

## NINTENDO WII U: LESSONS LEARNED FOR NEW STRATEGIC DIRECTIONS<sup>1</sup>

*Wiboon Kittilaksanawong and Gary Gillet wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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Who has never heard of Mario, the mustachioed plumber in the Nintendo game? Who has never played Tetris on Gameboy? And, more recently, who has never played bowling or tennis in the living room with grandparents on the Wii? All these innovations and famous licences were created by Nintendo, a Japanese family company that has existed for more than 100 years. The company went through different stages from producing traditional playing cards before World War II to developing electronic devices in the globalized digital era (see Exhibit 1). It continued to grow and became famous primarily due to its ability to adapt, innovate and entertain. It evolved into producing video games, one of the fastest changing and most profitable entertainment markets. However, Nintendo was facing challenges with its latest generation of game console, which could not repeat the past successful formula of its Blue Ocean Strategy.<sup>2</sup> In particular, although the Nintendo Wii and DS launched in 2006 were very successful, the recently launched Wii U and 3DS in 2012 were struggling to meet their customers' expectations. Was this a sign that Nintendo had lost its innovative edge? Had its strengths not been leveraged at their full potential? Could the new strategic directions that the CEO announced during the corporate management policy briefing on January 30, 2014<sup>3</sup> successfully revive the traditional dominant position of Nintendo?

### FROM PLAYING CARDS TO VIDEO GAMES

Nintendo was founded in 1889 by Fusajiro Yamauchi as a small business in Kyoto, Japan.<sup>4</sup> The company produced Japanese traditional playing cards and grew rapidly to become a national well-known brand. Hiroshi Yamauchi took over the CEO position in 1949 after his grandfather passed away. After listing on the Osaka Stock Exchange in 1962, the new CEO diversified the company into new businesses such as hotel, taxi and rice products. None of these businesses succeeded, and the playing cards market also began to decline. In 1966, on a visit to one of his factories, Yamauchi met Gunpei Yokoi, an electrician who had made a mechanical hand during his free time. He asked Yokoi to adapt the item as a commercialized toy for the coming Christmas. This first try in the toy market was an incredible success: the Ultra Handover sold more than one million units.<sup>5</sup> Yamauchi then gave complete freedom to Yokoi to

design and produce new toys. Yokoi came up with several successful inventions, the first toys in Japan that used electronic components.

The success in electronic toys was the first move of Nintendo towards the video game market. During the boom of video games in the United States in the 1970s, to learn more about such products, Yamauchi collaborated with Magnavox, a U.S. electronics company, to distribute its system in Japan.<sup>6</sup> In 1977, Nintendo launched its first video game console, called Color TV Game 6. It sold out quickly to Japanese households. Yokoi created a portable console after observing someone on a commuter train playing with a calculator screen.<sup>7</sup> Nintendo partnered with Sharp to develop an inexpensive but efficient screen for use with video games.<sup>8</sup> Having overcome this technological obstacle through Sharp, Yokoi created the Game and Watch, a small device with a built-in video game and LCD screen. More than 50 different Game and Watch devices were commercialized during the 1980s, thanks to their mobility and captivating gameplay with popular licenced characters such as Mickey Mouse and Popeye.

By the end of the 1980s, the established U.S. subsidiary was struggling to unload its huge stock of Radar Scope arcade machines.<sup>9</sup> Yamauchi then assigned Shigeru Miyamoto, a young game designer, to develop a new game that fit in those machines. Because of a restricted budget, Miyamoto had to imagine new characters rather than licensing familiar ones. He came up with a gorilla, a princess and a carpenter, who were later known as Donkey Kong, Peach and Mario, respectively. In arcade games, the more players saw an improvement, the more they wanted to play. The owners of the machines in the United States saw their profits rising from this game feature and placed new orders with Nintendo. Miyamoto's creation was subsequently adapted to the Game and Watch where a second screen was added. To sustain the sales of the Game and Watch, the company continued to incorporate 10 different hardware designs, resulting in more than 43 million units sold.<sup>10</sup> During the first year in the video game market, Nintendo succeeded through its leader's vision of meeting customer expectations for entertaining games that were easy to use and at a reasonable price.

### REBOOSTING THE VIDEO GAME MARKET

In 1983, Japan avoided the crisis caused by the intense competition in the video game industry in the United States that had resulted in dramatically lower revenues.<sup>11</sup> Yamauchi ordered one research and development (R&D) team to work on a system that was more powerful but cheaper than those of his competitors. He refused to use the advanced 16-bit chips technology because of its high price and instead asked the team to optimize the old 1970s' technology. To ensure market penetration, the team came up with an 8-bit system at a low price, the Family Computer, or the Famicom. This system was released in July 1983 for \$61.00 in Japan, resulting in successful sales of 19.4 million units.<sup>12</sup> This success was a turning point in the history of video games, especially after its launch in the United States and Europe.

Games played an important role in the success of the system. Nintendo released its well-known Donkey Kong arcade game for the Famicom so that consumers could play it at home. Miyamoto also developed the popular Super Mario Brothers game, which won worldwide recognition for its innovative designs. With this new console, Nintendo changed its business model by selling the system without margins but making profits from games bundled into it.<sup>13</sup> During the first two years, Nintendo also forbade other companies from developing games for the Famicom, but relented due to the significant increase in enthusiasm for the system. However, it adopted very strict licensing policies to ensure the quality of the games. Moreover, licensees were not allowed to develop similar games on other competitors' platforms. For Nintendo, these policies were not risky but very profitable.

## INTERNAL COMPETITION LEADS TO CREATION OF THE GAMEBOY

Since its entry into the growing video game market in the mid-1970s, Yamauchi had organized two R&D teams to compete with each other in terms of product innovation and revenues generated.<sup>14</sup> R&D Team 1 was led by Yokoi while R&D Team 2 was led by Uemura.<sup>15</sup> After the success of the Game and Watch, Yokoi believed that the best option was to make a handheld console with the highest battery power at the lowest price. He thus declined to use colour screens. Since the release of the Famicom with its huge graphics capacity, R&D Team 2 criticized the black-and-white screen in Yokoi's project. R&D Team 1 came up with the Gameboy, which was released in 1989 in Japan. It offered 10 hours of battery power for \$90, whereas competitors sold their systems for more than \$150 with only five to six hours of battery power.

The Gameboy was not technologically superior in terms of graphics but its components were optimized in order to seduce budget customers with its games and mobility. While Nintendo made large profits from famous licences of games on its system, it also seized opportunities to finance studios to develop its own original games. For example, Pokémon competed with the licensed Tetris; the two were the fifth and sixth bestselling games worldwide respectively with more than 30 million units sold.<sup>16</sup> After 10 years of commercializing several versions of its platform, Nintendo had sold more than 118 million units, while its major rival, Sega, had sold only 10 million units.<sup>17</sup> Nintendo never lost its leadership position in the handheld market.

## REPEATING THE SUCCESS OF THE FAMICOM WITH THE SUPER FAMICOM

Nintendo's Famicom had performed well until the entry of Sega in 1988. Sega's first mover advantage from the powerful 16-bit Megadrive had strengthened its position in the Western market.<sup>18</sup> To fight back, two years later in 1990, Nintendo launched the Super Famicom, using a new microprocessor that was able to display better graphics and effects. The Japanese market responded with sales of more than 300,000 units of the new system in just a few hours after the first launch, with an estimated 1.5 million demands.<sup>19</sup> In the United States and Europe, however, Sega fiercely resisted Nintendo, thanks to its large installed base, free publishing policy and aggressive marketing campaigns.

To fight Sega, Nintendo came up with new licences and powerful games such as Super Mario World, Starfox and F-Zero. The company also opened up its platform to allow publishers to develop more games in response to Sega's free publishing policy. In 1994, the Donkey Kong Country game, with its incredible graphics, drove Sega out of the market as it gained more than six million players in 45 days.<sup>20</sup> Nintendo used all its know-how in terms of gameplay and hardware optimization to create these bestsellers, thereby clearly differentiating itself from its competitors. By 1994, sales of the Super Famicom were more than 49 million units versus 29 million units of Sega's MegaDrive.<sup>21</sup> Since then, Sega began to encounter financial difficulties, particularly after the entry of powerful competitors such as Sony.<sup>22</sup>

## NINTENDO IN TURMOIL FOR OVER 20 YEARS

After the entry in the home console market of the two leading electronics manufacturing giants, Sony and Microsoft, Nintendo lost its leadership position. In 1994, Sony launched its own video game platform called PlayStation (PS), with 3D graphics and a compact disc reader, for \$299.<sup>23</sup> Sales of millions of units worldwide of the PS in the first year left the Super Famicom and the new Sega Saturn, successor of the MegaDrive, very far behind. Sony was not only a video game company that invested heavily in R&D, it

also had a very good relationship with retailers. Moreover, it tried to target new mature customers with violent games, whereas Nintendo's games were considered to be for children.

To compete with Sony, Nintendo collaborated with a U.S. company, Silicon Graphics Industry, in 1996 to develop the most powerful console ever, the N64, and sold it for less than \$250.<sup>24</sup> Unfortunately, the launch of the N64 came too late. Sony had already gained the first mover advantage with its PS, which had a large technological lead over the Super Famicom. Publishers preferred to produce their games on the PS because it had a larger installed base and production was easier and cheaper. By 1999, Sony had captured about 60 per cent of market share in the United States against more than 30 per cent for Nintendo and less than 5 per cent for Sega.<sup>25</sup>

Released in March 2000, the PlayStation 2 (PS2), with its ability to read DVDs and its library of games, beat all records with sales of more than 155 million units as of March 2012.<sup>26</sup> Nintendo's GameCube, which was released in September 2001, failed to compete because of its poor hardware configuration and unattractive design. Microsoft decided to follow Sony's successful track by offering a very powerful system comparable to a personal computer, the Xbox. The U.S. giant grabbed 34 per cent of market share against 15 per cent for Nintendo and 51 per cent for Sony.<sup>27</sup> In 2002, Yamauchi retired and Satoru Iwata, the first non-family member, became the new president of Nintendo (see Exhibits 2 and 3).

### THE BLUE OCEAN STRATEGY: LAUNCH OF THE DS AND THE WII

"Blue oceans" contain all the industries that are untouched and uncontested. Instead of competing within the confines of the existing industry and trying to take away customers from rivals, Nintendo developed uncontested market space that made the competition irrelevant.<sup>28</sup> After the failure of the GameCube in 2004, Nintendo proposed the DS to gamers as a new way of playing.<sup>29</sup> Nintendo DS had two screens, one of which was tactile. Because touch screens were becoming a standard in the smartphone industry, this additional screen created a distinct value-added to the traditional console. A few months after the launch of the DS, Nintendo discovered that even non-gamers enjoyed playing it, mainly because of the touch screen and its easy accessibility.

Inspired by the success of the DS, Nintendo chose to expand video games to women and people over 60 years old rather than try to compete with competitors who were targeting hardcore gamers and people between 12 and 29 years old. Iwata asserted that Nintendo was not thinking about fighting Sony, but about making a difference in perceived innovation value and getting new people to play games.<sup>30</sup> He insisted on restrictions on price and size in order to enhance penetration of the mass market. Under the supervision of Miyamoto, Nintendo came up with an optimized GameCube with a lower price but more innovative controller, called the Wiimote.<sup>31</sup> This new controller eliminated difficulties non-gamers experienced with the many buttons and sticks in the classic controller.

In November 2006, the Wii was launched and quickly sold out. The uniqueness of the system and games such as Wii Sports where gamers could play tennis, bowling and other sports by moving their arms naturally, generated word-of-mouth publicity. The company also invested in marketing campaigns using TV celebrities and families including seniors playing together. To target women, Nintendo launched a fitness game, Wii Fit, and the Balance Board. With the Wii, Nintendo reached a new group of customers who were previously not interested in video games. The combined sales of DS and the Wii were hugely successful with more than 100 million units sold between 2007 and 2009.<sup>32</sup> Seeing the success of the Wii, Sony and Microsoft did not wait long. Sony launched the PlayStation Move for its PlayStation3 (PS3), while Microsoft launched the Kinect for the Xbox 360 in September and November 2010,<sup>33</sup> respectively. These moves, however, were not revolutionary enough to successfully compete with Nintendo. Whereas

perceived innovation value for the Kinect was very high, the associated games were not built very well on its technology potentials.

### TURNAROUND FOR THE 3DS

In March 2011, the new handheld console Nintendo 3DS was launched. Its upper screen could show three-dimensional effects without having to wear glasses. However, the worldwide sales after four months from the release were only about one-fourth the projected annual sales of 16 million units.<sup>42</sup> Nintendo thus decided to announce a price cut from \$250 to \$170, the first time in the company's history that it lowered prices to such an extent within less than half a year from the product launch. The problem was mainly the lack of games. Gamers had to wait for several months to get Mario and other Nintendo games. However, from September 2011, the situation improved, thanks to the release of Super Mario 3D Land and the Mario Kart during the Christmas season and the availability of a vast choice of retro and indie games for less than \$15. In the United States, consumers could also access the system via Netflix, a video streaming service, thereby making the 3DS more than just a video game console.

After one year, Nintendo had sold more than 17 million 3DS units worldwide, while Sony with its PSVita had sold only 1.8 million units during its first year due to the lack of exclusive games.<sup>43</sup> Behind the commercial success of the 3DS, however, was a price cut of 30 per cent.<sup>44</sup> At the end of the fiscal year ending March 2012, Nintendo reported an annual net earnings loss of \$532 million for the first time since 2003.<sup>45</sup> In July 2012, the company launched a new version, the 3DS XL, with a bigger screen. This was a great success as sales exceeded 45 million units worldwide.<sup>46</sup> However, this figure was still under Nintendo's estimations and its past sales records of the DS. The company still could not come back to a profitable situation due to the mediocre launch of its new home console, the Wii U, in the same year.

### STRUGGLING WITH THE WII U

At the 2011 Electronic Entertainment Expo (E3), the world's biggest computer and video games event, Nintendo unveiled the Wii U and its unique controller. During the E3, the company mostly emphasized the Gamepad and integrated tactile screen. The focus was also on the extended name of the new console from simply the Wii and the new controller. Journalists thought that the Wii U was just the Wii with a pad for games and that its controller was just a peripheral to the Wii. Others even considered the Wii U Gamepad as only a peripheral device connectable to the Wii. Casual gamers wondered if they would have to pay \$300 for only a peripheral. Iwata admitted that Nintendo was not successful in demonstrating the value of the platform to its consumers.<sup>47</sup> He also acknowledged that the intervals of time between the release of Nintendo's key titles had been longer than expected and that the company was unable to maintain momentum for the console.

Such misunderstanding led to very disappointing sales. One year after the launch, at the end of the 2013 fiscal year, annual sales of the Wii U were only about 3.45 million units.<sup>48</sup> Obviously, the Wii U could not repeat the past success of the Wii, which sold on average more than 14 million units annually. The Wii U sales were also far below 4.2 million units, the one-month sales after the launch of the Sony PS4. Iwata admitted during the stockholder meeting in January 2014 that the Wii U was not in a good shape.<sup>49</sup>

During the same period, Sony and Microsoft launched their PlayStation 4 (PS4) and Xbox One respectively in November 2013. As of December 2014, the PS4 and the Xbox One, with a total worldwide installed base of 17.3 and 10.1 million units, overtook the 8.2 million units of the Wii U.<sup>50</sup> Iwata hoped that Mario Kart would boost console sales.<sup>51</sup> However, it would be very difficult for Nintendo to counter

strong rivals like Sony and Microsoft because they had become dominant in the home video console market. Since the failure of the Wii U, game publishers had largely abandoned it. Following the success of the DS and Wii, Nintendo had been too optimistic with the Wii U. It was unable to attract true gamers because of the large quality gap of the graphics between the Wii U and competitors' systems. The popularity of smartphones and tablets might have also contributed to this failure.<sup>44</sup>

## THE COMPETITION

### Sony and Microsoft

Only a few months after the launch of the Wii U in November 2012, Sony and Microsoft announced plans for their next platforms, the PS4 and Xbox One, respectively. These platforms incorporated Internet connection and social media and targeted hardcore gamers. The Internet connection was an effective way for console manufacturers and publishers to fight against the market of used games and piracy. Microsoft was confident that the compulsory Internet connection would increase its profit potential. Sony, however, was worried about the availability of Internet connection to gamers.

During the E3 in June 2013, Sony and Microsoft entered the communications battle.<sup>45</sup> Microsoft introduced the Xbox One as a multimedia platform rather than a video game console. It was equipped with built-in services (e.g., Netflix, TV modem and Skype) and the accessory Kinect, which was bundled with the console. Sony's PS4 was the cheapest platform without a mandatory Internet policy and bundled camera. Sony emphasized its availability of games rather than extra services. After the E3, the PS4 was most successful because it met the expectations of gamers. Meanwhile, gamers overly criticized Microsoft for its decisions on unnecessary features, higher price and Internet security policy.<sup>46</sup>

Although Sony clearly won the battle during the E3, both companies successfully attracted publishers to develop the titles on their platforms, thanks to the similar system infrastructure that allowed them to program their games without significant extra costs. To differentiate their products, Sony and Microsoft bet on their respective studios, bought early in the new century, to develop exclusive games. However, for the Wii U, publishers had to largely adapt their games to the specific system, which cost them considerable money, time and human resources. After about one year, worldwide sales of the PS4 and the Xbox One were 17.3 million and 10.1 million units, respectively, while over two years, the sales of the Wii U were only 8.2 million units.<sup>47</sup>

### Smartphones

Since the launch of Apple and Android's smartphones during 2007 to 2008, access to the Internet, mobility and tactile touch screens had made these devices a perfect platform for video games. However, the target and use were very different from those of traditional video games. People were likely to play quick sessions of easy-to-use games such as Candy Crush or Angry Birds, which were so addictive that more than 100 million people downloaded and played them.<sup>48</sup> This number was extremely high when compared to the number of downloads for traditional games. While the console business had ruled the industry for years, mobile games were expected to surpass revenue of console games in 2015.<sup>49</sup> The global smartphone installed base had also achieved a record of two billion in 2014 and would mark a record high in 2015.<sup>50</sup> Smartphones were thus potentially the most effective platform for distributing video games.

Leading companies such as King, Tencent, GungHo, DeNA, GREE and Zinga were targeting this growing goldmine. However, the available offers on these mobile devices were so huge that it was very

difficult to differentiate one from others. Users were also not willing to pay much to play games on smartphones but were used to a new free-to-play model, where they could buy some add-on products with real money. The production costs on smartphones were very low, and since the sales price was also low, high sales volume around the world would potentially yield significant profits for developers. The Chinese mobile publisher Tencent, for example, was ranked number one in terms of revenues in 2013.<sup>51</sup>

Some traditional video game publishers such as Ubisoft, with Rayman, and Square Enix, with Final Fantasy, had also increasingly invested in this new market with their strong and well-known franchises. The U.S. publisher EA spent more than \$1.1 billion acquiring Playfish in 2009 and PopCap in 2011 in order to enter the emerging mobile and social gaming markets.<sup>52</sup> These markets had, however, a hard time achieving differentiation. Capcom's 2014 profits were strong in the console gaming market with its Monster Hunter 4, but the mobile business struggled due to the lack of major titles and fiercely competitive environment.<sup>53</sup> While some experts argued that mobile gaming was not cannibalizing the traditional one, others observed that a growing number of teens — 66.2 per cent in 2012 versus 34.4 per cent in 2011 — were playing games on their smartphones and tablets.<sup>54</sup>

## MARKETS

Global video game revenue was estimated to be \$81.5 billion in 2014.<sup>55</sup> The largest nations by video game revenues were the United States (\$20.5 billion), China (\$17.9 billion) and Japan (\$12.2 billion). The largest regions were Asia (\$36.8 billion), North America (\$22.2 billion) and Western Europe (\$15.4 billion).

### Japan

Until the beginning of the new millennium, Japanese game developers were among the most profitable and awarded in the world. However, they were not ready to close the technical gap created by the release of high-definition hardware. Many Japanese companies were small, whereas Western companies such as EA, Activision and Ubisoft invested millions of dollars to build strong teams of developers to catch up with the technology and to optimize graphic visuals. Japan's unique culture of Manga, J-Pop and Anime increasingly became alien in the market. Most Japanese games were unsuccessful in the United States and Europe, whereas Western games were not well-received by Japanese gamers. Nintendo might prove to be an exception as the company was still performing well with games sales outside Japan.

Players in Japan were also losing interest in home consoles as the console market was down 16 per cent in 2014.<sup>56</sup> Even the new PS4, seen as the saviour of the market, did not perform well. The successful Wii did better but was only profitable for Nintendo because third parties did not support it very well. The market for smartphone games and handhelds, on the other hand, continued to grow. In fact, Japanese people did not stop playing games but had switched to social and mobile gaming because they spent so much time commuting. The total mobile game revenue in Japan in 2013 was around 26 per cent of an estimated \$12.2 billion in global revenue, while in North America, with three times bigger in terms of the number of players, the mobile game revenue was only 25 per cent.<sup>57</sup>

### The United States and Western Europe

Sony, Microsoft and Nintendo were actively competing in the Western markets. In 2014, the United States and Western Europe contributed 46 per cent of worldwide video games revenues.<sup>58</sup> However, these two regions were expected to face growing saturation towards 2017.<sup>59</sup> The players in these markets might

consider leveraging more free-to-play functionality and brand power. The new PS4 and Xbox One moved more than one million units during the first 24 hours of launching. The Wii U after an extremely sluggish start had, however, shown a recovery sign towards the end of 2014 after the release of Mario Kart 8 and Super Smash Brothers.<sup>60</sup> These events demonstrated that consumer appeal for home consoles was still strong in Western markets. To prevent customers from shifting to mobile gaming, Sony and Microsoft increasingly emphasized the social and online aspects of their systems as well as promoting independent games that were unique and inexpensive.

### Developing countries

China had opened domestic markets to foreign video game companies. The State Council announced in January 2014 that it had officially, though temporarily, lifted a ban on foreign video game consoles.<sup>61</sup> Like many people in other developing countries, the Chinese mainly played games on the Internet via personal computer and smartphones. Traditional console games were not common in these countries because people had discovered video games from their personal computer and mobile devices. Gamers in developing countries were generally not used to paying for games, and most hardcore gamers bought games through the gray market. Entering these markets would thus require a great capacity of understanding and local adaptation.

## NINTENDO'S MANAGEMENT POLICY AND FINANCIAL SITUATION

Nintendo had pursued a conservative management policy. The company did not use mergers and acquisitions (M&As) as its main growth strategy. The only major studios it bought were Monolith Software and Retro Studios, which were behind the very successful development of games such as Xenoblade and Donkey Kong Country, respectively. Retro Studios, based in Texas, was also its only foreign studio. Yamauchi believed that deep pockets were vital for a company in the entertainment industry to survive any failures in game systems.<sup>62</sup> The company could afford many investment options because of robust cash reserves built up when earnings were strong. Nintendo had the best revenues per employee among video games publishers.<sup>63</sup> Particularly after the success of the Wii and DS consoles, the estimated profit in 2007 for each staff member was more than \$1.6 million.

However, the company's net income from April to December 2013 fell to \$99 million, 30 per cent down from the previous year, mainly due to disappointing sales of the Wii U.<sup>64</sup> Iwata said he would take a 50 per cent pay cut, while other executives would see reductions of 20 per cent to 30 per cent. Iwata conceded that Nintendo's complacency with past successes was behind its earnings slide.<sup>65</sup> The boom in smartphones and tablets, and also the popularity of the PlayStation 4 and Xbox One consoles, had taken away Nintendo's sales (see Exhibits 4 to 6.) Some stockholders argued that the lack of professional management on the board might be the cause of more than \$1,000 million operating losses after three years.<sup>66</sup> Such huge losses, however, did not have serious impacts on the company's liquidity, thanks to its substantial accumulated profits from the Wii and DS since 1989.

## NEW STRATEGIC DIRECTIONS

Under great pressure from stockholders, bad press and growing disinterest from gamers in the Wii U, Nintendo felt that it was time to act. During the corporate management policy briefing on January 30, 2014,<sup>67</sup> Iwata introduced the company's medium- and long-term strategic directions. He identified five development axes:

- Revitalize existing products.
- Take advantage of smart devices.
- Actively utilize the intellectual property right on existing characters (character IP).
- Expand into other new markets.
- Expand into other new business areas.

In the briefing, Iwata asserted that Nintendo would not give up its core competence in dedicated video game platforms, which integrated hardware and software. He strongly believed that both system and game were the critical elements to address the entertaining experience of customers. He emphasized the motto inherited from the former president that the true value of entertainment lay in individuality. He further explained that Nintendo was not a resource-rich company and thus could not achieve a strong presence by imitating others and simply competing in terms of size.

### **Revitalize existing products**

Nintendo was aware that the problems with the Wii U were casual gamers' confusion about the differences between the Wii U and the previous Wii and added value brought by the Gamepad. Iwata believed that the key to boost Wii U sales was the availability of both blockbuster games (e.g., Mario Kart 8 and Super Smash Brothers) and games built on the advantages of the unique controller.<sup>68</sup> The sales of 3DS would also provide a sufficient installed base to attract Japanese publishers, whom the company could help to export their games.

To increase synergies between handheld and home console systems, the company revealed the NFP (Nintendo Figurine Platform) for the Wii U and 3DS during its financial results briefing on May 8, 2014.<sup>69</sup> The NFP could interact with different Nintendo games on both systems. The company would improve customer relationship management via the new Nintendo Network ID. All gamers would have a common account for all their Nintendo platforms, and former customers would be able to receive upgrades through this new system. With it, the company was also considering creating a new pricing model to motivate customers to buy more games. The new sales mechanisms would benefit both consumers and software creators. The consumers would play more titles, thereby increasing active use ratio of the platform without largely increasing their expenditures.

### **Take advantage of smart devices**

Smart devices such as smartphones and tablets were the biggest challenge for Nintendo. Although smartphones in emerging markets were probably more competitive than the console and many people in these markets had experienced the Internet and video games for the first time through such devices, Iwata insisted that the company would not release games on them.<sup>70</sup> He added that Nintendo games such as Mario and Zelda were designed for its machines, so customers would not be satisfied if they were transferred into smartphones. However, Nintendo would use smartphones as a means of marketing and communication to get closer to customers and to those who were not playing on Nintendo platforms yet.

### **Actively utilize the existing character IP**

After more than 30 years of operations in the video game market, Nintendo owned many well-known character IPs. However, so far, the company limited the use of these IPs to keep control of its image. Character IPs represented a valuable asset that could be leveraged through licensing in additional video

game markets. Nintendo was working with appropriate partners to generate additional revenue streams from these IPs.<sup>71</sup>

### **Expand into other new markets**

Emerging countries increasingly played an influential role in the global economy and thus attracted companies in mature developed markets. Microsoft had already entered China through its local partner BesTV on September 29, 2014, becoming the first foreign video game console in the country after the easing of 14-year restrictions. However, Chinese gamers were not impressed with the Xbox One.<sup>72</sup> The ordinary gamers were not used to paying for games, while most hardcore gamers usually bought games through the gray market. Sony originally planned to launch its PS4 console in China on January 11, 2015, but eventually postponed the date.<sup>73</sup> China had strict censorship rules, which would prevent some popular games from going on sale. Nintendo also planned to enter China, but Iwata argued that the company would not merely transplant its products into the massive market and that it wanted to make new things, with new thinking, rather than a cheaper version of what it currently had.

### **Expand into other new business areas**

Iwata intended to focus on improving people's quality of life.<sup>74</sup> The first focus for the new business would be on health with a bedside sleep monitor to treat sleeping disorders. In fact, Nintendo had already developed such products successfully on the Wii and DS with top selling Wii Fit and Brain Age, a journey into making exercise as fun and simple as playing a game. To successfully enter in such new business, Nintendo needed to implement a whole new platform with software that kept customers engaged and entertained by integrating the experience into their daily lives.

## **CONCLUSION**

After more than 30 years, Nintendo had sold more than 677 million consoles and more than 4.15 billion games.<sup>75</sup> The company was the oldest console manufacturer and the only one that operated exclusively in the video game market. Competition from Sony and Microsoft had forced Nintendo to innovate in order to differentiate its products. The company's competitive advantage came mainly from the unique games built exclusively on its own system. However, its latest generation of both home and handheld hardware was struggling with unexpectedly poor sales. Nintendo was facing a dilemma. On the one hand, stockholders were pressuring it to look for a solution to generate profits as soon as possible. On the other hand, the CEO wanted to focus on establishing strategies for medium- and long-term sustainability, given the company's abundant accumulated financial resources. During the E3 in June 2014, Nintendo presented a very impressive show by announcing the introduction of a lot of video games for the Wii U in the coming months. The press and gamers perceived changes in Nintendo's communication and strategy. Indeed, the company announced not only new licences but also innovative products with the NFC figurine and the new way to use it in games. The release of Mario Kart 8 in May 2014 and Super Smash Brothers series in November 2014 had driven the sales of the Wii U to its highest ever.<sup>76</sup> The Wii U seemed to have a solid future ahead, providing the company kept generating first-party games for the console. In a nutshell, this year could be the turning point for Nintendo and its future strategic directions.

**EXHIBIT 1: NINTENDO VIDEO GAME TIMELINE**

Year	Product Name	Type
1977-1979	Color TV Game series	Home Consoles
1980	Game & Watch	Handhelds
1981	Donkey Kong	Archade
1985	Nintendo Entertainment System	Home Consoles
1989	Game Boy	Handhelds
1991	Super Nintendo Entertainment System	Home Consoles
1995	Virtual Boy	Handhelds
1996	Nintendo 64	Home Consoles
1996	Game Boy Pocket	Handhelds
1997	Game Boy Light	Handhelds
1998	Pokémon Pikachu	Handhelds
1998	Game Boy Color	Handhelds
1999	Pokémon Pikachu 2 GS	Handhelds
2001	GameCube	Home Consoles
2001	Panasonic Q	Home Consoles
2001	Game Boy Advance	Handhelds
2001	Pokémon Mini	Handhelds
2003	Game Boy Advance SP	Handhelds
2004	Nintendo DS	Handhelds
2005	Game Boy Micro	Handhelds
2006	Wii	Home Consoles
2006	Nintendo DS Lite	Handhelds
2008	Nintendo DSi	Handhelds
2010	Nintendo DSi XL	Handhelds
2011	Nintendo 3DS	Handhelds
2012	Wii Mini	Home Consoles
2012	Wii U	Home Consoles
2012	Nintendo 3DS XL	Handhelds
2013	Nintendo 2DS	Handhelds
2014	New Nintendo 3DS	Handhelds
2014	New Nintendo 3DS XL	Handhelds

Source: Company History, [www.nintendo.co.jp/corporate/en/history/index.html](http://www.nintendo.co.jp/corporate/en/history/index.html), accessed January 9, 2015.

**EXHIBIT 2: WORLDWIDE SALES OF NINTENDO AND COMPETITORS' HARDWARE AS OF  
SEPTEMBER 2014 (IN MILLIONS OF UNITS)**

Pos	Platform	North America	Europe	Japan	Rest of World	Global
1	Sony PlayStation 2 (PS2)	53.65	55.28	23.18	25.57	157.68
2	Nintendo DS (DS)	57.37	52.07	33.01	12.43	154.88
3	Nintendo Game Boy (GB)	43.18	40.05	32.47	2.99	118.69
4	Sony PlayStation (PS)	38.94	36.91	19.36	9.04	104.25
5	Nintendo Wii (Wii)	45.37	33.75	12.77	9.28	101.17
6	Sony PlayStation 3 (PS3)	28.91	33.20	10.16	11.93	84.20
7	Microsoft Xbox 360 (X360)	47.93	25.47	1.66	8.92	83.98
8	Nintendo Game Boy Advance (GBA)	40.39	21.31	16.96	2.85	81.51
9	Sony PlayStation Portable (PSP)	21.41	24.14	20.01	15.26	80.82
10	Nintendo Entertainment System (NES)	33.49	8.30	19.35	0.77	61.91
11	Super Nintendo Entertainment System (SNES)	22.88	8.15	17.17	0.90	49.10
12	Nintendo 3DS (3DS)	15.01	12.67	17.30	2.93	47.91
13	Nintendo 64 (N64)	20.11	6.35	5.54	0.93	32.93
14	Sega Genesis (GEN)	16.98	8.39	3.58	0.59	29.54
15	Atari 2600 (2600)	23.54	3.35	0.00	0.75	27.64
16	Microsoft Xbox (XB)	15.77	7.17	0.53	1.18	24.65
17	Nintendo GameCube (GC)	12.55	4.44	4.04	0.71	21.74
18	Sony PlayStation 4 (PS4)	6.50	6.81	0.83	2.43	16.57
19	Nintendo GameGear (GG)	5.40	3.23	1.78	0.21	10.62
20	Microsoft Xbox One (XOne)	5.71	2.57	0.04	1.12	9.44
21	Sony PlayStation Vita (PSV)	2.10	2.77	3.38	1.06	9.31
22	Sega Saturn (SAT)	1.83	1.12	5.80	0.07	8.82
23	Sega Dreamcast (DC)	3.90	1.91	2.25	0.14	8.20
24	Nintendo Wii U (WiiU)	2.87	1.44	1.82	0.45	8.02
25	Atari 7800 (7800)	4.30	0.00	0.00	0.00	4.30
26	Bandai WonderSwan (WS)	0.00	0.00	1.12	0.00	1.12

Source: Platform Totals, [www.vgchartz.com/analysis/platform\\_totals/](http://www.vgchartz.com/analysis/platform_totals/), accessed January 9, 2015.

**EXHIBIT 3: WORLDWIDE SALES OF NINTENDO AND COMPETITORS' SOFTWARE AS OF SEPTEMBER 2014 (IN MILLIONS OF UNITS)**

Pos	Game	Platform	Year	Genre	Publisher	Global
1	Wii Sports	Wii	2006	Sports	Nintendo	82.26
2	Super Mario Bros.	NES	1985	Platform	Nintendo	40.24
3	Mario Kart Wii	Wii	2008	Racing	Nintendo	34.85
4	Wii Sports Resort	Wii	2009	Sports	Nintendo	32.52
5	Pokémon Red/Green/Blue Version	GB	1996	Role-Playing	Nintendo	31.37
6	Tetris	GB	1989	Puzzle	Nintendo	30.26
7	New Super Mario Bros.	DS	2006	Platform	Nintendo	29.58
8	Wii Play	Wii	2006	Misc	Nintendo	28.85
9	Duck Hunt	NES	1984	Shooter	Nintendo	28.31
10	New Super Mario Bros. Wii	Wii	2009	Platform	Nintendo	27.70
11	Nintendogs	DS	2005	Simulation	Nintendo	24.63
12	Pokémon Gold/Silver Version	GB	1999	Role-Playing	Nintendo	23.10
13	Mario Kart DS	DS	2005	Racing	Nintendo	23.02
14	Wii Fit	Wii	2007	Sports	Nintendo	22.69
15	Wii Fit Plus	Wii	2009	Sports	Nintendo	21.60
16	Kinect Adventures!	X360	2010	Misc	Microsoft Game Studios	21.31
17	Grand Theft Auto: San Andreas	PS2	2004	Action	Take-Two Interactive	20.81
18	Super Mario World	SNES	1990	Platform	Nintendo	20.61
19	Brain Age: Train Your Brain in Minutes a Day	DS	2005	Misc	Nintendo	20.10
20	Grand Theft Auto V	PS3	2013	Action	Take-Two Interactive	19.04

Source: Game Database, [www.vgchartz.com/gamedb/](http://www.vgchartz.com/gamedb/), accessed January 9, 2015.

#### EXHIBIT 4: NINTENDO REVENUES BY PRODUCT (IN MILLION \$)

	2011	2012	2013	2014
Handheld Hardware	3,598	2,861	2,417	1,959
Home Console Hardware	2,926	1,415	1,456	869
Home Console Software	2,669	1,431	821	1,623
Handheld Software	2,013	1,561	1,538	629
Other	1,015	630	528	469

Source: Nintendo's Revenue, [www.statista.com/statistics/216629/nintendo-sales-by-product/](http://www.statista.com/statistics/216629/nintendo-sales-by-product/), accessed January 9, 2015.

#### EXHIBIT 5: NINTENDO REVENUES BY REGION (IN MILLION \$)

	As of March 2014
Japan	1,718
The America	2,132
Europe	1,539
Other	161

Source: Nintendo's Revenue, [www.statista.com/statistics/216627/revenue-of-nintendo-by-region/](http://www.statista.com/statistics/216627/revenue-of-nintendo-by-region/), accessed January 9, 2015.

#### EXHIBIT 6: NINTENDO FINANCIAL HIGHLIGHTS FOR FISCAL YEARS ENDED MARCH 31, 2011 TO 2015 (IN MILLION \$)

	FY3/2011	FY3/2012	FY3/2013	FY3/2014	FY3/2015 (Apr.-Sep. 14)
Net sales	11,515	7,842	7,177	5,804	1,613
Operating income	1,942	-452	-411	-471	-2
Ordinary income	1,454	-737	118	62	209
Net income	881	-523	80	-236	135
Net income per share (\$)	6.89	-4.09	0.63	-1.86	1.14
Total assets	18,553	16,569	16,353	13,262	12,381
Total net assets	14,552	14,421	13,864	11,354	10,637
Capital adequacy ratio					
Net assets per share (\$)	114	113	108	96	N/A

Remarks: Exchange rate US\$1= ¥88.09, ¥82.59, ¥88.54, ¥98.51, ¥106.24 for FY 2011, 2012, 2013, 2014, and 2015 respectively.

Source: Financial Highlight, [www.nintendo.co.jp/ir/en/finance/](http://www.nintendo.co.jp/ir/en/finance/), accessed January 9, 2015.