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A Giant Is on a Crossroad

SONY, Microsoft and other players in the game consoles industry are pushing Nintendo toward a crossroad. Some analysts believe in that Nintendo is now in a dangerous position, and it loses more if it does not reconsider its conservative strategy. A Newsweek article argues that “Japanese publishers aren't reaping the rewards--their share of the U.S. market has plunged to 29 percent in 2004, from 49 percent in 1998”, which is a threatening signal to Nintendo, the leader of Japanese game publishers (Newsweek staff). Others like the Blue Ocean institution say that Nintendo should have a better utilization of its unique IP, such as Super Mario and Zelda, and keep indifferent to outside murmurings and the market trend. It is supported by the fact that the 2006 product Wii helped Nintendo “jump from 15% to 42% of global market share, ahead of Sony and Microsoft's 40% and 18% respectively” (Hunter). According to the case study “The Nintendo Wii: Lessons Learned from Noncustomers”, which the Blue Ocean institution published, it is hard for such an advocator of blue ocean strategy not to be biased when judging a company like Nintendo. As Nintendo is an example company that used blue ocean strategy in the some stage of its development and benefited from using it. Still being conservative or being aggressive is a tough question for Nintendo. Ultimately, Nintendo's future success or failure depends on whether or not it is able to achieve high level of innovation, to be more effective on cost management, and to run business more aggressively.

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Nintendo's critics believe that "Growing cultural differences between Japanese and Western gaming have put Japanese firms in a precarious position, and many of them have been slow to respond" (Newsweek staff). Companies represented by Nintendo have lagged responses to the latest trend, and players' taste change swiftly. In my own experience, the hottest game changed from "League of Legend" to "PUBG", and now it is "Fortnite". All of these alternations took place within one year, and if companies have no preparations for these unexpected changes, they become vulnerable in this competition. Therefore, looking for something new and making it attractive to players is crucial, and innovation is one of the most essential determinants of Nintendo's future success. If we retrace Nintendo's development back to its history-high stage, we realize that its success mainly came from the amazingly designed and unprecedentedly popular game "Super Mario", which still holds the world record of the most sold video games in history. How about products before "Super Mario"? The first several innovations I notice are the Ultra hand, the Love Tester, and the Beam Gun. Ultra hand is the first and the most memorable invention of Nintendo.

Some people may argue that the "Ultra Hand" has nothing to do with Nintendo's success, but I believe that this invention breaks down the wall between Nintendo and the public, creating considerable amount of public exposure for it. Jeff Ryan wrote, "The 'Ultra Hand' sold over 1.2 million copies in 1970, and was soon followed by novelties such as the 'Ten Billion Barrel' maze, the 'Love Tester' device, and a Roomba-like Remote-control vacuum" (Ryan). It is a positive force in bringing Nintendo to the forefront. In the future, Nintendo will have no choices but to conduct and think differently to defend its battleground. This is exactly what we call innovation. Miyamoto, "a superstar in the gaming world for more than two decades"

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(Paumgarten), said, “I recognize that there are certain types of games for which the photorealistic graphics are suited,” he said. “But what I don’t like is that any and all games are supposed to be photorealistic” (Paumgarten). Nintendo has done well by not following the crowd to create stunning graphics, as visual stimulation only last for a short period. When it fades away, the game fails. As Miyamoto mentions, a good game is not necessary to have crazy visual effects, but to be intellectually challenging and to maximize “the quality of the gameplay—the choices and challenges inherent in the game, also known as the game mechanics” (Paumgarten). Miyamoto has already walked through the route, and it is not hard for Nintendo to follow. Paying attention to what Nintendo has always done well and creating new things obeying Miyamoto’s philosophy is Nintendo’s next mission statement.

Compared to products priced as high as two times more than Wii, such as Microsoft’s Xbox and SONY’s PS3 that actually generated negative profit, Wii “was believed to make a \$92 profit per unit sold” (Hunter). Nintendo has been smart to avoid high-price product competition, and it works well, bringing a positive gross profit for Nintendo while most of its competitors are losing money. It is advantageous to produce structurally simple and materially efficient products, but competitors with larger operation network have more facilities and workforces, and they usually have stronger resource acquisition capability due to more bargaining chips usable to gain an advantage in a deal. As a result, these competitors are more likely to achieve economy of scale and accordingly decrease their overall costs. This leads to the second key for Nintendo’s future success or failure, cost management. Noticeably, a newly released product called “LABO” is a successful application of Blue Ocean strategy, as it is completely made of paperboards while most of same-category products are made of plastics or metal. In 2018, when people gradually

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become aware of environmental issues and individual responsibility of sustainability, recyclable products, such as “LABO”, are great choices for this group of consumers. Additionally, “LABO” has a special market target, kids. It is an educational tool, which helps children to learn ways of using paperboards to make a piano, a robot, and even more possibilities just by hands. Nintendo differentiates it from other similar products by designing it to be semi-finished, leaving infinite possibilities for children to discover. Most importantly, in manufacturing perspective, paperboard is undoubtedly less costly than plastics, which is widely used in electronics and toys manufacture. Nintendo is no longer the most profitable company in game industry, so it has to catch any chances to make their costs lower to make higher marginal profit. When competitors have not noticed the value of cost management in the long term, Nintendo should strike first and launch more products that have the similar cost philosophy as “LABO” does. The idea is very straightforward. When cost management is improved, every single product costs less, and Nintendo saves more for other parts of business, including quality management, marketing, after-sales service, etc. Nintendo with stronger cost management will be far more successful.

The third key is being more aggressive. What does being more aggressive mean? Making price even lower, having more product lines, and cannibalizing competitors’ market existence by self-supply and merging certain business. As we know, Nintendo has its own design center for its self-designed games, such as Zelda and Super Mario Odyssey. According to “The Nintendo Wii: Lessons Learned from Noncustomers”, Nintendo “manufactured roughly 60% of its Wii games itself, Microsoft created some 30% of its games, and Sony less than 15%” (Hunter). Self-designed games have a significantly lower cost than third-party-made games, as Nintendo does not have to pay for licenses/authorization, patent use and other value-added fee. Microsoft

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charges every PC manufacturer a certain amount of fee, called license fee for preinstalling Windows operation system into every single product, which is the same idea that Nintendo has to pay for selling third-party games. It is much harder for Microsoft and SONY to decide a price independently, as they rarely produce games themselves. As a result, Wii costs 250 dollars, while XBOX 360 costs 300 to 400 dollars, and PS3 costs 500 to 600 dollars (Hunter). It enables Nintendo to be more flexible in competition due to increased control on pricing independence and cost management. Nintendo can always keep this advantage unless competitors are able to cut down their costs or willing to initiate a price war regardless of loss.

Nintendo is a company that has a very narrow set of products, the gaming consoles and self-designed games. It gives Nintendo some benefits indeed, such as lower cost of employment due to less demand of labors who work for different business, and Nintendo is able to put all resources into one project, which improves efficiency as a whole. However, a too narrow product line has several disadvantages. First, “a single event can undermine your entire business model” (Mack). The idea is straightforward, companies having wide product lines are more likely to survive even when losing one or two businesses than those having narrow ones are. Secondly, Nintendo may fail “to capitalize on potentially lucrative markets” (Mack), which means that there is still a chance to reach possibly profitable markets. Nintendo will lose if it does not explore them. Therefore, it should invest on creating products very different from current ones in forms, functions, operating platforms and prices.

In addition, in order to be more dominant in manufacture, it has to develop an integrated and mutually supplying product lines. What will happen if a company has such product lines? Samsung is a good example. As we know, Samsung is a large commercial entity having

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countless business fields, including PCs, smart phones, mobile processors, memory chips and even household appliances. This huge map of business enables Samsung to separate risks of losing in one or even two certain business without taking lethal damages. Furthermore, back to cost management perspective, having many businesses means that it is highly possible that the company is able to be self-sufficient to some extent. Samsung is the biggest manufacturers of mobile processors and memory chips and one of the biggest manufacturers of mobile devices and PCs. Therefore, Nintendo should consider about making investment on establishing more self-owned hardware factories and hiring more experts from targeted industries or even directly from its competitors. Nintendo that is able to produce processors, displays, motherboards, and other components of its own products, such as Wii and Switch, is going to make its competitors antsy. Moreover, in the increasingly fierce competition, every minute matters. In order to respond to competitors and satisfy customers' demand as quickly as possible, Nintendo should think about merging and acquiring certain business or business branches, such as high-potential third-party game studios, key components suppliers or excellent external marketing firms. This is also a way to eliminate possibility that potential competitors arise and to avoid or shorten research and development (R&D) time. Although it costs it a lot in the short run due to huge capital outflow and higher operation complexity, it will finally pay back.

In conclusion, the giant, Nintendo, has to consistently obey Miyamoto's philosophy and never cease innovating. It also need to be cost-efficient to prepare for possible price war with the help of practical cost management. Finally, being more aggressive by pricing lowly, having more product lines, enabling self-supply and merging other businesses when necessary is another determinant of whether or not Nintendo wins the competition.

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