

Nintendo strategy assignment



Simplifying the design and use of the WI system allowed the developers to create the perfect entry strategy for their new target market with great success. In the first half of 2007, the Nintendo WI sold more units in the United States than the Xbox 360 and PlayStation 3 (PS3). In the first quarter of 2008, Nintendo's net sales were up over 20% from the same quarter the previous year and WI was outselling its seventh generation home system rivals the Sony PlayStation 3 and the Xbox 360.

Nintendo's net income in the same quarter was up over 30% from the same quarter the previous year due to the intended strength of WI and Nintendo DS hardware and software sales. Finally, most believe that both Sony and Microsoft had been traditionally operating at a loss with anticipated gains in software and game sales while Nintendo enjoyed operating profits. Although initially surprised by WI's resounding broad appeal, Sony and Xbox were prepared for a series of competitive counter moves designed to attack WI's popularity going into the 2008 holiday season.

Some of your students may have received early versions of game consoles such as Nintendo 64, Sega Genesis, or PlayStation or handheld games such as Nintendo Game Boy as gifts when they were children. Given the increasing popularity, sophistication and complexity of consoles, it's also likely that a majority of your students currently own one of the ten inhumane game or consoles mentioned in the case.

The case will allow you to illustrate concepts from Chapters 3 - 6 if used as a stand alone case or can be paired with Case 11-Competition in the Video Game Console Industry if you prefer to use the case to focus on the strategy

options presented in Chapters 5 and 6. The case provides sufficient information to allow students to prepare a review of the industry dominant economic characteristics, Lully examine the competitive forces at play in the video game industry, consider the industry driving forces and key success factors, and examine Nineteen’s internal situation and recent financial performance.

The case also allows students to understand how focused differentiation strategies are capable of yielding above- average profit margins without a reliance on premium pricing. The case also allows students to understand the appeal of Nineteen’s Blue Ocean strategy and observe how the company has turned a first mover advantage into what appears to be a sustainable advantage. This teaching note reflects the thinking and analysis of the case authors, Professor Lou Marino and Sally Garrett, both of the University of Alabama.

We are most grateful for their insight, analysis and contributions to how the case can be taught successfully. 717 718 Case 12 Nineteen’s Strategy for the WI-? Good Enough to Beat Oxbow 360 and Plantation 3? Finally, the case’s strong decision focus allows students to consider what Nintendo must do next to ultimately win the battle among next generation video game consoles. To give students guidance in what to do and think about in preparing the

Nintendo case for class discussion, we strongly recommend providing class members with a set of study questions and insisting that they prepare good notes/answers to these questions in preparing for class discussion of the

case. To facilitate your use of study questions and making them available to students, we have posted a file of the Assignment Questions contained in this teaching note for Nintendo on the student section of the publisher's Online Learning Center for the 17th edition (www. Meme. Com/Thompson). You should be aware that there is a set of study questions posted in the student LLC for each of the 26 cases included in the 17th edition.) In our experience, it is quite difficult to have an insightful and constructive class discussion of an assigned case unless students have conscientiously have made use AT pertinent core concepts Ana analytical tools In preparing ostentatious answers to a set of well-conceived study questions before they come to class. In our classes, we expect students to bring their notes to the study questions to use/refer to in responding to the questions that we pose.

Moreover, students often find having a set of study questions is useful in helping them prepare oral team presentations and Ritter case assignments-? in addition to whatever directive questions you supply for these assignments. Hence, we urge that you insist students spend quality time preparing answers to study questions-? either those we have provided or a set of your own questions. There is a 2: 48 second video that accompanies this case that discusses how the WI has expanded the market for video games by appealing to non-traditional gamers.

It is best to show the video at the very beginning of the class discussion. The case can be used effectively for a written assignment or oral presentation. Our recommended questions for written assignments are as follows: 1. You have recently been hired by Nintendo of America as an analyst and have been assigned to its WI strategy group. During your first meeting with the <https://assignbuster.com/nintendo-strategy-assignment/>

strategy group, the team leader asked that you prepare an analysis of the video game console industry for distribution at the next meeting.

Please prepare a 5-6 page report that includes a description of the industry dominant business and economic characteristics, evaluates competition in the industry, assesses industry driving forces, and lists industry key success factors. Your report should also include a strategic group map of the entire video game industry and specific strategy recommendations that will allow the WI to remain the leading next generation console. 2. As a newly hired Nintendo of America retail representative, you have been asked to join a cross functional strategy group.

The group's charge from upper level management is to make a set of recommendations designed to further solidify the company's number-one ranking in the industry. Your recommendations to upper management should be in the form of a 2 – 3 page executive summary and must be supported with a complete industry analysis, company situation analysis, and SWOT analysis. Each recommendation should be supported by your analyses and must clearly specify what elements of your analysis led to your conclusions.

The exhibits, tables and figures used in your analysis should be attached to your executive summary and carry an equal weight in determining your grade for the assignment. ASSIGNMENT QUESTIONS 1 . What are the defining business and economic characteristics of the video game console industry? What is the industry like? 2. What is competition like in the video game console industry? 3. Do a SWOT analysis to support your answer. Which of the five competitive forces is strongest? Which is weakest?

Would you characterize the overall strength of competition in video game consoles as fierce, strong, moderate to normal or weak? Why? Crafting & Executing Strategy 17th Edition 3. What forces are driving changes in the video game console industry? Are these driving forces acting to make the industry more or less competitively intense? Are the driving forces acting to make the industry more or less profitable in future years? 4. What 3-5 key factors determine the success of video game console developers like Nintendo? 5. What is Nintendo's strategy?

Which of the five generic strategies discussed in Chapter 5 is Nintendo using? What are some of the recent offensive and/or defensive strategies that Nintendo has employed? Have these tactics been successful? 6. Is it fair to characterize Nintendo's introduction of the Wii as a blue ocean strategy? Why or why not? 7. How well is Nintendo's strategy working in terms of the financial performance it is delivering? Should shareholders be pleased? Why or why not? What 2-3 weaknesses do you see in Nintendo's financial performance? 8. What does a SWOT analysis reveal about the attractiveness of Nintendo's overall taxation?

Is the company's competitive position as solid as top management seems to believe? Does the company have a competitive advantage? If so, what is the basis for this competitive advantage and is the advantage sustainable? 9. What does a competitive strength assessment (as per the methodology in Table 4. 4 of Chapter 4) reveal about whether Nintendo has a competitive advantage? 10. What recommendations would you make to Nintendo to improve its competitiveness in the video game console industry and to maintain its favorable positioning vis-à-vis Microsoft and Sony?

TEACHING OUTLINE AND ANALYSIS . What are the defining business and economic characteristics of the video game console industry? What is the industry like? Students should be able to identify the following business and economic characteristics of the console segment of the video game industry:

v Economies AT scale: competitors In ten Industry are large Ana conclave

cost advantages by producing large quantities. However, both Sony and

Microsoft have traditionally operated at a loss in part due to heavy

investments into research and development. Product innovation:

Competitors win market share from rivals by developing arduous that are

technologically superior and more powerful than the products offered by

rivals. New products often contain technological breakthroughs such as

advanced graphics or interactive motion-sensitive controllers as the basis for

competition. V Degree of product differentiation: Products in the market are

becoming increasingly more differentiated. Some products offer high

definition graphics and play DVD's while others offer controllers with motion

sensors to fundamentally change the way gamers play and interact with the

game. Scope of competitive rivalry: Competition occurs on a global scale to

help bread research and development costs while driving revenues. For the

largest competitors, non-American sales account for the majority of

worldwide sales with the exception of Oxbow v Segmentation: The industry

was segmented into console hardware, console software, handheld

hardware, handheld software, PC software, online games, interactive TV, and

mobile phone games. V Market size: The total size of the global video game

industry exceeded 69 million units sold in 2008. 19 720 Students should

further identify the following as important attributes of the industry: v

Entry/Exit barriers. Barriers to entry were all but insurmountable. Successful

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new entrants were required to have sufficient capital and technological capabilities to develop sophisticated game hardware systems capable of performing highly complex calculations. Other barriers to entry included the establishment of an installed base of sufficient size to provide an adequate incentive for independent software developers to create games for a new game system. Scope of rivalry. Rivalry in the industry could be considered global, with the three largest sellers of game systems competing against each other in all world markets. Competition exists on the basis of technologically-advanced and unique economies of scale. Economies of scale were necessary to keep game system and component development expenses at acceptable per unit levels. Next generation game system and component development costs were so high that analysts believed Sony and Microsoft consistently operated at a loss. V Consumer characteristics.

While typical gamers could be thought to have demographic characteristics of being young and male, a new trend is emerging whereby traditional non-gamers are now potential consumers. This has expanded nonuser characteristics to include a wider array of ages along with male and female consumers. 2. What is competition like in the video game console industry? Do a five-forces analysis to support your answer. Which of the five competitive forces is strongest? Which is weakest? Would you characterize the overall strength of competition in video game consoles as fierce, strong, moderate to normal or weak? Why?

Substitutes for Video Game Systems Competitive pressures coming from the market attempts of outsiders to win buyers over to their products Suppliers of Raw Materials and other inputs used in the Manufacturing of Video Game
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Consoles Competitive pressures stemming from supplier-seller collaboration and bargaining Rivalry among Competing Video Game System Sellers Competitive pressures created by the Jockeying of rival sellers for better market position and competitive advantage seller-buyer collaboration and bargaining Buyers of Video Game Systems Competitive pressures coming from the threat of entry of new rival s Potential New Entrants Into ten Vivo Game console Industry v The bargaining power and leverage of buyers – a weak competitive force Big box electronics store and discount store buyers had relatively little leverage in estimations with sellers of video game consoles. Consumers expected retailers to carry the three leading brands of consoles and the top two brands of handheld games.

A decision by retailers not to carry the leading brands of game consoles would negatively impact the retailer's image with consumers. Students may suspect that manufacturers had uniform pricing for retailers, regardless of size, because of the standardized retail prices of game consoles. v The bargaining power and leverage of suppliers – a moderately strong competitive force Students will easily conclude that suppliers of microprocessors and graphics recessing units (Spins) had a moderate degree of leverage with console manufacturers because of the collaborative development process utilized in the industry. Console makers were unable to negotiate between sellers of core components, since microprocessors and Spins were specifically designed for a system.

Students can rightfully argue that video game console producers did have the ability to negotiate terms with components manufacturers prior to the development of a next generation system. v Competition from substitutes –

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a moderately strong competitive force There were many recreation and entertainment substitutes to video games. Video gamers could engage in outdoor sports or other activities or find entertainment indoors by watching television, reading, listening to music, surfing the Internet, playing board games, or playing a musical instrument. However, the interactive nature of video games was very intriguing for many young people and older gamers. Students should point out that other gaming platforms such as PC games, handheld games and mobile phone games were also substitutes for console-based video games. Threat of entry – a weak competitive force Entry barriers that include considerable console development costs, advanced genealogical skills, a sizeable installed base of game consoles, game software development costs, volume guarantees to suppliers of key components and access to retailers make the threat of entry weak. The most likely new entrants would be established computer technology companies such as Apple. V Rivalry among competing video game console producers – a fierce competitive Torte Students should conclude that rivalry among competing sellers is fierce. Competition between Nintendo, Sony and Microsoft centers primarily on the technological capabilities of the consoles and having a wide variety of appealing name titles developed either internally or through partnerships with independent game developers. The intensity of competition had driven console development and production costs to more than \$800 per unit for the Plantation 3.

A third competitive weapon utilized by console makers was aggressive pricing, which resulted in a loss of more than \$300 per unit on every Plantation 3 sold. Microsoft's Oxbow 360 pricing was also believed to be

below its production costs. Nintendo had chosen not to compete aggressively on technological capabilities when developing the WI and has earned profits on the sales of WI units. Overall Assessment: Students should conclude that the video game industry is only modestly attractive when looking at the console segment. The greatest percentage of industry profits seemed to generate from the sale of game software and peripherals. Students may compare the video game business to the razor/razor blade industry, whereby razors are sold at a loss or breakable and blades carry high margins.

The development of a large installed base of console systems is essential to earning substantial profits from the sale of game software over the lifespan of a console. Therefore, students should recognize that the video game industry requires patience on the part of participants to see profits from their investments in next generation technology. 721 722 3. What forces are driving changes in the video game console industry? Are these driving forces acting to make the industry more or less competitively intense? Are the driving forces acting to make the industry more or less profitable in future years? Driving forces that students should be able to identify include: v Product innovation.

Students should note that since the beginning of the video game industry, each new generation of video game consoles has been dramatically more technologically advanced than prior generations. Technological advancements have included better graphics (i. e. , high definition) and motion sensor controllers. v Emergence of new video game devices.

Students will comment on the emergence of new video game devices such as mobile phones, ' Pods, and other handheld devices. v Emergence AT

Internet-Dates peeve games. Beginning with the Good Ana Play 2, game consoles were capable of connecting to the Internet to play Internet-based game software or multilayer games. Societal trends.

Changes in societal trends influence the disposable income of consumers to buy consoles. The industry is said to be resilient to recession. Changes in demographic groups present an opportunity in untapped market segments. V Changing consumers. There has been a change in the target audience for video game console industry competitors with the introduction of Nineteen's WI. Incumbents are likely to take note of this new segment. Students should conclude that the individual and collective effect of industry driving forces will drive development costs higher-? making the industry less attractive for new entrants and increasing the number of unit sales necessary for current console makers to achieve breakable.

Students could make the argument that, as development and production costs continue to climb, consoles must evolve into central entertainment hubs that all consumers would like to have in their homes to achieve sales volumes necessary to support profitability. In addition, students may suggest that the cost of developing handheld systems will likely rise as features are added to defend against game features included on wireless telephones and pod- type devices. 4. What 3-5 key factors determine the success of video game console developers like Nintendo? Students should identify several factors that are necessary for competitive success in the console segment of the video game industry to include the following: v Large installed base.

Students should be able to argue successfully that the development of a large installed base is the most important factor related to success in the console segment of the video game industry. A limited selection of game titles reduced consumer interest in the console-? regardless of its technological capabilities. V Technological capabilities. Video game console makers were required to develop next generation consoles that could fully exploit the capabilities of the latest microprocessors and Spins. Traditional gamers seemed most interested in games with realistic graphics. Nineteen's WI did not have the graphics rendering capabilities of the Plantation 3 or Oxbow 360, but did include a highly innovative and technologically advanced wireless game controller. Partnerships with independent software developers. The availability of intriguing game titles was essential to building an installed base and earning residual pronto Trot game sales. Strategy 17th Edition rattling & Executing v Acceptable development and production costs. Development costs and production costs increased as each new generation of game console became more technologically advanced. The cost to develop microprocessors and Spins capable of performing increasingly complex instruction sets and the cost of innovative components such as Sonny's Blue-Ray HAD optical drive had caused the cost of each Plantation 3 unit to range from \$805 to \$840.

The Plantation g's retail price caused Sony to lose as much as \$305 per unit, which increased the volume of game software that must be sold to make the business unit profitable. Access to distribution. Students should determine without much difficulty that access to retail distribution through big box electronics stores and large discount stores such as Wall-Mart and Target are

essential to building an installed base. Chapter 5 is Nintendo using? What are some of the recent offensive and/ or Students should identify a firm's competitive strategy as being concerned with the specific game plan management uses to compete successfully and to secure a competitive advantage over its rivals.

This requires that a firm out-compete its rivals by doing a better job of satisfying buyer needs and preferences. Companies can employ one of five generic strategies or some combination thereof to beat its rivals. Those generic strategies include the following: overall low-cost provider strategy, broad differentiation strategy, focused low-cost strategy, focused differentiation strategy and best-cost provider strategy. Students may find that Nintendo is using a broad differentiation strategy, which involves competing by being unique in ways that are valuable to a wide range of customers. Nintendo's Wii utilizes a game controller that is highly interactive by incorporating motion sensors.

As such, Nintendo has successfully built a competitive advantage by incorporating features that enhance buyer satisfaction in uneconomic or intangible ways, which is one of the four ways to build a competitive advantage with a broad differentiation strategy. Nintendo's broad differentiation strategic approach has been successful since technological breakthroughs are a critical success factor in the industry. Additionally, Nintendo's recent offensive and defensive strategies have helped the company successfully implement its strategy. A core element of Nintendo's offensive strategy involved changing the market's perception of Wii by offering a very different gaming