

Case study of the video game industry marketing essay



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INTRODUCTION

The video game industry became a global epidemic since 1952, with the conception of playing games on computers to playing online and wireless games, video gaming on different console platforms and consumer spending on video games. Since then, the global gaming market expanded and became a vast and diverse industry as we know today. With the growth of the video game industry, it facilitated economic growth, international investment, and world trade.

The purpose of this paper is to first discuss the micro-environmental factors that affect the video game and game console industry by analyzing the external factors which include the industry's market size and growth, its buyers and target market, its rivals and scope of rivalry and the industry's economies of scale. Secondly, the macro-environmental factors that affect the industry will also be discussed which include the industry's economic conditions and foreign competition, legislations, societal values, demographics, and technology. And thirdly, a discussion on Nintendo's internal factors which include primary and secondary factors will be examined using the value-chain analysis that was developed by Michael Porter. In addition,

EXTERNAL ANALYSIS

As part of evaluating the video game industry, an external analysis is required to examine opportunities and threats that affect the industry's surrounding environment because this demonstrates the long term competitiveness of the industry.

Market Size and Growth Rate

In 2007, the video game and game console industry continues to level off and continues to be a billion dollar industry. In fact, Bangeman (2008) stated that according to the Entertainment Software Association (ESA), total revenue in 2007 were “\$18.8 billion, with \$9.5 billion of that spent on games (both PC and console) and \$9.35 billion on consoles” (Bangeman, 2008); therefore, this shows that the growth of gamers has tremendously expanded, but also increased employment for game developers as well. Furthermore, the growth of the video game industry has surpassed the movie industry with reports of \$9.66 billion and the music industry fell about 10% in sales in 2007.

Scanlon (2007) stated that according to PricewaterhouseCoopers (PwC)'s Global Entertainment and Media Outlook: 2007-2011 report, the video game and game console market is considered as the third-fastest growing segment of the entertainment and media market and is said “to expand at a compound annual rate of 9.1% over the next five years” (Scanlon, 2007). Also in 2006 the video gaming market was estimated to increase to \$48.9 billion by 2011. In addition, Asia-Pacific region is the largest worldwide gaming market in the video game industry globally, specifically China, due to the increased market with online gaming and piracy. The second largest market is in Europe, Middle East and African region, followed by the United States, Canada and Latin American region. This indicates that the video game industry had continuously grown globally and there is no sign of stopping the industry segment, but is incessantly creating new innovations as technology continues to make technological leaps forward.

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According to Gilbert (2009), there is no sign of stopping the market growth in the video game industry due to technology advancements. Because of the expansion of the marketplace, companies such as Nintendo, Microsoft and Sony are able to improve their revenues as it is a growing industry. There is a good indication that it is a stable market.

Rivals & Scope of Rivalry

In the video game and game console industry, there are three major global players: Nintendo, Microsoft and Sony. According to (Eisner, 2007; Gorshein, 2007) the seventh generation of video game consoles was only the beginning of competing for market share since late 2006. With the release of the Nintendo Wii in 2006, Nintendo has been dominating in the video game consoles segment according to Krangel (2008).

With the analysis of these rivaling video game companies for leadership position in the video game industry, this created an intense competitive environment in the industry by trying to maintain or gain the majority of the market share. In the case of the Nintendo Wii console, it did not have the technological features as its competitors, but the Nintendo Wii's gaming system was more reasonable in price than Sony's PlayStation 3 and Microsoft's Xbox 360; in this case, Nintendo had the competitive advantage with pricing. There are high levels of product differentiation among these three companies, because brand equity played a big part as it leads to loyal and repeat consumers.

Since the release of the Nintendo Wii console in 2006 and with the

production issues that Nintendo was facing with regards to meeting supply
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and demand, some consumers had to search for the console in different retail stores or on-line via auction websites; this created low switching costs due to the limited Nintendo Wii console, they were losing market share as consumers can freely switch from one gaming console to another, such as purchasing Microsoft's Xbox 360 console or Sony's PlayStation 3 because they were available to purchase; therefore, capturing the market share is a great struggle to the video game industry.

Due to the fact that there are three major competitors in the video game industry, there are no other major competitors; this creates a situation of high exit barriers. Regardless if the company is making a profit or not, the company has to compete to remain in the industry; therefore, each company is required to find different tactics in order to compete. And although the video game and game console industry is exponentially growing and the markets are increasing, this can stimulate new companies to enter the video game market. These three competitors would then take significant actions to prevent new entrants from entering the industry by continually innovating new products and changing their strategies, which maintains a low threat of entry. It is also difficult for new entrants to enter the video game industry as it is very costly and game developers for each of the three competitors has to keep up with advancements in technology according to (Eisner, 2007; Gorshein, 2007).

The scope of rivalry for the video game industry is in the global market which includes Asia-Pacific, the Americas, and combined region of Europe, Middle East and Africa. The rivalry among Nintendo, Sony and Microsoft is fairly high, because each company has to take a different approach and strive for <https://assignbuster.com/case-study-of-the-video-game-industry-marketing-essay/>

a competitive advantage against their rivals in order to gain market share; each offered a different, unique gaming console and games, but they all share the same concept of entertainment and gaming.

Buyers - Target Market

The buyers of the video game industry consist of retailers and the marketplace, specifically adult consumers. The Internet is able to bring buyers from all over the world to purchase video game consoles and video games. Retailers can buy large volumes of video game consoles and games and distribute them to their retailer channels, such as EB Games, Wal-Mart, Future Shop, and Best Buy to name just a few. According to (Coulter, 2004; David, 2004; Hunger, 2004, pg. 88), retailers “ can account for up to 50 percent of many manufacturers’ revenues. With this much buying power, these discounters can pretty much dictate selling terms;” with this in mind, this gives retailers a lot of bargaining power. Retailers and consumers alike will always be looking for the best deal and negotiate for the best price. If there are low switching costs, the retailer or consumer won’t have to feel obligated to stay with the original supplier and can shop around elsewhere.

Prices for the Nintendo Wii console were reasonable compared to its major rivals, Sony’s PlayStation 3 and Microsoft’s Xbox 360; therefore, more consumers entered the market, increasing the demand for the Nintendo Wii console. As market saturation of new gaming innovations arise, these innovations are expected to fuel consumer purchases, such as Microsoft’s Xbox Live Marketplace for example, which allowed direct buying power to

the individual consumer to choose digital content they want online and at any time of day.

Economies of Scale

There can be setbacks for companies in the video game industry, because in order for a company to have economies of scale, a company would need to increase their production levels, increase their marketing and distribution, and continue to develop new products in order to meet supply and demand. The three major video game companies have control on their retail distribution channels; this creates cost advantages because it includes protected product technology and favourable locations.

According to (Eisner, 2007; Gorshein, 2007), there are huge economies of scale for video game developers as they have gained interest and found potential for growth in the industry, this includes research and development. Because of the complexity of games being created with every new video game platform, it was costing video game developers a lot of money in order to develop new games, and with the economies of scale of creating sequels to existing games, this created a setback for innovation. Due to technological advancements, innovating more will keep potential entrants out of the video game industry. Furthermore, video game developers, such as for the Nintendo Wii have created a barrier to entry for other video game developers to create new video game software, which has created economies of scale that other video game developers cannot compete against. But on the other hand, economies of scale in developing games for the PlayStation 3 and

Xbox 360 reduced production costs as a developer can create the same game for both console platforms.

Economic Conditions and Foreign Competition

Historically it has been proven that the video game industry is able to survive an economic downturn according to Kalning (2008) and Silverman (2008). People are more inclined to spend less money by staying home and playing video games as everyone needs some type of entertainment; therefore, considered as a “ recession-resistant” industry because sales continue to rise regardless of an economic downturn. But if there is a continued decline in economic conditions, discretionary consumer spending will decrease and could reduce the demand for video game consoles and games altogether. And because of the shift in global consumer spending, this could impact these video game companies in a negative way.

In analyzing the video game industry, although it is considered as “ recession-proof”, these companies may still have to reduce costs, for example the development of new games or video game platforms, they may have to find a cheaper manufacturer for certain components. For example, due to an economic downturn that affected a domestic manufacturer of certain gaming console components, it may have gone out of business, decreasing domestic competition. As a result, domestic video game companies may have to search and negotiate for the best prices in foreign countries, such as China, for cheaper components for their video game platforms. The outcome is that foreign companies such as in China would try

to compete for domestic business; in this case, it increases foreign competition, which also increases economic conditions in the foreign market.

Legislation

Concepts of individual freedom and freedom of expression are widely accepted in North America but with legislations in different countries, there are regulations and rules that need to be followed with regards to video game content. The Entertainment Software Association (ESA) is considered a small party in politics representing the video game industry segment and responsible for publishing gaming content. The Entertainment Software Rating Board (ESRB) was established in 1994 and its responsibility is to rate video and computer games' content. (Source: Entertainment Software Association website, Citation: <http://www.theesa.com>)

Computers and video games have been ruled out by courts as "protected speech" (Source: Entertainment Software Association website, Citation: <http://www.theesa.com>). There have been efforts and challenges in regulating access to games. The Entertainment Software Association (ESA) is making efforts to protecting intellectual work of members of the ESA by adhering and supporting the copyright legislation and other regulations and laws.

There is no definite legislation in protecting people as there is a lot of red tape to separate free speech and protecting children from predators.

Societal Values

With regards to social issues and video games, the Entertainment Software Association (ESA) indicated that “ computer and video games have become successful vehicles to teach important values, engage a new generation of voters and bring problems facing other countries to the front door of new audiences” (Source: Entertainment Software Association website, Citation: <http://www.theesa.com>). By doing this, it provided public education and tackled global social issues such as violence, Internet safety, famine, war and poverty to name just a few. The development of different types of games created a message of awareness to young adults, but there are still a lot of controversies surrounding video game content, specifically with regards to violence. Vaughan (2006) stated that different types of people are intrigued with the violence in video games as a release from reality; it is more of an escape to a different world. These types of people are not violent in nature but choose to play these types of games.

Hodgson (2010) stated that video games that have violence or sexually-explicit material has an adverse affect on our society; but in the end, the adult consumer has a constitutional right that gives them the right to choose what types of games they play and evidently it is the responsibility of the adult consumer to not expose these types of games to the younger generation of gamers.

Demographics

Based on a statistical study made by the Entertainment Software Association (ESA), the majority of people that play the most video games are males from 18 to 49 years of age. Statistics showed that 40% of female gamers were

from 18 years of age and older that represented a big fraction of the game-playing population, while 60% were male gamers.

Based on both video game genres for both videogame consoles and computers, the ' Family Entertainment' genre came out as the second highest percentage of 17. 6% for video games played and 14. 3% for computer games played. People are more inclined to purchase family games for the entire family, for reasons such as for family fun and family closeness. There is a rise of females playing games on videogame consoles, like the Nintendo Wii, which caters to all age groups. But male gamers will continue to be the dominant player in the video gaming market.

Technology

The video game and game console industry play a significant role in the economy; it stimulates growth by new innovations through research and development of new technologies. Upon analyzing the Nintendo Wii Case Study 33, the rise of video game developers creates more opportunities to develop and engineer new game design. Because of gaining new insight on new technology advancements, video game developers are able to tap into these resources through the Internet, through various research and development and other venues globally. As a result, technology goes hand-in-hand with globalization. Another opportunity that arises in the video game industry are the online capabilities of emerging video game consoles such as the Xbox 360, which gives the individual user the opportunity to download games, movies, demo games and many more; this allowed for interactive entertainment.

Gibson (2005) stated that online gaming expanded in the Asia-Pacific market, specifically in China. The posed threat for the video game industry is the piracy of video games in different countries such as China because of the expansion of online gaming, some gamers are able to duplicate video game contents for different video game platforms but also for online gaming and not pay for it; therefore, it increases bandwidth and slows down online gaming because there is a lot of gamers to account for who may not have paid anything. In addition, another threat is the complicated regulations of governing the video game content in different countries, publishers would have to meet the needs of video game content in those countries; this can pose a problem because it restricts the video game companies from reaching different markets if they don't follow the regulations.

Competitive Environment Analysis

Porter's Five Forces model is examined for the video game and game console industry to demonstrate its competitive environment.

Rivalry among competitive firms through the video game industry is considered as moderate to high because although one company may have unique or break-through technology, it may lack some features in its gaming console platform, such as the Nintendo Wii with its unique wireless remote controller but it lacked great graphic features. While the other video game companies such as Microsoft Xbox 360 and Sony PlayStation 3, may lack the unique wireless remote, it had better graphics and had online capabilities.

Although it may be a fierce competition for market share among these three major competitors, it levels out due to the fact that there are different

preferences for different gamers alike. One of the reasons why Nintendo Wii did very well was because it was more family-oriented. The rivalries for the video game industry intensify because they have a similar market share, competing for the same customers and resources.

Potential entry of new competitors in the video game industry is considered as low because Nintendo, Microsoft and Sony have already established such strong product differentiation that potential entrants are discouraged from entering the industry. Brand equity also plays a huge part and brand switching would be a challenge for gamers to choose new entrants over one of these three major competitors. If there was a threat of new entrants to the video game industry, this would show that there is less product differentiation which will allow new companies to compete and would also cause a slow market growth in the industry because market share is spread among the existing and new companies, creating a fierce and high rivalry for the majority of market share in order to survive in the industry.

Potential development of substitute products in the video game and game console industry is considered as moderate to high because although Nintendo, Microsoft and Sony have strong product differentiation, what keeps it moderate is the pricing of the video game console. Gamers are always looking to get better deals and this includes features of the different video game console and video games offered. For instance, all three competitors offer the same gaming entertainment, but the Microsoft Xbox 360 and Sony PlayStation 3 were both pricey video game consoles that some gamers were not able to afford it and because of this, the Nintendo Wii was more of a practical purchase as it was being sold for a reasonable price

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compared to its competitors; this caused a substitution of products. Even if the Nintendo Wii didn't have the online capability or the best graphics, it offered a lot of games and it was made more for families at a cheaper price; this allowed for an expansion of the gaming marketplace as well. There is also another threat for substitution with regards to the video game industry, if gamers cannot afford any of the video game consoles, another type of entertainment would be through computer games, which is another form of substitution.

Bargaining power of suppliers in the video game industry is considered as low because there are substitute video game consoles in the market; therefore, the suppliers don't have a lot of bargaining power over the industry. Many of the suppliers of video game platforms are software employees, independent game publishers and editors, microprocessor and graphics accelerator producers such as IBM or Intel, makers to display high definition quality or 3D graphics, or computer manufacturers. Suppliers cannot exert any power over the video game industry because Nintendo, Microsoft and Sony have brand equity and suppliers are willing to keep their relationships with these companies. Also, there are a lot of suppliers in the industry and because of this these suppliers are not able to exert considerable influence over their prices, quality and sales terms because there are only three major competitors in the video game industry.

On the other hand, suppliers are important to the industry because they supply important input to the companies in order to develop new innovations, for example a microprocessor is important to the process of

creating a video game console platform and without them these companies would not exist.

Bargaining power of buyers in the video game and game console industry is considered as high due to the fact that everything is technologically-based and consumers are always looking for the best deals. People would substitute quality for price now these days since the economic downturn.

Consumers have a lot of bargaining power because they are able to influence prices down and bargain for higher quality or more services.

Retailers are important to the video game industry as well because they sell these companies' products and help create excitement through advertisement of games and video game consoles.

Opportunities & Threats for Nintendo

Nintendo's opportunities and threats will be briefly examined due to the ever-changing advancements of technology that might either grant or hinder profitability of the company.

Opportunities

Since Nintendo creates more family-oriented games than its rivals, Nintendo can exploit the growing market of female gamers and should create more female-oriented games, such as puzzle or trivia games. With that in mind, Nintendo should also market to novice gamers such as seniors, in this way it will keep them entertained by keeping their minds and motion skills active.

Nintendo should also cater to younger children from 3 to 8 years old and create learning games because the Xbox 360 and PlayStation 3 are made

more for teenagers and adults. Nintendo should also get more into the online
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gaming market as it is a growing marketplace. A lot more gamers are gravitating to online gaming these days, which gives them the incentive to play with friends and family regardless of where they are in the world.

Threats

Since the release of the Nintendo Wii, Nintendo was facing supply and demand issues for its Nintendo Wii game console and as a result, there was a loss of potential customers and this threatened Nintendo's profitability. Another threat is a lack of software selection, because Nintendo's rivals are creating more selections of games for their video game consoles, new gamers would be more inclined to gravitate towards the other video game consoles due to the variety of selection of games and better graphics. Another potential threat that Nintendo faces is the release of new technology, such as new and powerful gaming consoles of competitors or better hand-held gaming devices that might have better capabilities than the Nintendo Wii and Nintendo DS.

INTERNAL ANALYSIS

An internal analysis will be examined for Nintendo in order to identify and evaluate the company's resources, capabilities and core competencies in order to get the most appropriate and effective strategies.

Value-Chain Analysis

According to (Coulter, 2004; David, 2004; Hunger, 2004, pg. 131), the value chain is a "systematic way of examining all of the organization's functional activities and how well they create customer value." This concept was

developed by Michael Porter and the nine value-chain factors will be examined for Nintendo.

Primary Factors

Inbound Logistics

Nintendo handles its manufactured products through quality control methods globally according to Nintendo's 2008 Annual Report. Because of this, quality control methods increase production efficiency by Nintendo striving to focus on quality; they try to manufacture their products with zero to minimal errors to alleviate extra costs in reproducing or fixing an error. As a result, this will give value to the customer by giving them a higher quality product with zero to minimal defects.

Operations

Since Nintendo is a technology-based company, it utilizes automated means to alleviate from human errors in creating their video game consoles and other products. Given that production processes have become automated, it increases production efficiency; this is a cost advantage because it decreases worker labour salary. Again, quality control minimizes mistakes, which minimizes costs. But Nintendo still relies on human labour to develop their video game platforms and video games. Nintendo has specialized video game developers that were able to assist in creating the Nintendo Wii.

According to the Nintendo's 2008 Annual Report, the company deals with third-party manufacturers and overseas suppliers. Nintendo will be able to cut costs because it may be cheaper to manufacture their components

through a different company who specializes in certain components, where it saves them time and money. Nintendo will also be able to save costs through overseas suppliers because it may be cheaper to obtain certain components from a different country. In this regard, it gives Nintendo the advantage of finding new technologies. The way Nintendo operates adds customer loyalty and trust in the product that they're purchasing.

Outbound Logistics

Due to Nintendo dealing with third-party manufacturers and overseas suppliers, there is a huge disadvantage because there is uncertainty that a manufacturer's business could fail and it will be difficult for Nintendo to obtain key components required for its products or even manufacture its products. With regards to overseas suppliers, Nintendo may have to deal with language barriers, order issues, riots or disasters that can cause production interruptions, and may not be able to provide necessary components on a timely basis, which will lag the whole process of delivering their products to their customers on time.

According to (Eisner, 2007; Gorshein, 2007), Nintendo had supply and demand issues with the Nintendo Wii video game console shortages due to production issues. The demand for the Nintendo Wii video game console was considered as an inconvenience to consumers because it would sell out and they would have to search for it online through auction websites and pay more than its retail price. But other products that Nintendo has produced such as the Nintendo DS, they didn't have that same issue and has satisfied the demands of consumers globally.

Marketing and Sales

Nintendo has a favourable reputation and is well-known for their Nintendo gaming platforms. The demand for their products far exceeds their supply. Nintendo is brand equity; consumers know that they produce quality products. Nintendo markets in different countries from Asia- Pacific and the Americas to regions of Europe, Middle East and Africa. Market research is effectively used because they are able to identify their customers' needs by listening to their customers' requests and issues in order for them to improve their products and services according to Nintendo's mission statement.

Based on analyzing the Nintendo Wii Case Study 33, the way that Nintendo promoted and advertised their Nintendo Wii video game console coincides with the start of the Christmas shopping rush. Nintendo is using the power of the Internet to promote its products through auction websites, retail websites, and online advertisements.

Customer Service

Nintendo values their customers as stated in their mission statement that they listen closely to their customers and to " treat every customer with attention, consideration and respect" (Source: Nintendo, Citation: <http://www.nintendo.com/corp/mission.jsp>) by allowing their customers to give feedback on issues they might have with regards to Nintendo's products. Nintendo offers 24-hour customer service contact for their customers to have their questions answered by trained Nintendo customer service representatives. Nintendo offers technical support and product <https://assignbuster.com/case-study-of-the-video-game-industry-marketing-essay/>

purchasing inquiries. Nintendo offers a 12-month hardware warranty and guarantee to replace any defective component. They also offer game and accessory 3-month warranty and service after the expiration of their warranty. This adds value to customers.

Secondary Factors

Procurement

According to Rodriguez (2007), he stated that the demand for Nintendo's components is so high that their suppliers have to build separate buildings to accommodate Nintendo's orders which create a long-term relationship between Nintendo and its suppliers. Nintendo is dedicated to environmental awareness and is overseeing purchases of all their materials that they are receiving are environmentally-friendly from internal components to products such as office supplies, etc. and recyclable products (Source: Nintendo, Citation: <http://www.nintendo.com/corp/csr/index.jsp>).

Technological Development

Nintendo's research and development activities in product and process innovations have been a success as they are continuously looking into new innovations as technology continues to change. According to Anthony (2005) he indicated that in early 2000, there were six separate divisions for research and development but later on in the years, it has integrated into four divisions. This showed that different ideas were being shared among fewer departments when it came to hardware and software development.

Nintendo's organizational culture encourages creativity and innovation because they hold themselves to a higher standard.

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Human Resource Management

In reference to Nintendo's mission statement, Nintendo is committed to their employees and puts them at high regards. Because Nintendo is globally-based, this indicates that Nintendo has a diverse workforce. Nintendo offers various programs for all its employees such as promoting healthy lifestyle choices and offering continuing education and training. Due to these continuing education and training programs, employees learn self-independence, problem-solving skills, and greater confidence in their abilities, which results in improved efficiency for Nintendo's operations. Nintendo cares about the work environment of its employees by offering ergonomic workstations. Nintendo also rewards their employees by giving bonuses and retirement benefits. Nintendo offers different kinds of measure in order to promote employee well-being and a healthy work-life balance.

Firm Infrastructure

In analyzing Nintendo's corporate structure, it is considered as vertically integrated, which means that they handle all the process of creating and promoting, including marketing and designing themselves. When there is a discussion about any work-in-process product, video game developers, video game publishers and engineers would distribute their ideas to the new product. As a result, any innovative thoughts come up through annual meetings and research and development departments. This results in greater cooperation between departments, a greater level of control in both quality and management and greater opportunities of Nintendo's products bec