

# Nintendo: the key player in the fast-changing video game industry

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Nintendo had an impeccable timing coming into the console-based videogame industry, in the 1980's. In 1983, there was a crash of video games in America, brought on by the existence of too many consoles with low quality games and the rise of popularity of desktop computers. One year after, Nintendo launched the NES, their first video game console aimed for families. Nintendo's strategy at the time was having a very tight grip on third-party game developer contracts, limiting them to only five titles per year, while dividing their own R&D team into sub groups and having them compete with each other to make new games. This led to the creation of many famous titles, which quickly became household names.

After this first success, they worked on their reputation, through the existence of an "Official Nintendo Seal" in their products, which revived customers trust in video games. They quickly became the dominant player in America, the biggest market in the industry at the time.

Having successfully penetrated into the market and built a name for themselves, Nintendo's strategy was to understand customer needs, an important factor in this fast-changing industry, and create innovative products to satisfy these needs. They understood that there was an opportunity to gain competitive advantage over their competitors by offering lower prices both for their consoles and their games. More than half of Nintendo's games are produced by themselves, which allows them to create franchise characters and games that can only be played on their platforms.

Another point of difference is their target market, which changed from children to families and non-gamers in general, including the older

generation. Their aim was to simplify gaming and make it accessible to everyone, which led them to invent some of the most innovative products in the market, like the Nintendo DS with dual screens, or the Wii with motion detection technology.

## **Why was the Wii console so successful?**

The Wii console was launched in 2007, and its main competitors were Sony's PlayStation 3 and Microsoft's Xbox 360. It quickly became a huge success, and greatly outsold its competition, doubling the sales for Nintendo, which had been suffering from a decline in market share and margins at the time. Customer value in the videogame industry in 2007 was achieved by offering high end hardware performance, and very intense and realistic gaming experiences to dedicated gamers. Nintendo saw an opportunity to change their value proposition, to aim instead for delivering a fun and simple experience while gaming, which could be achieved by anyone, including people who didn't have the habit of gaming often. The Wii Remote was simple and easy to use, with a motion detection feature that enabled the console to become not only an entertainment system, but also a fitness equipment. By targeting non-customers, like families and casual gamers, Nintendo successfully open itself up to a new market, which, paired up with their low-costs relative to their competitors, and innovative motion detection technology, provided the basis for the success of their Wii console.

Nintendo successfully implemented a Blue Ocean strategy, but sustaining it was harder. Competitors soon after started imitating their revolutionary device, coming up with better controllers, which hindered Nintendo's newly

found competitive advantage. Moreover, as this is a fast paced, ever changing market, Nintendo needed to follow up with a new generation console, but they failed to do so effectively. The Wii U lacked innovation, and was more complex and confusing, which clashed with the needs of their new market: non-gamers who wanted something simple. Another aspect was the rise of online and mobile gaming, accessible to anyone who had a smartphone, which was an easier way to satisfy the needs of non-gamers.

Should Nintendo focus on software development and give up its traditional focus on hardware?

For Nintendo, there are issues regarding both their hardware and software strategies. For starters, console demand is generally going down, as mobile games rise in popularity. Moreover, hardware technological innovation cycles are very fast paced, and Nintendo is not keeping up with its competitors on this matter, at least in recent years. As for software, they had a very late integration with mobile games, and there has been a lack of blockbuster characters for many years. Most of Nintendo's loyal customers, who were emotionally invested in characters such as Mario, Zelda or Pokémon, are now grown adults, and the newer generation simply doesn't have that emotional connection to the brand. Their hardware exclusivity regarding games has also affected their sales in the latest years.

Therefore, I believe that Nintendo should focus on developing smartphone platforms, as well as invest on the continuation of their household name character family, with a new generation of characters that could appeal to

younger gamers. That doesn't mean that they should give up entirely on console development, but maybe try to adapt to new trends, like focus on portable devices.

### **What are the main challenges that Nintendo is now facing?**

The video game industry is characterized by the existence of disruptive S-curves, which appear at a fast pace. Nowadays, the growing trend of using smartphones for social and casual gaming is the biggest threat to substitute more traditional consoles such as the Wii. Nintendo has been developing innovative smartphone games, using technology like augmented reality (Pokémon Go), so the question is whether this will be sustainable for them in the long run. Piracy is also an important challenge to tackle, as it translates into high amounts of lost revenue not only for the company, but for the industry as a whole.