Strategic marketing by nintendo select an organisation

Introduction

Starting out as a playing card company when it was first founded in 1889, later entered the video game industry in 1985; Nintendo has since become the leading manufacturer and distributor of video-game software and hardware (i. e. handheld consoles and static consoles). Such success has largely been attributed to Nintendo's ability to develop and manage some of the most innovative products in the industry, where some still remained as one of the biggest seller of all time. Despite its success and the current position as the market leader in both the console and handheld market, Nintendo is facing increasing competition from its competitors; Microsoft and Sony, the challenges on its market from the recent recession as well as the saturation of demand of the current generation of consoles. This essay will analyse some of the main strategic marketing tools covered in the module, and then evaluate and make suggestions on how they can be used by Nintendo to manage its existing products and product portfolios or help to develop new ones.

Defining ' product'

Due to the scope of the essay, the strategic marketing tools that will be analysed will be mainly related to ' product'. A product is either tangible or intangible; it can be defined as a good, a service or even an idea or brand. It is an important factor in the marketing mix and can be a company's most important asset. A product can also be broken into three levels, core, actual and augmented (as shown in fig. 1). It is important to note that the core product is not the product itself and is not tangible; it is the basic benefits from gaining the actual product (Dibb, Simkin, Pride, & Ferell, 2001).

Figure

Nintendo has a range of products within the video game industry, from well-known handheld consoles such as the Nintendo DS and the static video-game consoles such as the Wii, to a range of compatible video-game peripherals, accessories and software from its studios. If we take the Wii for example, the core benefit to the user would be the perceived enjoyment or fun from playing the console, the actual product would have the features of running the compatible games, while the augmented product would be the customer service and warranty the end-user could use when console breaks. Some of these products will be analysed in more detail later on using the strategic marketing tools in order to give more details on the current situation of the company and the market.

The Tools

There are many marketing tools and concepts nowadays to help companies assess their products and the market in order to make more informed decisions in planning. This section will concentrate on three of the strategic marketing tools relating to ‘ product’ as discussed within the module, with focus on the benefits and limitations of each tool when applied to Nintendo and its products.

Product lifecycle

Perhaps one of the more widely known tools in managing products (Dhalla & Yuspeh, 2009), the product lifecycle breaks down the progress of a product developing over time into four main stages: introduction, growth, maturity, and decline. The stages can be seen on the graph in fig. 1. The first line represents the sales a company has made, while the line below is the actual profits gained after deducting all the cost. Time is represented on the horizontal axis.

Figure

Source: http://tutor2u. net/business/marketing/products_lifecycle. asp

At introduction, despite the rapidly rising sales, it is likely that the profit remains in the negative due to the considerable costs incurred to develop and launch the new product. During the growth period, as more people become aware of the product and demand grows, sales and profit increase rapidly. After a period of time, growth in demand would start to slow as the maturity approaches. At the maturity stage, competition could be the strongest and it is also where the most profit can be earned. After the product reaches maturity, sales and profit will fall into decline as the market shrinks. By understanding the stage a company’s product is at, strategic decisions can be made to minimise cost or to boost sales.

Many of Nintendo’s products can be perceived as following such cycle. One example can be seen from Wii, one of Nintendo’s most success products and the current market leader in static consoles. When it was first released in 2006, there was much hype about the new product amongst the gaming community; the product was part of the seventh generation consoles, and features the distinctive motion-sensitive controllers. Although the new console lacks the graphics and processing power of its rivals, Microsoft’s Xbox 360 and Sony’s PS3; the features of which the traditional video-gaming communities (dominated by young male gamers) have placed great emphasis on, Nintendo has dramatically increased sales by expanding the market into new consumer segments (i. e. older generations and other casual gamers) (Mintel Oxygen, 2008). In 2009, sales have slowed as the market for the current generation of consoles reaches maturity, prompting Nintendo to lower the retail price in order to boost sales (Mintel Oxygen, 2010).

While the Wii seemed to be going through the stages of a product lifecycle, yet, the product lifecycle would have been too simple for Nintendo to base most of their strategies and planning on. One of its limitations is that it cannot help managers to effectively forecast sales; a reason for this would be that sales can be affected by a number of factors, internal and external. For instance, the product lifecycle could not have forecasted the recent recession which saw a cut back on spending from the casual gamers who view Wii as one of the luxury goods, thus affecting the sales.

Another major limitation of the product lifecycle is that not all products will follow the typical lifecycle curve. An example can be seen from Nintendo’s Virtual Boy when it was first launched in 1995, the console uses a head-mounted display and controller, but since it had many technological limitations, the product did not get the sales needed and was discontinued after one year (Fletcher, 2010). Here, the product did not reach growth and maturity after introduction, and went into decline soon after. Due to its simplicities and many other limitations (Day, 1981), some critics even argues that companies can make costly mistakes and miss opportunities if decisions are based on the product lifecycle concept, and would be better off using an information system for each product when deciding whether to promote or cut cost (Dhalla & Yuspeh, 2009).

Boston Matrix

Developed by a large US consulting group, the Boston matrix is a strategic planning tool that base around a product's market growth rate and market share when determining a marketing strategy (Donald , Hambrick, MacMillan, & Diana, 1982). Each product is analysed in terms of relative market share and market growth and placed onto a matrix, where it can be classified into four categories: stars, cash cows, problem child/question mark and dogs. As seen in fig 3.

Figure

Source: http://www. learnpremium. co. uk/cima/lesson2/page3. aspx

Stars are highly successful products with good prospects for growth and high share of the market, although they may use more cash than they generate in order to finance growth and increase capacity. Stars have the potential to become cash cows, where they have the dominant shares in the market but low growth, and more cash are generated than needed to maintain market share. With low market share and low potential for growth, products that are classified as dogs should be eliminated as they are likely to not generate cash for the company. Problem children, sometime called question marks, are products with low share of a high growth market. Some of the problem children can be turned into stars, which is why some companies still invests in them, although there is also a risk of them turning into dogs instead.

The current generation consoles (the Wii and Nintendo DS range) from Nintendo can be generally be classified as cash cows, as they have the biggest share of their market but the markets are no longer growing as fast as it used to be. One of the dogs of the company would be the Game Boy Advance range (including Game Boy Advance SP and Game Boy Micro), the predecessor of the Nintendo DS range, sales and market share have dropped after the introduction of the newer versions of the DS range. An example of the question mark product would be Nintendo DSi XL, which is a newer version of the DS range that provides all the features of the Nintendo DSi along with bigger screens. It was released in November 2009, and its future is still unsure as consumers could prefer spending less on older versions that gives similar experience, rendering the DSi XL unnecessary (i. e. becoming a dog), or could potentially replace the older models and become a cash cow in future. The stars of Nintendo can be demonstrated by some of Nintendo's video game software developed by its first-party studios, such as the Wii Fit, which was the third highest selling Wii game as of May 2010 (Nintendo Co., Ltd, 2010).

Nevertheless, like the product life cycle model it was based on, Boston matrix, with only two dimensions (market share and market growth) is still too simplistic to use alone in making strategic decisions (Majluf, 1983). It also assumes that high market share is always related to higher rates of profit or the only success factor, and that the attractiveness of a market is not only indicated by its growth. For instance, although compared to the fast growing mainstream, casual gaming market with its large market size potential, the traditional ' hard-core' gamer market with its narrower demographic could be seen as much less attractive. However, the latter group would also be willing to pay more for a higher specification console, and their purchase are less likely to be effected by the economic conditions in the same way that has impacted the decision of the casual gamers. Also, despite a general interpretation that dogs should be eliminated, some ‘ dog’ products could be part of a successful product mix, and their existence could serve as one of the motivating factors for consumers to purchase a particular product from the company. An example can be shown from Nintendo’s accessory sector, where market research has shown low market growth and low interest in accessories overall. However, many customers who chose to purchase Nintendo Wii could be influenced by the fact that parts can be replaced and purchased if required, i. e. extra controls are available for purchase should the customer want to play multi-player games. Despite its weaknesses, the Boston matrix can still serve as a simple and efficient tool to help Nintendo to predict where a product is at in its product lifecycle, for instance, question marks can be said to be on the launch stage, the stars are at the growth stage and cash cows are likely to be on the maturity stage.

Ansoff Matrix

The previous two marketing tools can help companies to identify the stages their products are at, but does little to help the managers formulating on a set of strategies to achieve growth. The Ansoff matrix is a tool that aids companies in making decisions on how to achieve growth depending on the product and the market it targets (Ansoff, 1965). It can be shown in a chart below, as seen in fig. 4.

Figure

Source: http://tutor2u. net/business/strategy/ansoff_matrix. htm

The four strategic choices from the Ansoff matrix are: market penetration, product development, market development and diversification. Market penetration is considered when marketing existing products to existing consumers, this can be achieved through promotions or repositioning the brand. For instance, after it was clear that Nintendo's static consoles could not compete in terms of specifications (i. e. powerful processing capacity) with Sony and Microsoft within the ‘ hard-core' gaming sector (Mintel Oxygen, 2008), the company repositioned its brand to appeal more to the wider public and families in order to increase sales.

Product development occurs when companies market new products in existing markets. Within the video game console market, newer models are introduced in order to compete better with the latest features on the market. Within the Nintendo DS range, new models are released almost every year; starting from the original Nintendo DS at release, then the handheld console became smaller with the DS Lite, later a webcam was added on to open up new possibilities with several games in the DSi model, and the current model, DSi XL features a bigger screen for players. All these models compete in the handheld video game console market along with Sony's PSP, with each model offering a slightly different experience to the consumer, but still in the same generation of the video game consoles (Mintel Oxygen, 2010).

Market development happens when companies seek growth by introducing existing products in new markets. This can be demonstrated when companies export their products into another country or region, thereby entering a new market. Nintendo's consoles and games are usually released in Japan first; the company's home market, before launching and promote them overseas. Lastly, diversification is when the company choose to market completely new products into new markets. This could be within the same industry as the existing products or going into an unrelated industry or sector. Nintendo first started out as a playing card company in the late 19th Century before it diversified into to the video gaming market by launching its first video game console, but still remained within the wider Toys and Games industry.

As with the other tools, there are limitations and disadvantages on using the Ansoff matrix. Once again, the format of the two-by-two design similar to the Boston matrix can be too simplistic, and that the real-world markets and decisions are much more complex. Such as that diversification may contain many risks, i. e. lack of knowledge and experience of the new market, and that it may not be the best strategy for growth for some companies with limited resources. Also, although the Ansoff matrix can be used to identify the strategic path products may follow, and as with the Boston matrix can help simplify overly complex scenarios for easy and prompt analysis; it does not provide the marketing options which mangers will need to make based on a wider and extensive research of the company and the market.

Combining the tools

All the strategic marketing tools evaluated here have both benefits and disadvantages to Nintendo. Also, the market conditions can transform over time, such as changes in trend, technological advances and economic conditions (Pride & Ferrell, 2008). Therefore, in order to help managers to effectively manage and develop individual products and product portfolios, the best approach will likely to involve using a number of tools. This section will look at how different marketing tools discussed previously along with other concepts can be used together by Nintendo in managing its products as well as developing new ones.

Product management

Product management can consist of planning, forecasting and marketing of a product in order to achieve the company's objectives. Nintendo may use the tools mentioned before to help it to paint an overall view of its products.

By using the Boston matrix on all Nintendo's products that are currently on the market, one can find that there are some in each of the four categories, and some may lie on the lines between two classifications. As mentioned in the introduction, the concept of product is not limited to just goods and service, and Nintendo has many products in its product portfolio. The Pokémon game brand were often referred to as one of Nintendo's biggest cash cows by the gaming community, with each release for various platforms and little changes to the content and gameplay providing huge profit for the company. Therefore, for the Pokémon range, Nintendo may opt to spend relatively less investment in product development and promotion to maintain sales, and use the cash generated on investing in new innovations and other less successful products. The Boston matrix will also help Nintendo to identify what stage of the product lifecycle some of their products are currently in.

When looking at the product lifecycle of the current generation of consoles, the slow sales growth indicates maturity of the market and the product. Therefore, Nintendo should consider developing the next generation consoles. However, care should be taken in using the product lifecycle as not all products share the same trend. To get an accurate view on what stage of the product lifecycle a console is in, and also when it will move to the next stage, instead of only relying on the Ansoff matrix and market data, Nintendo could also compare it to its predecessors, i. e. the Wii compared with Nintendo GameCube and the DS with Gameboy, as the product lifecycle of similar products within similar markets should be more closely related; though Nintendo should still be aware of some of the major differences in market and competition, such as changes in demographics of Nintendo's customers and Sony's entrance into the handheld market with PSP, when comparing current generation of consoles with the last ones.

Product development

Should Nintendo decide to go into product development; could be in an attempt to extend the product lifecycle of an existing product or to introduce a new product onto the market (based on Ansoff matrix's view of product development), there would also be number of considerations that needs to be taken. The company could choose to either make modifications to an existing line or to release a completely new product to replace the old one. For instance, if Nintendo want to extend the product lifecycle of its Pokémon game brand by boosting sales, the company would make a new release of another version of the existing games. Such move would not require a huge investment in product development, as the concept already exist and proven to be hugely successful with a large base of loyal customers willing to get the latest version, so small changes such as packaging, improving the graphic to adapt to the latest console, and small modifications to the storyline, would be sufficient enough to release another best-selling game onto the market.

Figure Developing a completely new product such as the next generation of consoles would require a much bigger investment and time. Firstly, the company will need to make sure it has done the market research required to understand the market, in order to take advantage of the company's strengths. So far, Nintendo has been successful in expanding the market by identify attracting more casual gamers from the older generation and families, thus focusing on improving gaming experience around a wider group in order to make up for its loss of appeal (due to lower performance power) from the traditional ' hard-core' gamers. The Kano's Model as shown in fig. 5 on product development and customer satisfaction (Bergman, 2003) can be used to help Nintendo to assess the requirements of the new consoles or other products. For instance, some of the expected needs could be better graphics and performance than the previous consoles.

The company may also need to assess the technology available on the market and the limitations of developing new ones. Nintendo has already announced its next generation handheld console, the Nintendo 3DS, which apparently is capable giving 3D visualisations on displays without glasses (Nintendo Co., Ltd, 2010). How well the company has evaluated its customer needs and expectations will be reflected on the success or failure (like the Virtual boy) after the product is available on the market.

Conclusion

Overall, the Ansoff matrix can be used as a framework for deciding upon strategies based on whether the market and the product is new or existing, the Boston matrix can be used to predict where a product is at its lifecycle based on relative market share and market growth rate, and the Product lifecycle can help companies to decide on a marketing strategy depending on the stage a product is in, although not all products go through each stage in the same way. All three tools are too simplistic and do not take into account of many real-world factors, thus extensive research on the wider market and the company is required before making strategic decisions.

After evaluating the strategic marketing tools and applying them to Nintendo and its products, I believe that the best approach in managing and developing products or product portfolios is to not make judgements and strategic decisions based on one or two tools and concepts, but to use a combination of them. While managing existing products using the tools discussed here as well as extensive market research, Nintendo may decide to make modifications to its products or extend its line with a new product. Also, with the changing market conditions, Nintendo may find that it will need to change its strategic marketing approach overtime in order to adapt and manage risk to effectively manage and develop individual products and product portfolios.