

Case Studies

Dominant firm: Nintendo

Established in 1889 as a playing card company, Nintendo was one of the first companies to enter the video game industry in the 1970s. Today, it is one of the largest console manufacturers and video game publishers in the world. Nintendo's core competencies include console manufacturing, game development, as well as game publishing.

Emerging firm: Zynga

Founded in 2007, Zynga is a video game developer and publisher focusing on social and mobile gaming. Its best-known game, Farmville, was released in 2009 and became the most popular game on Facebook until 2011. In January 2013, three of the top five Facebook games were Zynga titles (Thompson, 2013). Today, Zynga is one of the most prominent social network game developers.

Overview

Nintendo represents an industry giant from the traditional console market. Having had success with its consoles, including the Nintendo 64 and Wii, its handhelds, including the Game Boy line, and a host of iconic game franchises, including Mario, Pokémon, and the Legend of Zelda.

Zynga, by contrast, is at the forefront of the recent trend of casual games enabled by the increased adoption of social networking websites such as Facebook, and the widespread penetration of mobile devices.

General economic indicators: Nintendo

Table 1: Nintendo Financial Performance (2011-2017)

Nintendo Co. Ltd. (US video games segment) - financial performance*				
Year**	Revenue (\$ million)	(% change)	Operating Income (\$ million)	(% change)
2011-12	2,635.1	-36.2	-151.8	N/C
2012-13	2,114.7	-19.7	-121.2	-20.2
2013-14	1,677.3	-20.7	9.6	N/C
2014-15	1,845.6	10.0	72.1	651.0
2015-16	1,974.8	7.0	103.9	44.1
2016-17	1,994.6	1.0	123.5	18.8

*Estimates, **Year-end March

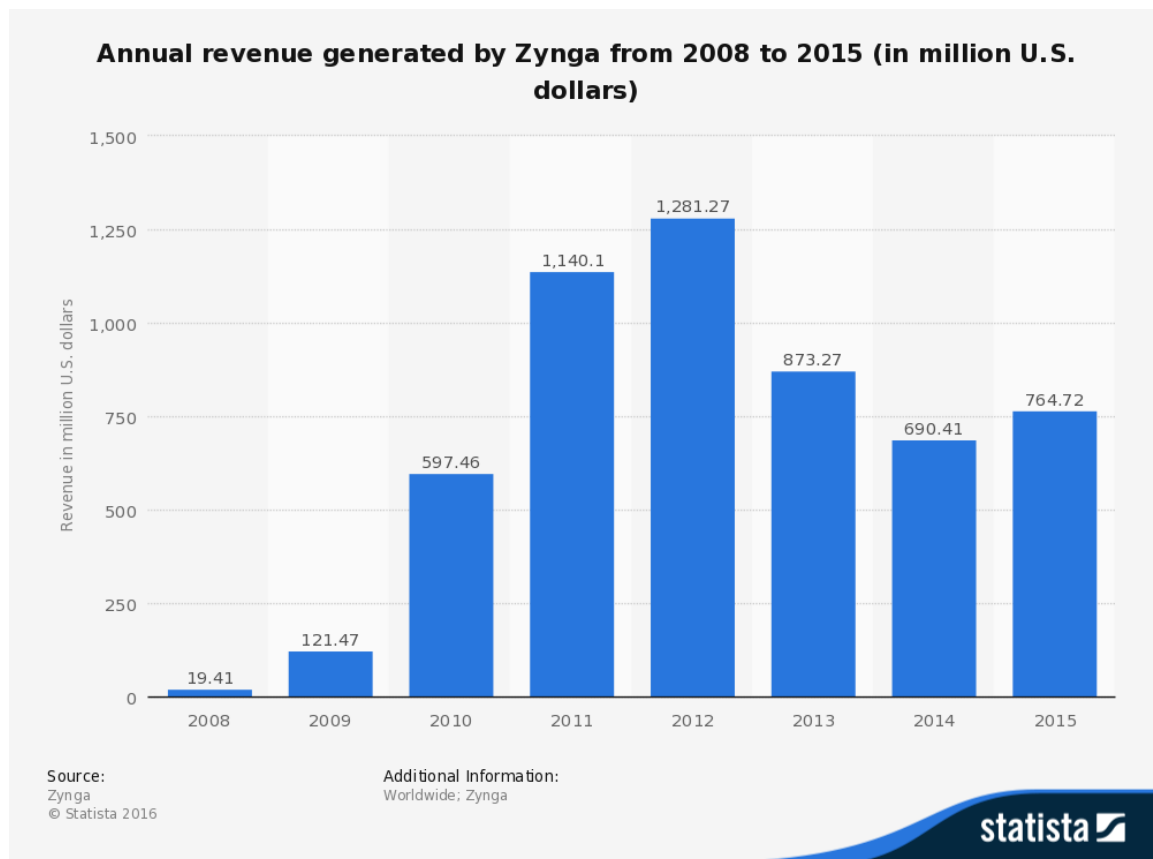
SOURCE: ANNUAL REPORT AND IBISWORLD

Note. From IBIS World, 2016.

As with other companies in the video game console business, Nintendo's financial performance is centered on the release and sales of its consoles. Console and game sales tend to be highest when a console is first released and lowest at the end of a console's life cycle. Nintendo's largest drop in revenue in the past five years occurred in 2011, decreasing 36.2 percent compared to the previous year. This drop coincided with the end of the Nintendo Wii's lifecycle, as Nintendo released its newest console, the Wii U, in November 2012. However, the Wii U was met with low sales upon its release, with slow consumer adoption attributed to a weak lineup of launch titles. Sales of the Wii U began to improve in 2013, following the release of new titles from popular franchises such as the Legend of Zelda, Mario Kart, and Super Smash Bros. Although Nintendo has posted positive revenue changes for the past two years, "industry-specific revenue is projected to decrease at an average annual rate of 5.4% to \$2.0 billion over the five years to fiscal 2017" (Alvarez, 2016).

General economic indicators: Zynga

Table 2: Zynga Annual Revenue (2008-2015)



Note. From Statista, 2016.

Zynga approached a billion dollars in revenue in 2011, four years after the company's founding and surpassed the market value of Electronic Arts, a leading console game developer. Zynga's rapid growth illustrates the changing video game landscape allowing for the mass adoption of games at a significantly lower cost of entry (Saylor, 2012). Zynga's revenue peaked at \$1.28 billion dollars in 2012, before dropping in 2013 and 2014. Zynga's decreased financial performance has led several commentators to question the long-term viability of its business model, with commentators pointing out problems such as its dependence on Facebook and its reliance on the same game formula (Levisohn, 2011). However, revenue increased slightly to \$746 million in 2015.

General business plan: Nintendo

Traditionally a console manufacturer and game developer, Nintendo's core business is the sale of consoles and handheld gaming devices as well as games for their systems. Seen as the third player in the console business behind Sony and Microsoft, Nintendo's consoles never competed directly with Sony's PlayStation and Microsoft's Xbox for hardcore gamers. Instead, Nintendo's Wii and Wii U consoles emphasize ease-of-play and accessibility targeted towards more casual players. As a result, Nintendo's products have tended to be more affordable and family-friendly than its counterparts' consoles (Alvarez, 2016).

A segment of the market in which Nintendo has been traditionally dominant is the handheld gaming market. Its Game Boy line has been dominant in the handheld market since the original Game Boy's release in 1989. In recent years, however, the increasing popularity of mobile gaming enabled by smartphone penetration has drawn casual players away from consoles like the Wii. The Wii was successful largely because it filled a gap in the market for casual players who did not have many comparable alternatives. However, the mobile gaming experience is steadily approaching the quality of experience offered by consoles, shrinking the market size for consoles targeted more towards casual players, such as the Wii. By the same token, the rapidly advancing hardware capabilities of smartphones has also threatened the handheld gaming device market, as less players see the necessity of a dedicated handheld gaming device (Alvarez, 2016).

Although it was met with weak sales initially, the Wii U has proven Nintendo's ability to drive sales based on its customers' loyalty for its established game franchises, with sales of the console rebounding after its release of *The Legend of Zelda: Wind*

Waker HD, Mario Kart 8, and Super Smash Bros. for Wii U in 2013 (Nintendo, 2015).

Nintendo, who has been resistant to the advance of mobile gaming, has refused to license popular games like the Mario franchise for mobile use. However, the underperformance of the Wii U compared to its predecessor, the Wii, has forced Nintendo to reconsider its strategy and diversify its efforts to address current market trends (Alvarez, 2016).

General business plan: Zynga

A social network games company that bootstrapped its success from Facebook, Zynga's main source of revenue is split between in-game transactions and in-game advertising. Most Zynga games require some form of "energy" component to play. Engaging in game tasks consumes a certain amount of energy and after a player expends all of their energy, they have to wait for their energy to be replenished. Players can expedite this process by either paying for game credits, which can be used to purchase energy and other virtual goods, or by accepting offers from Zynga's business partners, such as watching an advertisement or taking a survey. In either case, Zynga generates revenue, the first directly from players, and second, from agreements with business partners (Helft, 2010).

In its early days, Zynga relied exclusively on viral marketing through Facebook for its customer acquisition. However, Facebook has updated its content and advertising policies since then, limiting the rate at which Zynga can acquire customers. Furthermore, Zynga relies on a small percentage of its users for a large part of its revenue, where a core group of players spend large amounts on their games (Levisohn, 2011). While an advantage of social network game development is rapid player adoption at a significantly

lower cost than console game development, player retention poses a challenge because casual players tend to be less dedicated.

Although the reliance on a small percentage of players for revenue and player retention issues are common across social games, Zynga has taken steps to reduce its dependency on Facebook. In an effort to become more independent, Zynga launched their own platform for their games in March 2012, giving players an alternative channel from Facebook to play their games (Dudeck, 2011). Moving forward, Zynga will have to prove the long-term viability of their business model by continuously innovating while looking for ways to diversify its business.

Highlights of Nintendo's successes

A veteran in the gaming console and handheld industry, Nintendo has had a steady stream of successes since its entry into the video game industry in the 1970s. Its consoles, “the Nintendo Entertainment System, Super Nintendo Entertainment System and Nintendo 64 were the preeminent gaming consoles for a decade, across three generations of gaming systems” (Alvarez, 2016). Nintendo's Wii console has sold more than 101 million units worldwide, beating Sony's PlayStation 3 and Microsoft's Xbox 360 and has become the third best-selling home console to date (Nintendo, 2016).

Additionally, four of the five best-selling handheld game consoles are Nintendo's models, with Sony's PlayStation Portable being the sole exception. Nintendo's DS, the successor to its Game Boy line of handhelds, has sold more than 154 million units worldwide, making it the best-selling handheld game console to date, and the second best-selling video game console of all time (Nintendo, 2016).

In addition to its successful console and handheld sales, Nintendo has created some of the most iconic and popular game franchises to date, including Mario, Pokémon, and the Legend of Zelda. Nintendo wholly owns the rights to Mario and partially owns the rights to Pokémon, the top two best-selling video game franchises to date. Released in 1981, Mario remains the best-selling video game franchise of all time, with combined sales in excess of 528 million worldwide (Nintendo, 2015).

Nintendo's current initiatives

As part of its push for development on mobile devices, Nintendo announced a partnership with Japanese mobile developer DeNA to produce games for smart devices in March 2015 (DeNA, 2015). Nintendo's first mobile application, Miitomo, was released in Japan earlier this month. Miitomo is a free-to-use social messaging application with an integrated mini-game. Miitomo marks Nintendo's entry into the mobile sphere and expands the social component of Nintendo's games network beyond its consoles and handhelds. Miitomo had one million users within three days of its launch, becoming the most downloaded application on the Japanese App Store (Peckham, 2016).

Zynga's current initiatives

A recurring criticism of Zynga is that it produces clones of their successful games rather than developing new games that offer novel player experiences. Conversely, it could be argued that Zynga has found their recipe for success and that they only need to tweak their existing model to remain profitable. In 2016, Zynga plans to continue developing its core franchises while releasing some new titles to diversify their portfolio.

Of the ten games Zynga plans to release this year, four will be titles in the company's core social casino category, two will be sequels to their popular franchises, another two will be tile-matching games, one of which will feature Wizard of Oz branding, and the last two will be completely new action strategy games (Zynga, 2016). Zynga hopes to increase long-term player retention and sustain customer lifetime value by refining existing franchises and developing new high quality gaming experiences.

Conclusion

Nintendo and Zynga are two big players in different sectors of the video game industry today. Nintendo represents the traditional console sector while Zynga represents the emerging social games sector. While Nintendo has had numerous successes in its industry career, pressures from the rapidly growing mobile gaming sector threaten its traditional market dominance. Conversely, Zynga, a company that was born into the age of social and mobile gaming is forced to reconsider its business model to ensure long-term viability. The challenges these companies face are indicative of their growth phase. Nintendo, who is an established console leader, is looking at entering the mobile market, while Zynga is still trying to establish a sustainable business model after their previous successes. That both a traditional industry leader and an emerging firm faces challenges attests to how competitive and dynamic the video game landscape has become.

Comparison of main findings for Nintendo and Zynga

	Nintendo	Zynga
General economic indicators	<ul style="list-style-type: none"> Revenue is expected to decrease at an annual rate of 5.4% to \$2.0 billion over the five years to fiscal 2017 	<ul style="list-style-type: none"> Revenue peaked at \$1.28 billion dollars in 2012 Revenue dropped in 2013 and 2014, before recovering slightly in 2015
General business plan	<ul style="list-style-type: none"> Core business consists of console and handheld sales in addition to game sales Weak performance of last console prompts reconsideration of mobile strategy 	<ul style="list-style-type: none"> Revenue is split between in-game sales and in-game advertising Customer acquisition hindered by Facebook policy updates Long term business viability depends on autonomy from Facebook and player retention
Highlights of past successes	<ul style="list-style-type: none"> Wii is the third best-selling home console to date DS is the best-selling handheld console to date Mario and Pokémon are the top two best-selling video game franchises 	<ul style="list-style-type: none"> Farmville was most popular game on Facebook from 2009 – 2011 Three of the top five Facebook games were Zynga titles in January 2013
Current initiatives	<ul style="list-style-type: none"> Nintendo's entry into the mobile market is Miitomo, a social messaging application Miitomo became the most downloaded application in Japan within three days of launch 	<ul style="list-style-type: none"> Focus on player retention and customer lifetime value by refining existing franchises and developing new quality titles

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