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Assignment 2: Nintendo's Internal Environment

Nintendo possesses many distinctive competencies within the video game industry. Through a strong financial position composed of valuable, rare and difficult to imitate assets, a dynamic corporate strategy, and effective management leadership throughout the organization, Nintendo dominates the market. However, Nintendo is overshadowed by competitors in the mobile gaming industry, which is quickly gaining popularity through apps on smartphones and devices. Another weakness that needs to be addressed is the brand image. While Nintendo retains one of the most successful brand images in the eyes of families and children, they fall behind when it comes to appealing to the young adult, hardcore video gamer. People in this segment view Nintendo as childish and that their technology lacks in power and capabilities compared to competitors such as Sony or Microsoft. From these weaknesses come opportunities, and Nintendo has the resources needed to pursue these lucrative avenues. Finally, the weaknesses also highlight threats from within the industry. Due to the increasing number of new entrants, and the competitive prowess of leading rival firms, Nintendo must revise its strategy carefully in order to stay relevant within the video game industry.

Nintendo's strengths are its collection of assets, dynamic corporate strategy and its effective leadership and management throughout the entirety of the organization hierarchy. Financially, Nintendo is in relatively good standing, even with a poor showing from their new product, the WiiU. In 2013, Nintendo reported an estimated \$15 billion in total assets, which

accounts for current assets, non-current assets, intangible assets, and investments (Nintendo, 2013). With nearly \$9 billion in cash and no debt, Nintendo is not bogged down by other struggling industries, as Sony is by their electronics department (Kain¹, 2014). While the WiiU has struggled in comparison to same-generation consoles such as the Xbox 1 or the PS4, Nintendo has diversified enough through the 3DS systems that it is actually surpassing the sales in total of its competitors (Kain², 2014).

One of the largest assets that they have is sole ownership over the intellectual property of many iconic and popular game titles and series. Nintendo works with video game developers and contracts the games so that they are only available on Nintendo consoles. Sony and Microsoft, on the other hand, have games that can be played on either console, as well as on the PC. While it does allow for a wider market to purchase the game and play it, it also allows competitors to steal profits. If a gamer is able to play a game on their computer, he or she would not need to go out and buy a console to play the same game. However, in order to play games such as Pokemon, Mario, or Zelda, for example, one would have to purchase a Nintendo product. This keeps the profits within the organization and the exclusivity creates desire and incentive to purchase.

Nintendo has cornered the motion technology corner of the video gaming market. Even though the Xbox and PlayStation have similar features, they are limited in capability and never really gained much attention. The WiiU remote and gamepad, however, are innovative and allow users to complete tasks not possible on other consoles. The remote tracks the movements of wrist of the user and acts as an extension of the controller itself. This allows for simulation games such as bowling, golfing or Frisbee, as well as for exercise games such as Wii Fit. The gamepad, on the other hand, allows for portability. The user can switch from playing a videogame on the television screen to the gamepad with no interruption in gameplay. This allows another family

member to watch television while the other plays on the gamepad. This mobile accessibility is not available on either the Xbox 1 or the PS4. The gamepad allows for screen touch interaction, which Nintendo has integrated into its videogame software to create a new way to play videogames (Vargus, 2012).

Although Nintendo possesses several competencies in the console gaming market, they have failed to venture into the mobile app gaming industry. Several pertinent statistics highlight the possibilities within the mobile app industry – “91% of all people on earth have a mobile phone, 56% of people own a smart phone, 50% of mobile phone users use it as their primary internet Source, 80% of time on mobile is spent inside apps and 72% of tablet owners purchase online from their tablets each week (State of mobile 2013, 2013).” Beyond developing games for mobile gaming,

Nintendo is losing a significant amount of consumers from not having a presence in the mobile app industry at all. 57% of users will not recommend a business that does not have or has a poorly designed mobile site or mobile features. Not having a mobile presence is the equivalent of closing a store one day per week (State of mobile 2013, 2013).” While Nintendo has not integrated into the mainstream mobile app industry, it is making progress. Users are able to visit an E-Shop on Nintendo products such as the 3DS or the WiiU and make gaming purchases there.

Part of Nintendo’s strategy is to appeal to a larger target market; Nintendo wants to make gaming accessible for people of all ages, genders and experience (Nintendo, 2013). The mobile gaming industry is both a weakness and an opportunity for Nintendo in this regard. On one hand, it is a route that Nintendo has not pursued and that is very profitable if exploited correctly. On the other, this is still an option for Nintendo in the future, as aligns with their strategic vision.

Threats to Nintendo are visible through analyzing their weaknesses. The other major competitors in console gaming, Microsoft and Sony, each threaten to take away a large portion of Nintendo with every announcement and reveal. Nintendo is losing a significant percentage of their market share in this industry and will have to address this in order to sustain its business in the upcoming years. From the 3rd quarter report in 2011 to the 3rd quarter report in 2012, Nintendo lost 9% of the market to both Sony and Microsoft (ITCandor, 2012). This concerning statistic shows that Nintendo is falling behind to these rival firms. Switching costs for buyers play an important role. On one hand, the high costs of switching brands for console gaming helps to retain Nintendo customers, but also impedes Sony and Microsoft customers from purchasing Nintendo products.

Microsoft and Sony are both aggressively pursuing advances in technology, power and capabilities. Nintendo is already seen as inferior to the mature, young adult segment of the video gaming market with no sign of improvement (Vargus, 2012). In the modern day where customers want the best of the best, i.e. the newest iPhone every year, it is pertinent to stay on top in the eyes of the consumers.

With strong assets and channels for growth and new opportunities, Nintendo appears to hold a strong position in the video gaming industry- for now. However, based on its weaknesses, the threats from rival firms and new entrants, and recent financial and statistical trends, Nintendo's market share will continue to shrink. It is important for Nintendo to employ offensive tactics to regain recognition and to overshadow competitors while also defending itself from competitors who seek to exploit its current weaknesses.

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