expand Nintendo’s user base.

11. Acknowledgments

This thesis is dedicated:
To my friends of the HBC, Pasquale and Marco.
To my teacher who has been supportive and understanding during difficult moments last summer.
To my beautiful girl Farah who is now finally healthy again.
To my grandfather who has also been to hospital this summer.
To Leo, Mauro and respective families for their precious advices and support.
To my mother, the only reason why I am here.
To my family and friends, for the unconditioned support.