Part II of Nintendo’s Strategic Management Plan

The main Business-Level Strategy Nintendo has is the integrated differentiation and cost leadership. Cost leaders must have competitive levels of differentiation that create value for customers and must carefully examine all support activities to find additional sources of potential cost reductions. The Nintendo Wii is a well-designed, small machine that was operated by a controller that resembled a TV remote. Furthermore, motion detectors would then translate the movement of the wand into on-screen action, enabling simulation of real-life games such as tennis and bowling. Although the Nintendo Wii can be seen as using either cost leadership or differentiation strategy, Nintendo's competitive advantage was a unique product, it's competitive scope being a broad target, and a low cost which attested to its integrated strategy. Because Nintendo aims for family oriented games, they tend to have a wider variety of players. It has developed various games which are suitable for the target market and the games developed by the country provide great experience to the users. The strategy of Nintendo is very successful compared with its rivals. One of the important steps taken by the Nintendo for getting success in the market was cutting off the cost of the product and creating more values for the targeted customer.

Nintendo’s Valuable competitive power is the wide array of products they sell and the different types of games they have for their consoles. Their rare competitive power would be the interactive ways you could play their games such as having the Wii fit board, The Nintendo switch joysticks, or the Donkey Kong drums. Their inimitable competitive power would be the cheapness and affordability of their counsels and games compared to their competitors such as PlayStation and Xbox. Finally, their Non-substitutable competitive power is that their games only work for their consoles.

In order to improve Nintendo’s market position, the company can pursue two different strategic moves: offensive or defensive strategy. Nintendo uses their company’s competitive resources to attack their competitors, on the other hand, their defensive strategy protects their market position and competitive advantage. Among a variety of offensive strategy options Nintendo chose to leapfrog competitors by being the first to adopt a next-generation profile or being first in the industry to market with next-generation products.

Nintendo implemented two offensive strategic moves that improve their market standing and financial performance, specifically launching Nintendo DS (2004) and Nintendo Wii (2006). The DS was the first handheld device equipped with a “dueling” screen, built-in microphone, and Wi-Fi capability. It provided devoted and casual gamers with an entertainment experience that is unique. The DS system remarkably achieved about 70% market share of all handheld video game players. Nintendo had sold more than 107 million DS systems in August 2009. Besides the DS, the company successfully launched the next-generation video game console: Wii.

Despite the fact that two of Nintendo’s biggest competitors, Microsoft and Sony, devote a lot of attention to high-tech features, Nintendo concentrates on innovating through providing an interactive game play experience for their customers. The Wii was widely known as an innovation in game console technology, which lead to tremendous sales in July 2009 (51.6 million consoles), followed by the sales of Xbox 360 (31.35 million units) and PlayStation 3 (23 million units). As a result of leapfrogging rivals with advanced technologies and products, Nintendo can reap the benefits in the industry and continue to improve its market position.

There are two types of defensive strategies: block challengers and signal the possibility of strong retaliation. In the next few months, Nintendo should implement actions that can restrict their rivals (Microsoft, Sony, PlayStation) for initiating a competitive attack. Nintendo can continue to participate in innovative technologies as a hedge against main competitors. They can also introduce new features (SD cards, improved ATI graphics), or add new models. The company should maintain lower price to thwart rivals. Besides these recommendations, we would suggest that Nintendo should provide better services such as lengthening warranties of game consoles and offering free setup and repair.

As discussed in part one of this study of Nintendo, it is apparent just how many different products they sell. This ranges includes video game consoles, Pokémon cards, plush toys and more. In offering these products, it is apparent that Nintendo is utilizing a multidomestic strategy. This type of strategy is one in which a corporation strives to achieve local responsiveness by tailoring their product offering and marketing strategy to match the needs of the local market. In other words, what works for Japan might not work in Orange County. This becomes obvious when we look simply at the fact that they translate their video games, anime shows, and packaging of products into different languages for each country they are sold in. Children in France play Wii with the game’s software entirely in French. Moreover, marketing efforts must vary, since commercials also need to be in the spoken language of each country Nintendo sells to. Due to the varying customer demand and competition in each country, Nintendo has about 15 branches besides their HQ in Kyoto, Japan spread across the globe. These worldwide offices facilitate marketing and research for each major geographic consumer base. Another aspect of the multidomestic strategy is that although the pressure for adaptation is high, the pressure to lower costs is weak. This is because the industry in general sells mainly an expensive product and their complementary products, consoles and video games respectively. When examining the company’s modes of entry, it becomes apparent they utilize foreign direct investment in their subsidiaries that can be found outside of Japan. For example, Nintendo of America is wholly owned subsidiary based in Richmond, Washington. Their office in Redwood, CA directs their sales and marketing efforts while their primary distribution center is out of Atlanta, Georgia. This subsidiary operates two retail stores: one public store in Rockefeller center in NYC and the other located in their Redmond HQ that is for employees and by invitation. Similarly, there is a Nintendo of Korea, Nintendo of Europe, etc.

Although Nintendo has various worldwide branches in their dominant markets, those are limited primarily to North America, Europe and East Asia. Other parts of the world like South America, the Middle East, and Africa still have consumers buying Nintendo products. This works since Nintendo utilizes exporting to reach these other markets. Since they do not make up as large of a chunk of their revenues, exporting is a good way for Nintendo to get their start in other regions. It is low risk, since they only have to sell to foreign retailers and these retailers are responsible for getting the product to the end consumer.

Additionally, Nintendo engages in a few joint ventures like, iQue. They teamed up with the founder of iQue, Wei Yen to market and sell consoles in mainland China. This path was chosen since the product offering in China varies greatly from the rest of the world.

Nintendo’s global market position is hard to define considering the wide range products which they sell (mobile video game consoles, stationary video game consoles, video games, Pokemon products, toys, etc).  For the sake of making things simple, we will focus on the Nintendo Switch’s market share percentage in the global video game console market. In 2018, revenue from the Nintendo Switch made up over 70% of Nintendo’s total revenue (753.4b).  Nintendo’s “Nintendo Switch” finished 2018 with over 37% of the total video game console market share, surpassed only by Sony’s “Playstation 4” which finished 2018 with almost 40% of the global video game console market share. Nintendo’s performance in this market in 2018 exceeded all expectations and has continued to exceed expectations into the first two quarters of 2019.  Nintendo’s current market position is quite strong considering many experts were predicting that the Nintendo Switch would be a total failure.

Corporate strategies

Nintendo’s main revenue still comes from its gaming platforms, mainly the Switch console, the company has been diversifying itself by entering the mobile gaming industry. In 2015 Nintendo formed a strategic alliance with DeNA Co., LTD. DeNA Co. is a mobile portal and e-commerce company. It is a powerhouse when it comes to the development of mobile games application for smartphones. In 2015, Nintendo was really struggling from a financial standpoint and the company was looking to stay afloat. In 2017, the company released the Nintendo Switch console, which was a massive hit and generated $1.62 billion dollars in total revenue by the end of 2018. This, however, did not mean that the company decided to discontinue its mobile gaming segment. Instead, the company realized that it needed to diversify itself in order to reduce the impact when a new product is not as successful as initially projected. One of the most successful mobile games that was created was Pokémon Go. The app, Pokémon Go, was created by a company called Niantic who collaborated with The Pokémon Company. Nintendo owns 32% of The Pokémon Company and saw little to no revenues from the Pokémon Go app, but it’s evidence of how lucrative the mobile gaming industry can be and how much potential revenue can come from the industry. Even though Nintendo had very little actual realized revenue from the Pokémon Go app, the company saw an increase in its 3DS sales and Pokémon games. Nintendo utilized its strategic partnership with the DeNA Co. by releasing the mobile games; Super Mario Run, Fire Emblem, Dragalia Lost, Animal Crossing and it will soon be releasing Mario Kart Tour. In 2018, Nintendo generated $348 million in revenue from its mobile games. This was largely thanks to the popularity of the Fire Emblem app which brought in $230 million revenue, approximately 66% revenue of Nintendo’s mobile gaming segment. To date, the mobile game has grossed $487 million. Nintendo has seen other success with its other mobile games as well. Even though the mobile gaming segment accounts for less than .5% of its total revenue in 2018, the main objective is to penetrate the new and growing market.

Nintendo’s main strategy for diversifying is to penetrate the new and growing mobile gaming industry. There is such a wide variety of mobile apps that all have different purposes, but there is a large amount of mobile games. Nintendo has been slow with releasing mobile games and it has not been their focus. They have released several mobile games for smart phones since the strategic alliance with DeNA Co., but there are so many mobile games that it is hard to capture a large market share. Mobile games also have a short lifetime compared to console games and creators of those games must constantly come up with new ones or they will be quickly replaced. Nintendo is using the mobile gaming platform to expand its brand to a market that doesn’t particularly like a lot spending money on buying consoles or video games. Nintendo’s strategy is to penetrate the market of casual gamers who like to play mobile games in their spare time. It also spreads Nintendo’s brand awareness and hopefully can even convert some of the casual gamers. Nintendo’s main goal is to sell their main products, consoles and video games. While they do generate revenue from mobile games, its less than half of a percent. By using Nintendo’s intellectual property with DeNA’s mobile gaming expertise, they can successfully market their brand while reaching out to a new market.

For Sony and Microsoft, they rely on third party developers to produce games for their consoles. The third-party developer pays a fee to Microsoft or Sony which is the main source of revenue for those two companies in this industry. Nintendo’s strategy vertically integrates these two aspects by developing its own video games and selling them exclusively on its consoles that it produces. This strategy has an inherent risk, because if the game is not successful, then Nintendo must eat the cost of developing and produce that unsuccessful game. Nintendo traditionally has been very successful with their gaming franchises, which has led to its recent success as a company. Nintendo’s vertical integration strategy is a risky strategy but also one that has the potential to be extremely successful, which has been the case for this company in recent years.

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