

IB Extended Essay in Business & Management

# **The Effect of Nintendo's Limited Product Portfolio on Their Commercial Success**

*To what extent has Nintendo's limited product portfolio influenced their commercial success?*

Essay Word Count: 3,982

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## **I. Introduction**

Home video and computer games (both categories will be referred to as ‘video games’ for simplicity) were considered a niche market when first introduced by *Atari* in 1972 (Tyson, 2018). Since then, video games have become a staple in over 2.2 billion people’s lives worldwide by 2018 (Takahashi, 2018). Only behind broadcast and cable TV, the video game industry in 2015 became the third-largest segment in the US entertainment market, generating sales of \$20 billion USD that year (Takahashi, 2018).

The Japanese companies *Nintendo Co., Ltd.*, and *Sony Corporation* are two of the world’s largest video game companies by market capitalization (ABBRUZZESE, 2016). A great rivalry thrives between the two companies, both globally popular among video game consumers. *Sony* is a large conglomerate electronic company that includes consumer and professional electronics, financial services, entertainment and gaming (N.A., 2018). Whereas *Nintendo* originated as a toy company with a limited product portfolio before moving into the video game industry in 1975 (Jones, 2013). Therefore it’s interesting to analyze the influence this has had on *Nintendo*’s commercial success which rivals the more widespread product portfolio seen by *Sony*. *Nintendo*’s market capitalization in 2016 was \$40 million USD, exceeding *Sony*’s \$38 million the same year (ABBRUZZESE, 2016). This essay will examine the reasons behind the difference in sales performance of these two brands throughout the years 2006-2018.

The context of this essay is the rapidly increasing and highly competitive video game industry dominated by conglomerate tech company giants such as *Sony*. As with any electronic company, a diverse product portfolio is essential to brand success. A major aspect of the video game industry is the technology behind it. As technology increases at a rapid pace, video game companies are challenged constantly to innovate and adapt to these changes to remain competitive. Risk plays a big factor in the success of video game companies, which inspired this research to understand how certain business practices surrounding product portfolios may impact, even greatly, on product sales and market share of leading video game companies *Sony* and *Nintendo*. This led to this essays aim to answer the question: “*To what extent has Nintendo’s limited product portfolio influenced their commercial success?*”

This research aims to help video game companies become more aware of the importance of the *product factor* within their marketing strategies, looking at their product portfolios specifically, in maximizing market shares and sales. The essay starts by reviewing the two multinational companies and provides an overview of the video game market and trends, followed by worldwide sales and market share data from the specified period. Finally, the essay concludes with an answer to the research question through analysis of how different business, product, and marketing strategies of *Nintendo* may affect the popularity, market share and sales revenue in the global market to become an even greater giant in the video game industry.

## **II. Methodology**

This research essay bases its analysis on the video game consoles produced by *Nintendo*, primarily in the context of the marketing & operations management topic product aspect of the Business & Management syllabus.

The market share reports and sales of *Nintendo* and *Sony* in the years from 2006 to 2018 (see Appendices A & B) will demonstrate how prevalent each company and their products are in the global video game market. They will clearly highlight the annual changes in the total sales revenues and market shares of the companies in these years, which is a good base for trend analysis. Moreover, an analysis of current trends in the global video game and electronic industry will help deduce possible reasons for the significant success of *Nintendo* and *Sony*. A comparison of sales in the video game market of both companies alongside other leading video game companies will be made. From there, the analysis of the strategies employed by *Nintendo* and *Sony* will help to propose an idea of the influence a limited product portfolio has on *Nintendo*, whether it be positive or negative.

SWOT and Boston Matrix analyses are present to pinpoint the key differences between *Nintendo* and *Sony* products in sales, marketing, product mix and brand awareness—the differences in product strategies. A number of secondary sources contributing to this research include website articles, market evaluations, studies, and financial annual reports.

Annual reports from *Nintendo* and *Sony* don't detail all the information or contain qualitative factors such as their strategies. Thus, apart from the internal sources of the companies' formal financial reports and websites, external sources such as industry analysts will be used. Such analyst sources, in particular, those focussed on the global video game and electronic markets, are more professional and more likely to be less biased with their information on the video game market, and help to gain valuable insight on the different strategies employed by video game companies and how they are applied to their products. Whereas the information gathered from the internal sources of the companies websites may be biased as the companies are trying to depict a more positive image online. It's important to note that some unofficial websites, such as blogs, may be unreliable and not fully accurate.

### **III. Findings and Analysis**

#### **1. Overview of Nintendo's and Sony's Leading Products**

*Nintendo*, a multinational consumer electronics and video game company based in Kyoto, is “strongly committed to producing and marketing the best products and support services available,” (Jones, 2013). *Sony*, on the other hand, is a multinational conglomerate corporation headquartered in Tokyo whose “mission is to be a company that inspires and fulfills your curiosity,” (N.A., 2018).

*Nintendo* is divided into three main divisions: software development, hardware development and business management (Wetzell, 2010, p. 6). *Sony* engages in business through their four main operating components: motion pictures, music, electronics and financial services (N.A., 2018). Both companies have achieved a net profit of over \$1 billion USD for the fiscal year of 2018 (Appendix A & B), and both rank among Japan's top 10 most valuable brands as of 2018 (N.A., 2018). *Sony's* PlayStation 2 holds the record of being the best-selling video game console, with more than 155 million units sold worldwide—just ahead of the *Nintendo DS's* 154 million sales (N.A., 2018).

*Nintendo's* current leading product is their home console, the Nintendo Switch (see Figure 1 below), considered their most successful product in recent years. The 2012 release of the Wii U—*Nintendo's* previous home console—saw *Nintendo's* net income plummet by \$550 million USD, leading the company into a great low for the next four years (Appendix A). The 2017 release of the Switch, however, gave *Nintendo* a 522% year-over-year increase in revenue.

Comparatively the 2013 release of *Sony's* current leading home console, the PlayStation 4 (refer to Figure 1 below), did not have as big of an impact on their net revenue (appendix B). But while the PlayStation 4 has sold over four times as many units as the Switch, *Nintendo* is rising faster than any other company in the industry as of the fiscal year of 2018 (Kuchera, 2018).



**Figure 1: The Nintendo Switch (left) and the PlayStation 4 (right), (N.A., 2018)**



## 2. Global Video Game Market Overview and Trends

It's important to understand the context of the global video game market to better evaluate the findings and reach valuable conclusions. According to research data, the global video game market is estimated to be worth \$180.1 billion USD by 2021, with the US and Japan as its two biggest stakeholders (Takahashi, 2018). The highly competitive market growth is heavily influenced by rapid innovations in technology and the increasing influence technology has on society.

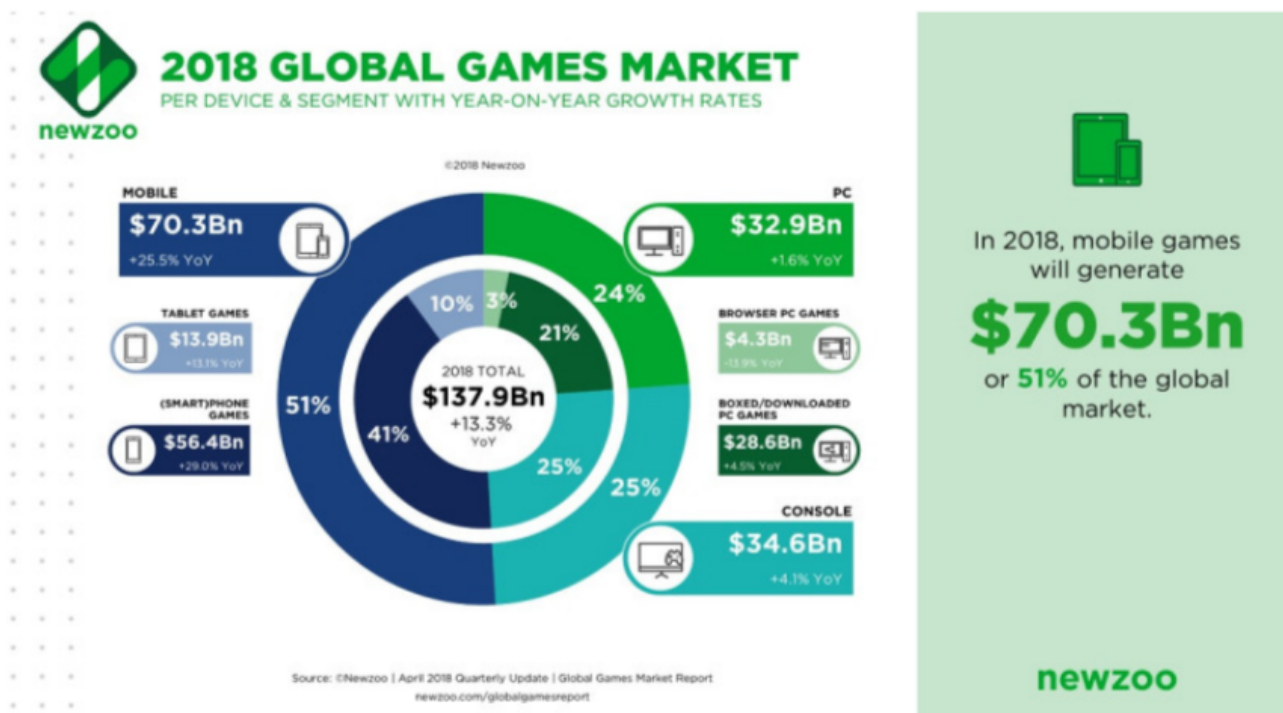


Figure 2: Pie chart depicting the division amongst segments in the global video games market, (Takahashi, 2018)

Figure 2 shows most the market is held by mobile games, where the Switch and PlayStation 4 fall under the 25% held by the console category. This is due to the vast population who own smartphones, as mobile games can simply be played on a device already owned. The same case applies to PC games, as many people already own a laptop or computer and don't need to purchase a video game

console. Both *Nintendo* and *Sony* operate very little in these markets, which drastically increases their competition in the console category.

Another factor influencing the domination seen by mobile games in Figure 2 is the widely used freemium business model. A freemium game gives users access to a fully functioning game but requires them to pay to access most features of the game. Well respected *Nintendo* developer and original creator of Mario, Shigeru Miyamoto, has publicly criticized this free-to-play model, saying, “we’re lucky to have such a giant market, so our thinking is, if we can deliver games at reasonable prices to as many people as possible, we will see big profits... I can’t say our fixed-cost model has always been a success, but we’re going to continue pushing it forward until it becomes entrenched,” (Arora, 2018).

### 3. The History, Business Model and Strategy of Nintendo

The video game industry remains indebted to *Nintendo* and would never be as big as it is without the company. Originally bringing video games out of arcade machines and making them accessible to the populace with astounding success, and bringing the entire industry back in track after 1983's tremendous video game crash are just naming a few of their successes (Jones, 2013). Almost every major video game company has been a direct competitor with *Nintendo* at some point. *Sega Games Co., Ltd.* originally created the world famous character, Sonic the Hedgehog (see Figure 3 below), as their mascot to beat *Nintendo*'s immensely popular mascot, Mario (The Editors of Encyclopaedia Britannica, 2018). *Sega*'s trademark slogan, "we do what Nintendon't" is a big contributor to the hyper-competitive nature of the video game industry.



Figure 3: Original box art for the first Sonic the Hedgehog game, (The Editors of Encyclopaedia Britannica, 2018)

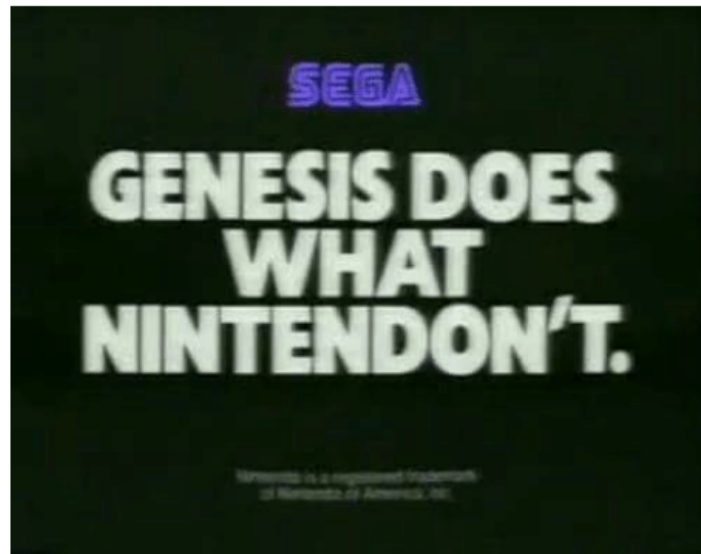


Figure 4: *Sega*'s famous slogan as seen in an advertisement, 1980s, for their main selling console at the time, the Sega Genesis, (The Editors of Encyclopaedia Britannica, 2018)

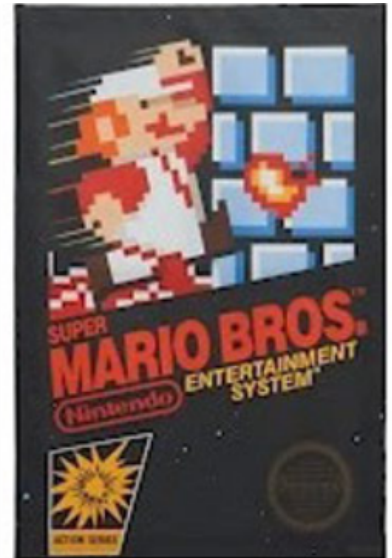


Figure 5: Original box art for the first Mario Bros. game released on *Nintendo*'s first commercial home console, the NES, (The Editors of Encyclopaedia Britannica, 2018)

But *Sega* and other classic game companies at the time like *Atari, Inc.* teetered off to extinction (The Editors of Encyclopaedia Britannica, 2018), while *Nintendo* to this day remains an influential figure. What has changed about *Nintendo* is how they continue to be relevant. Creativity and innovation are the driving forces of any technology company, but *Nintendo* has consistently utilized these like no other video game company. Looking back at the consoles *Nintendo* has released over the years shows a consistent trend of experimentation and innovation. However, it's imperative to draw attention to how *Nintendo* focused on improving their limited product portfolio in the industry, rather than opting to expand their product portfolio.

Their first console released in 1983, the Nintendo Entertainment System, proved to the mainstream arcade cabinet culture that people can play video games in the comfort of their own home (see Figure 7 on page 15) (Tyson, 2018). Computer games were on the rise at this time, but home computers were also a new product and had a complicated perception (Tyson, 2018). A little console that plays a game when you insert a cartridge was much simpler than an arcade cabinet or a computer. The Nintendo 64, *Nintendo's* third home console, featured the first 3D graphics seen out of *Nintendo* and was known for *Nintendo's* innovative 'Rumble Pack', a means to provide force feedback to the player to exponentially increase video game immersion (see Figure 4) (Iftekhhar, 2018). The Nintendo 64 was named Time Magazine's machine of the year in 1996, and it competed with *Sony's* original PlayStation, released three years prior (Iftekhhar, 2018). This was *Sony's* first and brilliantly successful move into the video game industry from the camera and personal audio devices they were known for.



**Figure 6: A rumble pack accessory being inserted into a Nintendo 64 controller, (Iftekhhar, 2018)**

Despite these achievements, *Nintendo's* innovations haven't always proven successful. Released in 1995, *Nintendo's* Virtual Boy was the first attempt at virtual reality (a computer-generated 3D simulation that can be interacted with by a person) in the form of a head-mounted console featuring stereoscopic 3D graphics (Flanagan, 2018). The Virtual Boy, an attempt at something never seen before, was a commercial flop and failed to meet target sales with its high retail price (Flanagan, 2018). But what *Nintendo* accomplished 10 years after their Nintendo 64, defines the innovation born from their limited but focused product portfolio of video game and console development. The Wii (pronounced 'we'), was considered a daring move few businesses in any industry would make, but can also be considered a strategic genius. The market for home consoles *Nintendo* practically created was taken from them by the technical brilliance of *Sony's* PlayStation 2 and the *Microsoft Corporation's* Xbox (N.A., 2017). Both of these companies' flagship game consoles were years ahead of anything seen by *Nintendo* in terms of sheer hardware strength.

In the video game market, home consoles typically come out in new generations every 6 years or so (N.A., 2018). Both *Sony* and *Microsoft* continued their successes in the forms of the PlayStation 3 and Xbox 360 for the next generation by opting to play it safe and simply improve hardware strength and technical specifications rather than feature a new functionality or playstyle to their consoles. *Nintendo* released the Wii alongside these and was nowhere near as technologically powerful, but featured a completely innovative control system utilizing motion controls (Iftekhhar, 2018). While sounding like a gimmick added a high risk to this release, *Nintendo* ensured it became the main selling point with a diverse library of video games making complete use of this control system (N.A., 2017). *Nintendo* stated the Wii targeted a much broader demographic than its two competitors. Several party and inclusive games developed by *Nintendo* ensured that even people who have never played a video game before can join in with the simple motion controls of the system (Iftekhhar, 2018). So in spite of falling behind on hardware specifications by a large margin, *Nintendo* held its ground against strong competitors in the form of the Xbox 360 and PlayStation 3 and suggests it was through innovation in their limited product portfolio alone.

The release of the Wii in 2006 led *Nintendo* on a path of net profits of over \$1 billion USD in 2007, and over \$2 billion each year up until 2011 (Appendix A). As of the first quarter of 2016, the Wii led its console generation over the PlayStation 3 and Xbox 360 in terms of worldwide sales with over 101 million units sold; the console broke the sales record for the most consoles sold in a single month in the US in December of 2009 (Purchase, 2010). All of this is evidence of *Nintendo*'s limited product portfolio leading to success.



Figure 7: Timeline depicting only the important products mentioned in this essay

While *Sony* is the current market leader in console sales with the PlayStation 4 selling around 80 million units, almost four times the amount of units of the Switch (N.A., 2018), it has been in the market for almost 4 years longer than the Switch. To analyze them comparably, the PlayStation 4 had sold around 20.2 million units worldwide in sixteen months after launching on November 15<sup>th</sup>, 2013. As for the Switch, the system had sold approximately 19.7 million units worldwide in only 15 months following its release on March 3<sup>rd</sup>, 2017 (Kuchera, 2018). The PlayStation 4 managed to reach these numbers after two holiday seasons—the peak months of the year in global retail sales—while the Switch managed to accomplish its numbers in just one holiday season. Because of this, the Switch is projected to potentially overtake the current sales of the PlayStation 4 in 3 years (Kuchera, 2018). But more reasons point towards this.

Since their release of the Game Boy in 1989 and the incredible success that came from the Nintendo DS in 2004, *Nintendo* has always had a current handheld console (differing from a mobile device) and a home console they support until the end of their product life cycles (Purchase, 2010). The innovation in technology *Nintendo* presented with the Switch (it serves as a hybrid home console that can be used in a portable form, see Figure 8 below) allows *Nintendo* to be open about the idea that families can buy more than one Switch, unlike the staple of one PlayStation 4 per family. “The marketing strategy going forward is to instill a desire to purchase Nintendo Switch among a wide consumer base in all regions,” Shigeru Miyamoto stated earlier this year, “our ultimate ambition is for a Nintendo Switch to be owned not by just every family, but by every single person,” (Arora, 2018). This is something never before been seen in the home console market and shows the effect *Nintendo’s* constant innovation and risk-taking has had on their business model.



Figure 8: The different playstyles offered by the Switch, (Flanagan, 2018)

Following their most successful home console, *Nintendo’s* Wii U did not fail to the same extent as the Virtual Boy but definitely did not live up to its predecessor.



It's another example of the risk that comes with innovation and suggests a disadvantage of having a limited product portfolio as it caused *Nintendo* to financially rely too heavily on the success of the Wii U (Flanagan, 2018). The Wii U was *Nintendo's* attempt at combining their two most successful products—the Wii and DS. But due to a steep price tag and the lack of a proper game library, the Wii U failed to capitulate (Flanagan, 2018). Rather than giving up the home console market and becoming a sole video game developer, *Nintendo* decided to take yet another risk by refining the formula of the Wii U in their next generation of console. *Nintendo* had a lot to prove with the Switch and managed to exceed all expectations. *Nintendo's* 7th home console, the Switch, is an intricate piece of hardware that has never before been seen in the global video game market. By the inclusion of the Wii's motion controls in the form of detachable, portable controllers and launching alongside one of the best video game titles of all time (*The Legend of Zelda: Breath of the Wild*) that can exclusively be played on the Switch, it is undeniably innovation done right (Iftekhhar, 2018). *Nintendo* could have pulled out of the home console market after the Wii U and relied on the sales of their other video game product lines if they were a conglomerate, or they could have played it safe and simply upgrade their hardware specifications like the competition. *Nintendo's* business model has carried on since their origin as a toy manufacturer and has made them a company that values gaming as something more than hardware strength. *Nintendo's* competitors have taken notice of this, for example, *Microsoft's* release of the Xbox Kinect to mimic the Wii's popular motion-based control system. However, this did relatively poorly as it was rushed out into the market and became a simple gimmick (Iftekhhar, 2018).

#### 4. SWOT Analysis - Nintendo Switch and PlayStation 4

To better understand the strengths and weaknesses of a limited product portfolio, both *Nintendo* and *Sony* leading products will be analyzed to allow for comparison between the two brands. This will help in showing how limited and conglomerate product portfolios influence commercial success.

<b>Nintendo Switch</b>	<b>Strengths</b>	<b>Weaknesses</b>
Internal	<ul style="list-style-type: none"> <li>+ It's small and portable, won't take up much space</li> <li>+ <i>Nintendo</i> has a very positive brand image and their name in the title ensures consumers of a high-quality product</li> <li>+ Smaller and less demanding hardware components allows the system to sell at a cheaper price from launch day compared to competitors</li> <li>+ <i>Nintendo</i> has one of the most dedicated loyal consumers of any company due to their long history which guarantees several million sales at least</li> <li>+ Portability of a home console is attractive to consumers who make up the 51% of the gaming industry that is mobile gaming</li> <li>+ Exclusive critically acclaimed games on the system</li> <li>+ Being designed for casual gaming market allows people</li> </ul>	<ul style="list-style-type: none"> <li>- Limited product portfolio limits some possible functionalities as the Switch won't be able to connect to another family product like the PlayStation 4 can</li> <li>- Small size led to low amounts of digital storage, a consumer has to spend upwards of \$30 USD for a good storage SD card</li> <li>- Small size and focus on innovative features has led the product to lack significantly in hardware strength compared to its competitors' products</li> <li>- Game developers having to focus on a game that can be played at home but also on the go has resulted in a significant lack in online play via wifi on the system</li> <li>- New technology means it's harder for third-party companies to develop games for the system and the process requires more time and money</li> <li>- Could potentially be viewed as a</li> </ul>

	<p>of all ages to play which makes it very appealing to families</p> <ul style="list-style-type: none"> <li>+ Small in size sitting at 10 × 4.2 × 0.5 inches and weighing 0.65 pounds (Higham, 2017)</li> <li>+ Being popular around the globe has resulted in a retail stock shortage for the Switch. While sounding like a disadvantage this has actually proven to <i>Nintendo's</i> benefit as owning a Switch became exclusive (exclusivity is a compelling market tactic), while still allowing for online sales (Takahashi, 2018)</li> <li>+ A focus on easy to set up and casual play attracts a wider consumer base than that of competitors</li> <li>+ A new product that has never before been seen in the home console market</li> </ul>	<p>gimmick</p> <ul style="list-style-type: none"> <li>- Because of the Wii U's lack of success, several games made by <i>Nintendo</i> exclusively for the Wii U are being ported (transferred and re-released) over to the Switch to increase the low amounts of sales for the games that were hindered by the Wii U's success. But this is done with full \$60 USD price tags and has resulted in a lack of new content</li> </ul>
	<b>Opportunities</b>	<b>Threats</b>
External	<ul style="list-style-type: none"> <li>+ Global video game market is growing exponentially bigger each year</li> </ul>	<ul style="list-style-type: none"> <li>- PC (computer) gaming will always have superior hardware strength over a console</li> </ul>

Figure 9: SWOT analysis on the Nintendo Switch

The SWOT analysis in Figure 9 for the Switch helps in understanding why they are able to compete with *Sony*, a known tech giant. The insights the two SWOT analyses may reveal are very important when dealing with this essay's research question as the comparison of these analyses will assist in identifying the

similarities and differences of the two products and how they have an impact on the two companies commercial success (Mind Tools Content Team, 2014).

As previously discussed, the large majority of the global games market is made up of mobile (i.e. smartphone, tablet) games and it's evident in the Switch's SWOT analysis that portability and casual gamers (where a gamer doesn't have a long-term commitment to a game and can approach playing the game on an infrequent and spontaneous basis) are two main factors *Nintendo* is focussing on to increase the consumer population for their home console. Their approach of an inclusive design that can easily be shared with others is a key factor to the expansion of their consumer base, connecting back to what Miyamoto said about *Nintendo's* ambition for the Switch.

*Nintendo* continuously produces innovative and high-quality products that satisfy popular consumer demand. This suggests their large investment in research and development of new products helps them maintain their position as a market leader in the entire global games market due to these high-quality innovative products.

<b>PlayStation 4</b>	<b>Strengths</b>	<b>Weaknesses</b>
Internal	<ul style="list-style-type: none"> <li>+ Exclusive critically acclaimed games on the system</li> <li>+ One of if not the highest hardware strength of any console</li> <li>+ Has been receiving continuous support from <i>Sony</i> from its release in 2013 to date</li> <li>+ The product line has been the outright market leader for several generations</li> <li>+ Its popularity has caused several third-party game developers to release almost every title on the system</li> </ul>	<ul style="list-style-type: none"> <li>- Price skimming method is used when selling games for the system and it can end up being very expensive to play any game on a PS4, in fact, many people are switching to computer games because of the high price on console games</li> <li>- Does not have many different features setting it apart from competing products</li> <li>- Large in size sitting at 10.8 x 2 x 12 inches, and weighing 6.1 pounds (Higham, 2017)</li> <li>- No stake in the portable or mobile gaming market</li> </ul>
	<b>Opportunities</b>	<b>Threats</b>
External	<ul style="list-style-type: none"> <li>+ Rise in popularity of VR. The PlayStation virtual reality headset allows <i>Sony</i> to offer big budget games for this groundbreaking new technology and capitalize on this emerging market</li> </ul>	<ul style="list-style-type: none"> <li>- Console sales have been dropping from 2010 to date as more people switch to mobile games more and more (Takahashi, 2018)</li> <li>- PC (computer) gaming will always have superior hardware strength over a console, so <i>Sony</i> can no longer rely on hardware strength as a sole selling point</li> </ul>

Figure 10: SWOT analysis on the PlayStation 4

The SWOT analysis of *Sony's PlayStation 4* helps build upon the information revealed in the Switch analysis shown in Figure 9. In comparison to the PlayStation 4, you can see in the Switch's advantages section that it is significantly lighter and smaller, and will take up a much smaller space on a shelf or in someone's entertainment center. The Switch's small size makes it much less intrusive to a consumer's shelf; this on top of its inclusive controllers and games designed for all ages sets up its design to be a staple in every family's home. Multiple control configurations (as seen in Figure 8 on page 16) and total portability mark the Switch as a more versatile experience to consumers from a design perspective.

This unique aspect seems to make up for the Switch's significantly lacking hardware strength when compared to the PlayStation 4 and may be the reason for *Nintendo's* rise in commercial success.

Furthermore, the threats section for the PlayStation 4 highlights the superiority PC gaming will always have over home consoles and this is also a similar threat the Switch faces. This is because a PC can have individual parts and components removed and replaced to improve performance as technology develops, whereas any home console will have to see a complete commercial re-release to improve hardware specifications (Takahashi, 2018). The PlayStation 4's main selling point is its hardware superiority over its competitors, but the Switch has literally no competitors with its unique selling point, putting it at a major advantage. Although the SWOT analysis performed may help to better evaluate the success of the product as well as addressing their weaknesses and threats, it does not

prioritize issues (Mind Tools Content Team, 2014). There is no individual significance of one factor versus another and thus it's extremely subjective in determining what factors weigh more than others. Ambiguity is an issue created with these models (Mind Tools Content Team, 2014). Each factor must fit into only one of the four categories due to the one-dimensional design of the SWOT analysis, though sometimes a factor may be a weakness as well as a strength. For example, *Nintendo* may provide a highly innovative unique selling point for the Switch, but this may be interpreted as a mere gimmick to some customers which may be disadvantageous. Moreover, the SWOT analyses don't offer solutions or alternative decisions and thus the strategies utilized by *Nintendo* and *Sony* need to be evaluated closely to create suggestions for the extent of the impact *Nintendo's* limited product portfolio has had on their commercial success.

## 5. Strategy Analysis - Nintendo and Sony

### The Effect Limited Product Portfolios Have on Pricing Strategies

Price skimming is a pricing strategy in which a firm charges a high initial price for their product and proceeds to lower the price as the product moves through its product lifecycle. This is done to keep the product competitive, and *Sony* utilizes this pricing strategy to their advantage (N.A., 2016). *Sony's* recently released PlayStation Hits product line that features re-released critically acclaimed games for 67% off their original price is a good example. This strategy has proved immensely successful for *Sony* and has forced other competitors to lower their prices to stay competitive. All of this is extremely beneficial to the consumer and plays a big part in *Sony's* huge success in the industry.

*Nintendo*, however, charges an initial high price for the video games they develop and won't lower the price more times than not. *Nintendo* still gets away with this, as they have an immense fan loyalty dating back to their first console, the type of brand loyalty competitors try everything for (Blazeski, 2017).

The generation who were children when *Nintendo* first released the NES would now have grown up and would be buying products like the Switch for their children (Blazeski, 2017). *Nintendo* has multiple world-famous intellectual properties such as Mario, Donkey Kong, and Pokémon just to name a few. Every video game featuring these and *Nintendo's* other characters have always been exclusive to *Nintendo's* consoles. This allows *Nintendo* to never change the price of these characters' games simply because they can get away with it—there are no



competing consoles to lower the price of the same games. This possibly shows how a limited product portfolio leads to all of a company's resources being poured towards one or two products. This strategy of *Nintendo* has received mixed reactions from even the most dedicated of fans. Selling the Switch at a launch price of \$300 USD, \$100 less than the PlayStation 4, has been part of *Nintendo's* message that they are an affordable gaming company (Kuchera, 2018). For obvious reasons this clashes with *Nintendo's* refusal to lower prices by a significant amount on their games even 4 years after they release. While this helps to ensure each game produced by *Nintendo* is of the highest quality, it has allowed competitors to significantly undermine their prices and gain a huge advantage here. This demonstrates a disadvantage *Nintendo* has created for themselves because of their limited product portfolio, and could potentially damage commercial success.

## Boston Consulting Group Matrix Analysis of Various Current *Nintendo* Products

The BCG Matrix in Figure 11 will help in visually analyzing the relative market share and relative market growth rate of various recent *Nintendo* products to further the analysis on the commercial success seen with innovative products that are developed due to a limited product portfolio.

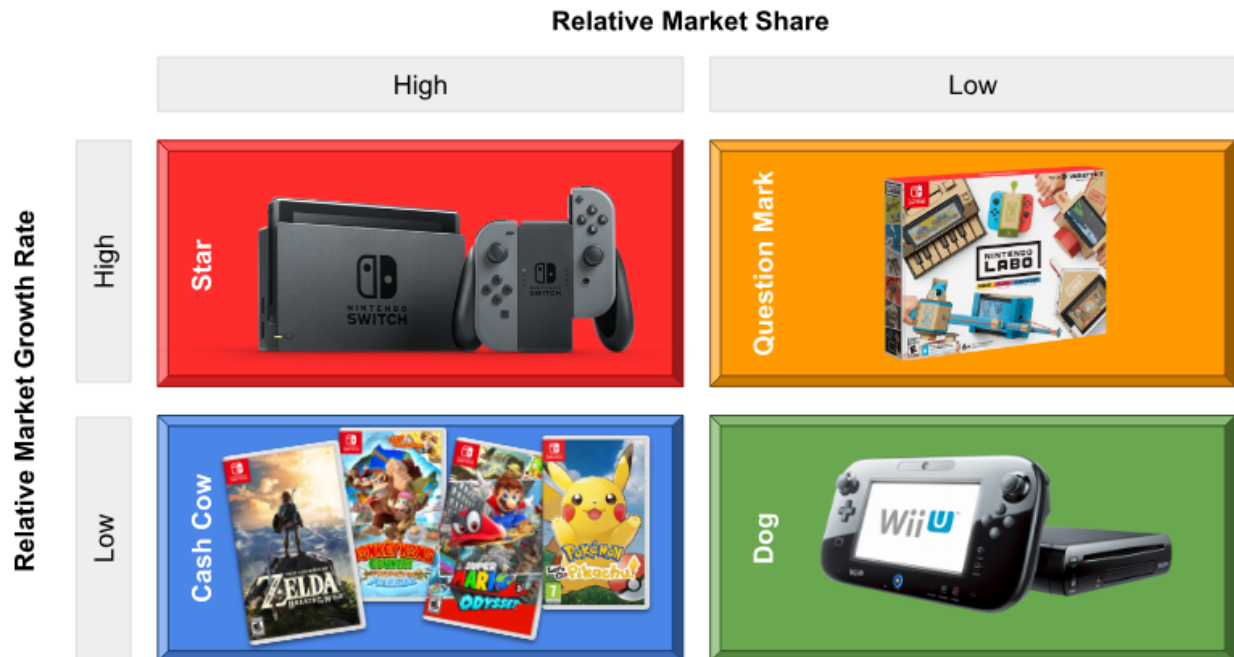


Figure 11: Boston Matrix analysis of various current *Nintendo* products

*Nintendo's* Wii U has only sold around 13 million units to date after being in the market for 5 years (N.A., 2018). This makes it a dog as it had very low future prospects and was quickly taken off the market only five months after the release of the Switch. The Switch managed to outsell the Wii U after only 10 months since its release (Kuchera, 2018), which easily classifies the Switch as a star in the BCG Matrix and has led *Nintendo* to continuously support the system. The newest addition to *Nintendo's* lineup of innovative products is Nintendo Labo (see Figure 12). The Labo sees *Nintendo* trying to incorporate the childish fun of

cardboard toys and assembly into the Switch. Labo is classified as a question mark because it may not become a commercial success or amaze critiques, but it's still incredible to see a company of *Nintendo's* stature still go out of their way to carry on innovating.

*Nintendo's* lineup of beloved characters, IP's and games can only be played on their home consoles and classify as cash cows since *Nintendo* has kept them alive on all their consoles to date. As mentioned in *Nintendo's* pricing strategy, continuously selling these cash cow games at starting shelf price brings in constant revenue for *Nintendo*. This guaranteed revenue is what allows *Nintendo* to develop question marks like Labo, which may end up as starts like the Switch. *Nintendo* definitely makes space for innovation as something to strive for and appreciate—evident in the success of the Switch.



Figure 12: Advertisement for Nintendo Labo, (N.A., 2018)

The BCG Matrix is very easy to understand and simple, but this could be seen as a limitation to the analysis tool as its two axes, 'relative market share' and 'relative market growth rate' may be insufficient for measuring profitability

(N.A., 2018). As a result, the BCG Matrix may be limited in terms of profitability indicators such as customer loyalty, financial support and retailer relations to name a few. In addition, this BCG Matrix was not created by the companies themselves so it may not be equivalent to where they themselves would place their products. The decision of which products belong in each category of the matrix is extremely subjective (N.A., 2018).

## The Product and Service Focus of Sony and Nintendo

Sony operates in a number of business segments including music, motion pictures, smartphones, televisions, image sensors, game consoles and financial services(N.A., 2018).

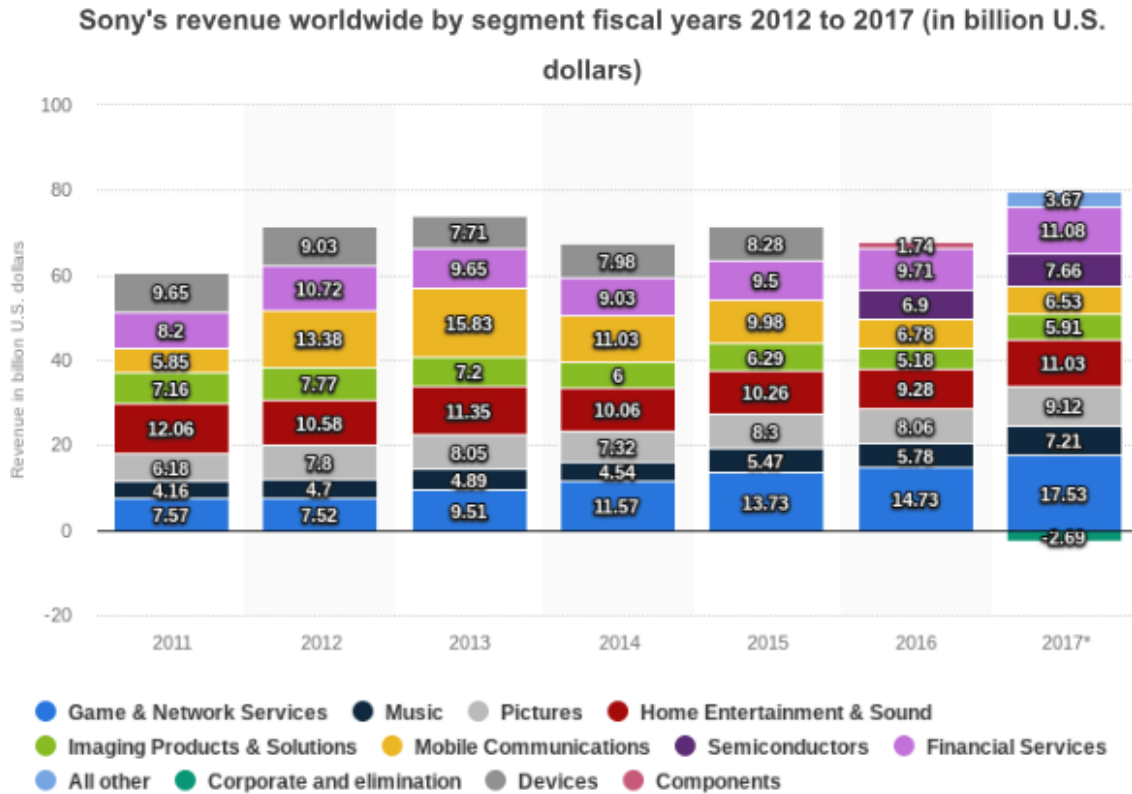


Figure 13: Graph depicting Sony's revenue worldwide by segment fiscal years 2012 to 2017, (Kharpal, 2017)

It was reported by CNBC in 2017 that Sony's profits rose by 346% due to the strong performance of the PlayStation 4. Figure 13 highlights the clear linear increase in the contribution to Sony's overall profits from their video game segment, surmounting to \$17.53 billion USD in 2017 (Kharpal, 2017). Sony dominated the game console hardware, software, and service market in 2016, capturing a total of 57% market share, or \$19.7 billion USD in cash (Kharpal, 2017). A huge contributor to this is Sony's current paid services available to consumers who play on PlayStation: PlayStation Now, and PlayStation Plus

(Yin-Poole, 2016). PlayStation Plus was introduced by *Sony* in 2006 alongside the release of their PlayStation 3. PlayStation Plus is a paid service of \$50 USD a year to gain access to online play in games via the internet along with several other features including free games and cloud storage (Yin-Poole, 2016). *Sony* did this following the success and high profits of *Microsoft's* Xbox Live service. In 2016, *Sony's* PlayStation Network sales earned them \$4.5 billion USD. This alone was more than all the money *Nintendo* as an entire company earned the same year, which was \$4.4 billion USD (Yin-Poole, 2016).

*Nintendo's* product focus vastly differs from *Sony* and *Microsoft*— *Nintendo* exclusively operates in the video game and console market segment. However, Figure 14 below shows *Nintendo* is predicted to overtake *Microsoft* by the end of 2018 in the console market. Nevertheless, *Nintendo* does not appear to come close to *Sony* anytime soon and they've taken notice of this. In the suit of *Sony's* PlayStation Plus service, *Nintendo* has just recently released their Nintendo Switch Online service which offers many of the same features seen in PlayStation Plus, albeit for a significantly lower price of \$20 USD a year (Nintendo of America, 2018).

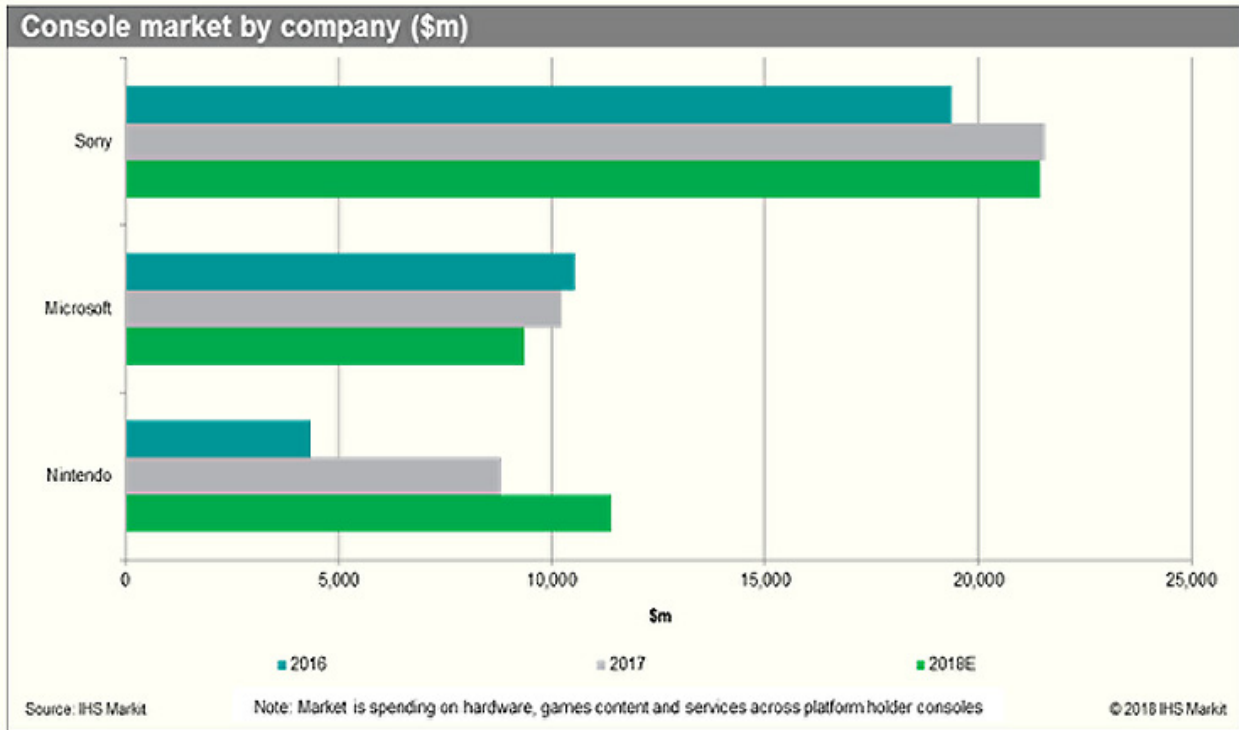


Figure 14: Graph depicting the console market by company, (Kharpal, 2017)

While *Nintendo* and *Sony* both have somewhat limited product portfolios in the video game market segment, *Sony* is very conglomerate in the market segments it operates in which isn't seen in *Nintendo*. *Nintendo's* only recent introduction of an online service mimicking PlayStation Plus demonstrates *Nintendo's* relatively limited focus on expanding their product portfolio within their consumer segment. This is likely a result of their history as a video game company first and comes as a disadvantage of having a limited product portfolio.

## **IV. Conclusion**

Through extensive research and a thorough study of the global video game market, this essay addresses the question “*To what extent has Nintendo’s limited product portfolio influenced their commercial success?*” by evaluating *Nintendo’s* strengths and exemplifying the effectiveness of their limited product portfolio on their market share in the global video game market, product and pricing strategies as well as a continued high investment in new innovative technology. Through the analysis of the *Nintendo* company history, the essay identifies the key factors that keep *Nintendo* in competition with the larger conglomerate company *Sony* and how they’ve led to commercial success. These factors include the focus of *Nintendo* on increasing their consumer base, completely innovation new technologies and constantly taking risks with every new generation of their console.

The findings of this essay conclude several ways in which *Nintendo’s* limited product portfolio has influenced their commercial success, both to their advantage and disadvantage. The analysis indicates that despite *Nintendo’s* significantly limited product line compared with *Sony’s* wide and diverse product portfolio, *Nintendo* grew their video-game console market share at a faster rate than *Sony’s*. This suggests *Nintendo’s* smaller product portfolio enabled it to heighten the company’s focus on the video game console market to their benefit. The essay also found *Nintendo’s* limited product portfolio to succeed due to the constant expansion of their consumer base which is seen in the Switch’s main selling point, its portability, which mimics the success of the largest segment in the



global video games market that is mobile gaming. Having strong, reliable, and constant sales from games developed by *Nintendo* that feature their beloved and world-renown characters is the reason *Nintendo* is able to take so many risks to produce the question marks seen in the BCG Matrix.

To their detriment, however, a limited product portfolio has caused *Nintendo* to become too reliant on the success of their home consoles, as seen in the analysis of their Wii U and Virtual Boy products. This has caused them to see all-time lows when these products did not succeed in the market due to the failed attempts at innovation.

It's important to note that due to time and word constraints, the essay could not thoroughly assess all aspects of the brand's marketing strategies, and was mostly focused on the product aspect of the marketing mix, as this was identified as the primary success of both *Nintendo* and *Sony*. Therefore it should be noted that the essay conclusions are limited to one primary perspective of the marketing strategy which is the product factor. To perform a more detailed analysis, it would be important to examine the impact of adopting the other Ps of the marketing mix, such as the promotion of the companies products and the brand image each company holds. Another hypothetical extension could be the inclusion of primary sources of data, which were unavailable to me during the researching phases of this essay.

Essay Word Count: 3,982

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## VI. Appendices

### Appendix A: Nintendo Net Profit or Loss 2006 - 2018

The screenshot shows the Bloomberg terminal interface for Nintendo Co Ltd. The data is presented in a table format with columns for years from 2006 to 2018. The rows include 'Net Income/Net Profit (Losses)' and 'Growth (YoY)'. The data is in millions of USD.

	2006 Y 03/31/2006	2007 Y 03/31/2007	2008 Y 03/31/2008	2009 Y 03/31/2009	2010 Y 03/31/2010
Net Income/Net Profit (Losses)	870.1	1,491.0	2,259.5	2,788.6	2,465.3
Growth (YoY)	12.5	77.2	47.7	8.5	-18.1

	2011 Y 03/31/2011	2012 Y 03/31/2012	2013 Y 03/31/2013	2014 Y 03/31/2014	2015 Y 03/31/2015	2016 Y 03/31/2016	2017 Y 03/31/2017	2018 Y 03/31/2018
Net Income/Net Profit (Losses)	908.3	-547.6	85.9	-231.9	382.5	137.6	948.9	1,259.9
Growth (YoY)	-66.1	-	-	-	-	-60.6	521.5	36.1

To get this data, I contacted my Father who works for *Bloomberg News* and was allowed inside access to this financial data on *Nintendo* via *Bloomberg's* database. I only included the information that was referenced in this essay in the image above.

### Appendix B: Sony Net Profit or Loss 2006 - 2018

The screenshot shows the Bloomberg terminal interface for Sony Corp. The data is presented in a table format with columns for years from 2006 to 2018. The rows include 'Net Income/Net Profit (Losses)' and 'Growth (YoY)'. The data is in millions of USD.

	2006 Y 03/31/2006	2007 Y 03/31/2007	2008 Y 03/31/2008	2009 Y 03/31/2009	2010 Y 03/31/2010	2011 Y 03/31/2011
Net Income/Net Profit (Losses)	1,093.3	1,080.7	3,243.7	-988.6	-440.0	-3,037.5
Growth (YoY)	-24.5	2.2	192.4	-	58.8	-536.2

	2012 Y 03/31/2012	2013 Y 03/31/2013	2014 Y 03/31/2014	2015 Y 03/31/2015	2016 Y 03/31/2016	2017 Y 03/31/2017	2018 Y 03/31/2018	Current/LTM 06/30/2018
Net Income/Net Profit (Losses)	-5,787.6	502.7	-1,281.8	-1,151.7	1,232.1	678.0	4,429.8	5,770.2
Growth (YoY)	-75.9	-	-	1.9	-	-50.4	569.7	372.4

The same method seen in Appendix A was used to acquire the data in Appendix B