

# Nintendo wii case study

Education



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## **Wii – Nintendo’s Video Game Revolution**

### **Problem Statement:**

Nintendo’s George Harrison needs a solution to deal with chronic product shortages when unexpected demand exceeds supply despite the increase in manufacturing capacity. Preventing product shortages would also eliminate an opportunity for competitors to increase market share in a highly competitive electronic entertainment industry.

### **Objective:**

To develop a product planning strategy to effectively deal with the 2007 holiday season and demand going forward to reduce product shortages. To develop a strategy that sees Nintendo maintain its market leader status once it is in the market maturity stage

### **Background:**

Nintendo has been in existence since 1889, starting with cards and then expanding into toys and games Nintendo is the leading video game maker in the United States Nintendo has had phenomenal success with their recent launches of Wii and DS In 1992, Nintendo had captured 80% share of the market for video games

### **Forecast: 1**

Nintendo is forecasted to sell 14, 000, 000 hardware units of Wii during the next year, significantly up from their previous year in which they sold 5, 840, 000 units Nintendo is also projected to sell 55, 000, 000 software units, again significantly up from their previous year in which they sold 28, 840, 000 units

Competitors such as Sony and Microsoft are not facing any shortage issues and are aggressively cutting down their console prices to increase their respective market share

**Situation Analysis:****S. W. O. T Analysis:****Strengths:**

Nintendo is a well known and established brand with an excellent reputation  
Had phenomenal success with recent product launches (DS and Wii)  
Product priced lower than the competition

Nintendo games are easy to learn, but hard to master

Nintendo has the first motion-sensing controller in the video game industry

Nintendo Wii, with its motion-sensing controller can help improve fitness

**Weaknesses:**

Not able to keep up with the demand of their latest console Wii  
Weaker graphics and processors as compared to its competitors  
Nintendo ignored trend changes in consumer's preference to computer games in the past  
Nintendo players lack built-in DVD or blue-ray players

**Opportunities:**

Opportunity for Nintendo to increase revenue through online advertising on the Wii channel  
Games can be developed at 25 to 50% of the cost of games for the competition  
Games can be developed in a significantly shorter time than for the competition  
Nintendo consoles appeal to the older market that likes challenging non-violent games  
Demand is still high for Wii and DS

**Threats:**

Customers are willing to pay premium price for better function and graphics  
Competition has lowered the price of their console to compete Customers are more into complicated and hard to win games

Competition has started to introduce their own new games for casual users to compete directly with Nintendo Customers are starting to wonder if product shortages are intentional to keep them interested Suppliers for parts are unable to meet Nintendo's demand

Retailers bundled up Wii with different peripherals, selling them for \$350 and \$600, pricing more than competitors

**Conclusion:**

Currently Nintendo has several opportunities and strengths it can take advantage of. It is going to need all these and more to stay competitive in this fast moving and highly competitive market. Its biggest problem is the product shortage which it needs to be rectified to stay competitive otherwise consumers may tire of waiting to purchase a Wii console and will purchase from the competition.

**Market Analysis:**

Video game consoles would be part of the specialty product class. These are items that a consumer really wants and makes a special effort to find. Typically these items are in high demand around the holidays and then demand will subside with small peaks throughout the year. This enables businesses to stockpile product for the next holiday season. Unfortunately this has not happened for Nintendo and demand has stayed high throughout the year which means they have not been able to stockpile for the upcoming

holiday season. The product life cycle<sup>2</sup> of video games can be pretty unpredictable but in general tends to be shorter due to ever changing technology. Nintendo has had great success over the past 20+ years in the market by coming up with unique products with differentiating marketing strategies. The latest evidence of this is the release of its handheld console called DS and motion-sensing controller for the Wii console, because of this Nintendo has become a leader in the market once again. But, Nintendo was caught off guard during the first life cycle, market introduction<sup>4</sup> stage but in the case of Wii, Nintendo saw acceleration in demand after the first holiday season instead of a decline. This could be because some new-product ideas will move through the early stage of the life cycle more quickly when it has certain characteristics<sup>4</sup> but even industry analysts such as Michael Pachter who said “ I've never seen anything like this” and “ Nintendo could not have expected this level of popularity” was shocked at the demand<sup>3</sup>. Nintendo is now in the market growth stage making big profits but its competitors are responding by lowering the cost of their consoles and developing new software to directly compete.

**Segmentation Analysis:**

In Appendix A you will find the Segment Analysis chart. We divided the market into four main segments young children, teenager/young adult, parents and senior citizens. With its easy to use and more simplistic family and fitness oriented games Nintendo currently has a large majority of the young children, parents and senior citizen market which makes up approximately 65% of the industry. As there are currently many

games on the market that appeal to these groups, their efforts may be better served trying to obtain some of the teenager/young adult market by developing a few games that have higher graphics and speed and more violence.

### **Competition Analysis:**

When Nintendo introduced the Wii they had obviously analysed their competitors to find a competitive advantage. They took advantage of this by developing a new easier to use motion controller that encourages people to be physically active while playing and their games appeal to everyone not just the hardcore gamers. Appendix B shows a competitive analysis for Nintendo and its main competition.

Even though the Nintendo Wii is currently in the market growth stage it won't take long for it to get to the market maturity stage as both Microsoft and Sony have started to adapt their products to more directly compete against the Wii. It is important for a firm to have some competitive advantage as it moves into market maturity. Even a small advantage can make a big difference and some firms do very well by carefully managing their maturing products<sup>1</sup>. Nintendo will have to keep this in mind if they want to stay the industry leader in game console sales as Microsoft and Sony continue to adapt their products to more directly compete against the Wii.

### **Financial Analysis:**

Nintendo is forecasted to sell 14 million<sup>4</sup> Wii's and the profit on each hardware unit sold is \$50. If Nintendo is able to keep up with the demand their total profit based on projected sales could be approximately 700

million. They are still the cheapest console in the market at \$2495 as compared to its competitors (Sony and Microsoft). Nintendo can further increase its profits by bundling accessories and games with its console. Wii packages could be sold between \$350 to \$6006 which could further increase their revenues and profits. Nintendo could also make additional revenue from the advertising that it allows on its Wii channel. All of this indicates that Nintendo is financially sound and its latest offering (Wii console) is raking in big revenues and making decent profits. If Nintendo is able to keep up with the demand they could have another record breaking year in terms of sales and revenues.

**Case Keys:****Opportunities:**

Wii's motion sensor technology is unique and first off a kind, it provides Nintendo with an opportunity to develop creative accessories, such as, electronic guitar, fitness matt etc. Online gaming, Nintendo's Wii channel is a free service subsidised by online gaming and subscription fees. The Wii channel also included an art program to create an avatar and could use them in multiplayer games.

**Key Success Factors:**

Developed and introduced a product that was different than the competition  
Lowest priced game console in the market  
Still the only motion sensor controlled game console on the market  
More games available for the Wii than the competition

**Key Uncertainties:**

Will Nintendo be able to keep up with product demand

May not be able to win over hardcore gamers

How soon will it be before Sony and Microsoft have motion sensor controllers

Product life cycle can be very short if the product is not upgradable Nintendo

needs to be responsive to changes in market trends

Competitors may easily replicate Nintendo's users-friendly concept

**Alternative Solutions:**

1) Do Nothing: Nintendo could do nothing and continue to have possible shortages until the current component manufacturer increase production or provide enough components to fulfil demand.

Pros:

Will keep demand high

When demand levels off there will be no overstock issues

Cons

Customers could get tired of waiting and buy from the competition

2) Encourage stores to do advance online ordering: This would allow Nintendo to keep intact with the demand and allow customers to track their order and know the approximate shipment time.

Pros:

Nintendo will have an idea of demand in advance

Customers will know when to expect their product

Customers will not end of paying extra on grey market

Customers will not have to wait in long lines



### Cons

May not be able to deliver product when customer was told  
May not help with product shortage issues

3) Find manufacturers to make additional component parts: Finding additional component supplier would allow Nintendo to meet its demand as the required components for the console would be available sooner and faster.

### Pros:

An increase in component supplies should allow Nintendo to meet consumer demand. Another reliable supplier is a good source for comparing prices and quality. Another reliable supplier is a good backup system, when one supplier cannot meet deadline. Dependable supplier can work as partner with Nintendo in helping in the development of its hardware and software with faster turnaround.

### Cons

May not be able to find another supplier  
Quality may not be as good as with existing supplier  
Suppliers can steal the formula and try to manufacture its own device  
May be more expensive than current supplier

4) Increase price: Increase the current price of the Wii to be the same as the Xbox 360 or slightly higher. This would allow them to keep their revenues and profits at same level as before when they were selling their console at cheaper price.

**Pros:**

If done right profits will grow as increase is pure profit

High price is an image of premium product and differentiated features Some users do not mind paying higher for what they want

**Cons**

Demand may lower too much

Competitors may drop their price leaving Nintendo with too high price in the market Customer may question about price increase for the same product with no upgrade Customers may critique that electronic market prices usually decline and not the other way round

**Recommendation:**

We recommend that Nintendo find another manufacturer to make the additional components for a faster turnaround. Currently Nintendo does not deal with too many software developers or hardware components manufacturer. Partnership with dependable suppliers means that they can increase their production capacity and eliminate or minimize the shortage of inventory to meet the demand of consumers on time. Finding an additional component supplier would allow Nintendo to spend more time on the core of the business and less time being worried about product shortages. They should divert their attention towards research and development of their next product as it won't take long for Sony and Microsoft to catch up to the technology. In order for Nintendo to stay competitive they have to think long term and continually update their existing products or be working on the next big thing.

**Action Plan:**

Timing

Description

Person or Department in charge

Immediately

Meet with current supplier to discuss product shortage issue one more time

Decide which manufacturers to approach regarding making the component parts  
CEO or member of senior management

Senior management

July 2007

Approach manufacturers to see if they can produce component parts  
CEO or member of senior management

Aug 2007

Sign contract with chosen manufacturer

Start to stockpile the other parts required for the Wii  
CEO and senior management

Company in general

Sept 2007

Start production at new manufacturer

Direct all suppliers as to which Nintendo’s facility to ship to

Speak to media to re-assure the public that we have increased supply  
New manufacturer

Procurement department

George Harrison and marketing department

Mid-Oct 2007

Start to ship extra game consoles to stores a little at a time Sales department

Oct to Nov 2007

Marketing to continue with promoting Wii through viral marketing and TV advertising George Harrison and marketing department

Jan 2007

Compile data to see where demand versus supply is and project short-term sales to see if extra consoles are still needed Finance and Sales departments

**Contingency:**

If the plan for outsourcing parts for manufacturing does not work, we will then recommend for Nintendo to encourage stores to advance online ordering. Advance online ordering does have many benefits to customers who does not want to wait in long lines and does not like to get disappointed for not getting what they think they deserve. This also benefits Nintendo's manufacturing department in scheduling their production accordingly since they know how many consoles that must produced not only based on the projected sales, but based on actual figures.

Appendix A

Segment name:

Young Children

Teenagers and Young Adults

Parents

Senior Citizen

Qualifying Dimensions

Who?

Males and females

Age 4 - 15

Males

Age 16-30

Males and females

Age 35-63

Males and females, Age 64 and up

What?

Games

Controllers, fast action ; high graphic games

Controllers, games and consoles

Controllers, games and consoles

Where?

From friends, television, in stores

From friends, television, in stores, internet

From friends, television, in stores, internet

From friends, television, in stores

When?

All year

All year

All year

All year

Why?

Exercise, educational, entertainment, socialize with friends Entertainment, socialize with friends

Exercise, educational, entertainment, socialize with friends Exercise, educational, entertainment, socialize with friends How do they buy?

Cash, debit or credit

Cash, debit or credit

Cash, debit or credit

Cash, debit or credit

Size of Segment

20%

35%

30%

15%

Trends/Potential in segment

Growing market as more educational and simpler games are developed

Market has remained fairly consistent with most owning a game console

Growing market with health conscious trend looking for physical activity

Growing market with health conscious trend looking for physical activity

Determining Dimensions

Benefits sought

Encourages physical activity, educational, fun and means to socialize

Looking for high graphic fast paced games with lots of violence Encourages

physical activity, brain stimulation, fun and means to socialize Encourages

physical activity, brain stimulation, fun and means to socialize

Appendix B

Segment

Nintendo

Wii

Microsoft

Xbox

Sony

Play

Station

Target

Market

Broad audience from young children to senior citizens

18 - 35 male core gamers

Same as Microsoft Xbox

**Product**

Simpler console to make

Games are easier and less expensive to develop

Uses a motion sensor control

Connects wirelessly to the internet and Wii channel offers classic video

games Faster processor

Better Graphics

Online gaming with Xbox live

Has two products on the market PS2 ; PS3

Supercomputer-like power and performance

Built in Blue-ray DVD player

**Place**

Wholesalers and Retailers

Promotion

Trade shows

Viral Marketing (from company hosted events to malls to retirement

<https://assignbuster.com/nintendo-wii-case-study/>

meetings Advertising focused on users rather than game

Trade shows

Advertising emphasizing the technical qualities

Same as Microsoft Xbox

Price

\$249

\$279

\$169 to \$499

(Potential) Competitive Barriers

Product shortages continue

Some cases of injury due to control flying out of hand

To many game titles may confuse people

Games cost more to develop

Games not geared towards younger and older crowds

Controllers harder to use

Same as Microsoft Xbox

Most expensive console in the market

Likely Responses

Will do better product planning to reduce shortages

Will develop games that deal to a wider audience

Will develop its own motion sensor controller

Same as Microsoft Xbox

Lower the price