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Nintendo's Next Move

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Nintendo's Next Move

Historically, many companies have been successful by focusing on core competencies (Pralhad and Hamel, 1990). In the 1980s and 1990s, video games and Nintendo were terms used synonymously much like “Google” and search engines are used today. However, formidable competition like Sony and Microsoft began creating their own video game consoles and later the entire industry experienced market growth by means of different types of video gaming experiences; gaming consumers began to show a preference for playing games with superior graphics and that allowed for online play. Additionally, with smartphones having become commonplace in the 2010s, many consumers began to show an interest in mobile gaming (see Exhibit 1 for a revenue breakdown between PC, console, and mobile gaming).

Throughout this time, Nintendo has stayed consistent with their business strategy of console and game development that gave them success in the 1980s and 1990s by continuing to innovate with new consoles and leverage their Intellectual Property (IP). By 1990, Nintendo had a market share of 90% within the \$3 billion video gaming industry (Harris, 2014). However, consumer preferences for games with superior graphics and the capability of online play have increased substantially. In 2017, Nintendo had a market share around 22% in the video game industry (Kharpal, 2018). Can Nintendo be successful by continuing with their core business strategy of console and game development? Or does it need to move in a different direction and venture outside its core competency?

About Nintendo

Nintendo Co., Ltd., the video gaming giant based out of Kyoto, Japan, has had a rich history of success in the video gaming industry worldwide. Founded in 1889 by Fusajiro Yamaguchi, the company actually began as a playing card company. It was not until the late 1970s that Nintendo began focusing on developing video game machines and not until 1983 that the very popular Nintendo Entertainment System (NES) was released. The games “Super Mario Brothers” and “The Legend of Zelda” were centerpieces on the NES and Nintendo relied on those titles and characters moving forward as a part of their core business strategy. Since the launch of the NES in 1983, Nintendo has released 12 additional gaming consoles (see Exhibit 2 for Nintendo net sales).

Video Game Industry

The three main segments of the video game industry include personal computer (PC), mobile, and console. Nintendo, which has predominately focused on console games, has been in competition with Sony and Microsoft in the console gaming area (see Exhibit 3 for video game console sales). Console games had revenues of \$38.3 billion in 2018 which represents an increase of 15.2% from 2017 (Batchelor, 2018). Sony's consoles (PlayStation) and Microsoft's (XBOX) have relied mostly on 3rd party game developers for games. Additionally, Sony and Microsoft has also been heavily involved in online gaming with their consoles. Nintendo, like Sony and Microsoft, also uses 3rd party game developers, however, it also has a strong Intellectual Property (IP) that allows them to create a lot of their own games. Nintendo has been

slower than Sony and Microsoft in developing online play, however, in 2018 it released an online subscription service with its latest console the Nintendo Switch.

Challenges Facing Nintendo

Nintendo has stayed true to its business strategy from the 1980s until the present day by creating consoles and games. Since around the beginning of the 21st century, consumers have shown a propensity for playing mobile games. As of 2019, there are approximately 2.1 billion mobile gamers (Lynkova, 2019) and mobile games generated \$63.1 billion in revenue in 2018 (Shankar, 2019). Nintendo has slowly started to release mobile games in 2016 and currently has 5 mobile games available for purchase (Super Mario Run, Fire Emblem Heroes, Animal Crossing: Pocket Camp, Dragalia Lost, Dr. Mario World).

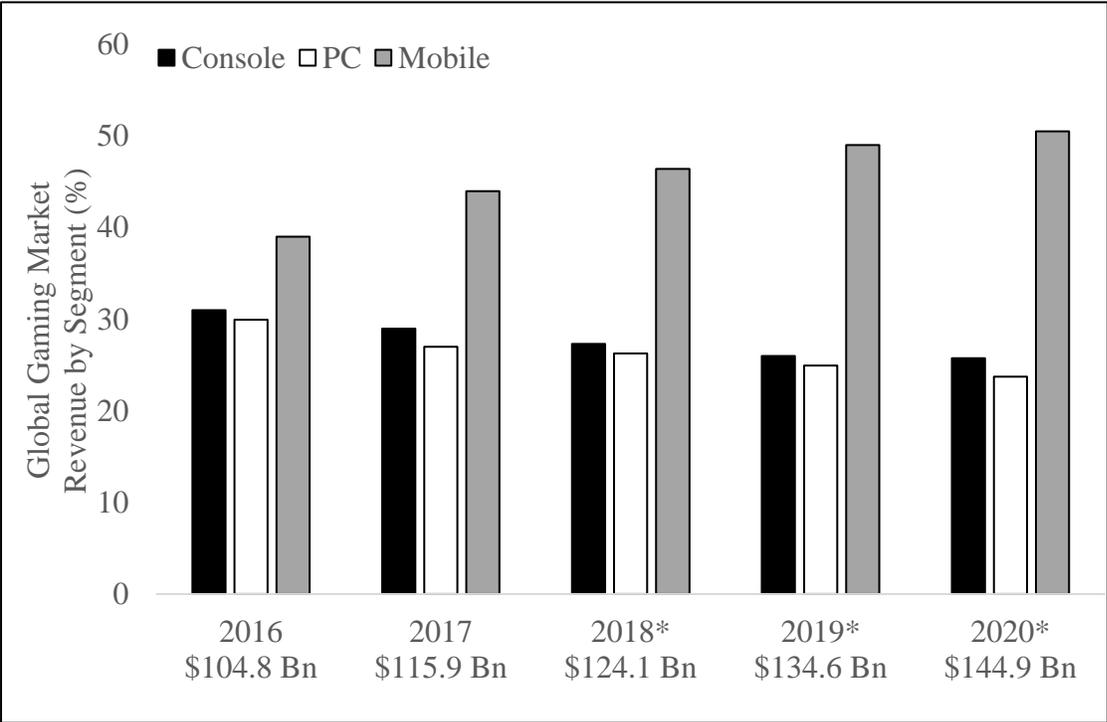
Nintendo could use mobile gaming as an opportunity for an ancillary revenue stream that could support their core business function of creating consoles and video games. Nintendo's mobile revenue reached \$348 million in 2018 (Nelson, 2019). Nintendo can also compete in the video game industry by continuing to focus on console gaming. Historically, Nintendo has created new consoles with new innovations in each console to try and continue its appeal to consumers. Every new console that Nintendo has created has featured a library of games with their popular IP.

Adjusting Nintendo's core business strategy to focus more on mobile game development would necessitate tradeoffs with company resources. If the majority of its games with its IP become available on mobile devices, would its main consumer base decide it does not need to buy consoles anymore or not buy additional games for those consoles? Conversely, could mobile be a platform for Nintendo to distribute its games beyond the traditional consoles and expand their consumer base?

Nintendo also needs to make the decision how much to outsource if it decides to expand into the mobile games market. Nintendo's core competencies has been focused on console gaming with its characters. Outsourcing game production to third party vendors could be beneficial because there are experts in the mobile gaming arena, but the games may not be as successful because the company most familiar with games produced by Nintendo's iconic characters is Nintendo. Nintendo could also partially outsource by jointly developing its games with third party vendors but that would come at the expense of company resources. However, Nintendo might be willing to jointly produce games if it feels it would lead to overall profitability.

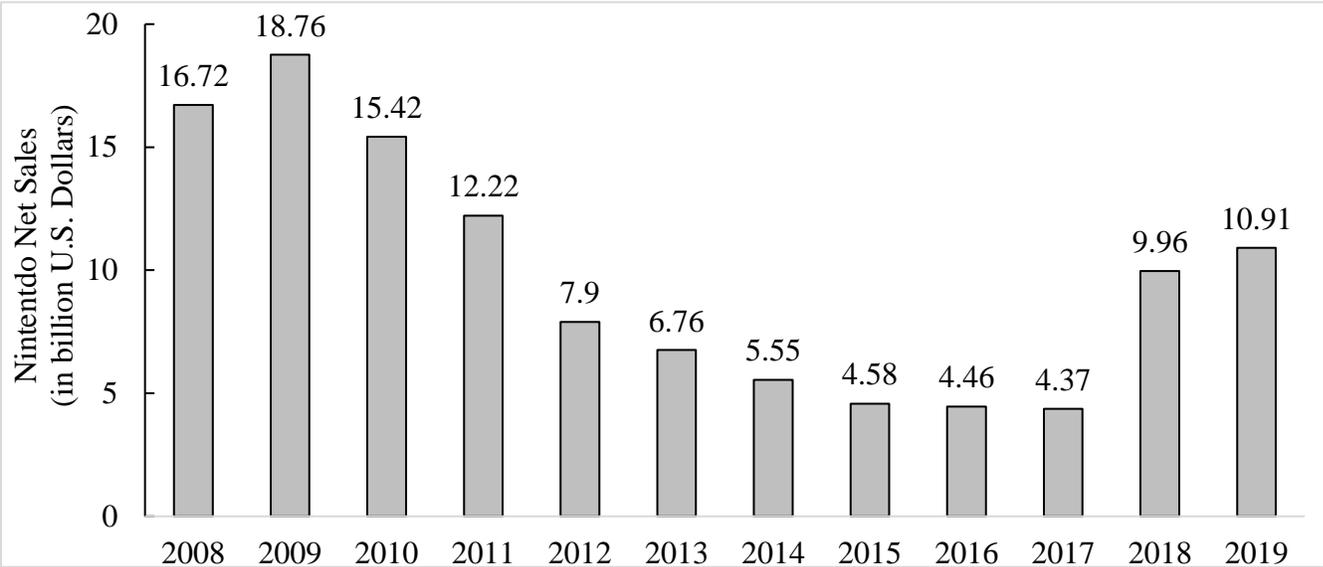
Companies like Netflix, Amazon, and Apple have been successful moving outside their core businesses. Nintendo has the same opportunity if it wants to go outside its core business and make mobile gaming a main part of its new business strategy. However, there may be risks associated with this strategy. Historically, companies going out of their core business have had a difficult time; but with present day companies' abilities to develop new capabilities, the odds of succeeding going outside the core have grown (Zook, 2015).

Exhibit 1



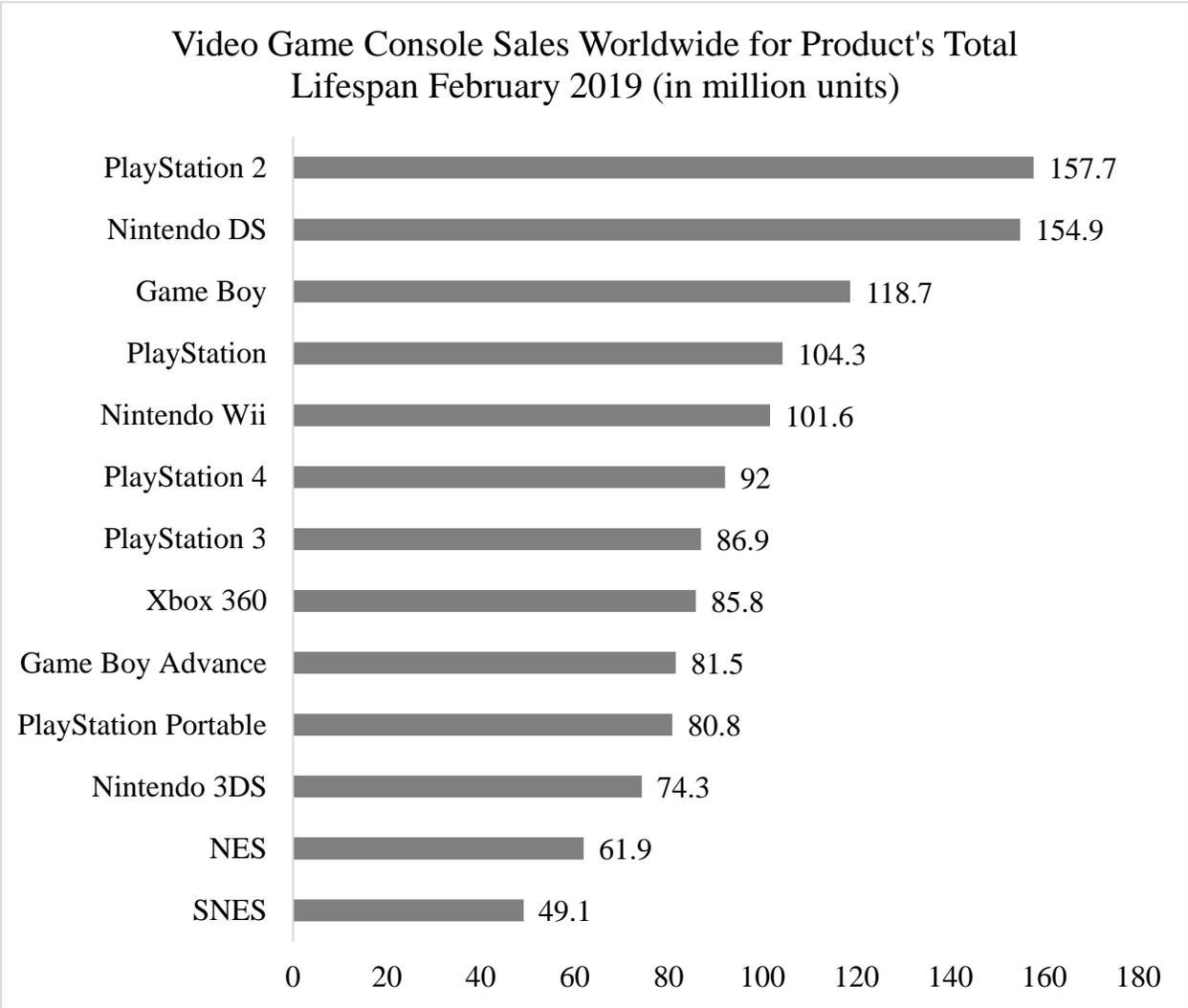
*Projected. (Source: Statista)

Exhibit 2



(Source: Statista)

Exhibit 3



(Source: Statista)

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