The Strategic Analysis of Driving Forces Determining Success for a Console Manufacturer in the Console Market – the Positioning Strategy of Nintendo

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Received 23 January 2017; revised 14 July 2017; accepted 03 September 2017

Though the console market is steadily growing, the competition is very fierce. A variety of key factors get involved in the successful survival in the console market, including branding, cost, exclusive games, innovation, online feature, price, reliability, third parties support, technology, and timing. However, it is not easy to sustain the competitive advantages in an extremely fierce console market with other strong competitors for a long time, if there is not any change to console manufacturers. In addition to keep the original strength, Nintendo applies the most appropriate strategy to sustain its competitive advantages in the next generation.

Keywords: Strategy Management

Introduction

The strategy management is prevalently applied to either reinforce the value of businesses and industries or further help them to get over the harsh predicament in variety of fields¹-²⁴. In recent years, though the video games market is steadily growing, the competition is very fierce²⁵. According to the strategy analysis of the console market stated by Panzachhi²⁶, the key success factors for a console manufacturer in the console market primarily comprises “branding, cost, exclusive games, innovation, online feature, price, reliability, third parties support, technology (audio, graphic and hardware related stuff) and timing”²⁶.

Preliminaries

As for a console manufacturer, several potential factors bring them advantages to take a place in a highly competitive console market²⁶, as described in the following:

Brand

In the long run, the brand effect plays a significant role in the sustainable development of console market, and a great diversity of marketing strategies are effective. In the 7th generation, Nintendo, Sony, and Microsoft can survive in the fierce console market by their strong brand, and it is not easy for new comers to “attack” the console market under the strong brand of these competitors.

Cost

The cost of console manufacturing must be considered with the expected revenues consistently, and an inconsistent cost control with the planned revenue usually leads console manufacturers to fail in the console market. As for the positioning strategy, Nintendo consoles cost less for taking the advantage of prices, but Sony consoles cost much for establishing high-tech consoles.

Exclusive games

A series of exclusive games can promote the console manufacturer to keep the console market in a sustaining trajectory, such as Super Mario Brothers Series and Final Fantasy Series, and the diversity of exclusive games also potentially masters the purchasing decision of consoles.

Innovation

As for console multi-functionality, console can also be used as other entertainments in particular, such as home theater. Basically, Sony and Microsoft focus on the hardware innovation based on sustaining innovation. However, Nintendo Wii overthrows these conventional innovations, because it innovates a new game play type by implementing its remote wand-like controller based on disruptive innovation.

Online features

An online platform has become one of popular trends to the console multi-functionality, because players can get the satisfaction of the community interaction from the virtual world, such as XBOX live service.
Price
It determines the position of console in the console market. Nintendo chooses to sell less powerful console with cheap price for the purpose of price advantage, but Sony chooses to sell high powerful console with expensive price for the purpose of high-tech advantage.

Hardware reliability
A reliable hardware can gain the prospect of console manufacturer, and it can further avoid the console manufacturers to spend much cost in free assistance.

Third party support
“A good support from third parties can allow a console to have a wide portfolio of genres and indirectly satisfy all customers”, but an inconsistent support from third parties may lead the console manufacturer to fail in the console market, such as Nintendo 64 (N64).

Technology
The corresponding technology of exquisite console should be steadily enhanced by a sustaining R&D. Before the 7th generation, this is indeed a crucial factor to success in the console market, but it is not the one factor especially after Nintendo Wii appears.

Timing
A good timing can potentially lead the console manufacturer to success in the console market, and the console manufacturer can usually benefit from it.

The analysis of competitive strategies available to nintendo to bounce back in the console market
The Nintendo undergoes the success and failure in the console market, and the determining factors bring Nintendo to advantageously back to the console market can be described as follows in detail:

Leave red ocean market and create blue ocean market
In addition to the ongoing strategy of low costs and positive margins conducted by Nintendo, Nintendo also applies a coherent strategy to create blue ocean market. Since the sixth generation starts in the twenty-first century, the extremely fierce competition of the console market leads the console manufactures to get into the red ocean market. Differ from Microsoft and Sony, Nintendo determines to leave the red ocean market and try to create the blue ocean market.

Blue ocean strategy
The design philosophy of Wii is to recruit new gamers by discovering a broad demographic, including inactive hardcore gamers, people who have not ever joined video games, female customers, and older customers, instead of general hardcore gamers. The range of age is quite broad, but the market segmentation is obvious. Moreover, it can clearly grasp the preference of each market segmentation, to ensure it can benefit from this broad demographic.

Competition strategy
• Clear Market Positioning: Create blue ocean market. Casual gamers-oriented market positioning and diversified strategy to capture the benefit from markets.
• Easy Policy: Easy to learn, easy to play, and easy to work, for a broad demographic to easily get in video games without complicated SOP.
• Simple Design and Low Cost: Enhance the acceptance of customers.
• Disruptive Innovation: “Remote wand-like controller that was sensitive to a range of hand movements”. Gameplay is not only conventional gameplay, and it is really “Multifunctional Entertainments”.

Marketing strategy based on “four Ps”
• Product: Wii console, unique remote wand-like controller, and merchandise.
• Price: Middle class consumer-centric pricing.
• Place: Diversified channel strategy based on market positioning.
• Promote: Long-term advertising based on humanity for enhancing the image, and select the best timing to sell.

Porter five forces analysis
• Intensity of Competitive Rivalry: Each competitor has its own strength.
• Bargaining power of customers (buyers): Weak consumer bargaining power.
• Bargaining power of suppliers: Bargaining power of suppliers relates to the industrial development.
• Threat of New Competition: The industrial life cycle has already matured, and barriers to entry are too high.
• Threat of substitute products or services: The fierce attack from online games.
SWOT analysis (Table 1)

How can Nintendo make the best use of these strategies to sustain its competitive advantages?

According to Figure 1, the strategies discussed in the previous chapter bring Nintendo a unique advantage to compete in the console market since Jan. 2007. Due to the extremely fierce competition in the console market, the sales of Nintendo Wii fell behind with other competitors since Nov. 2009, as shown in Figure 2.

Conclusion

It is not easy to sustain the competitive advantages in an extremely fierce console market with other strong competitors for a long time, if there is not any change to Nintendo. In addition to keep the original strength, Nintendo can potentially make the best use of the following strategies based on the discussion above (Section 1 and 2) to sustain its competitive advantages and to survive in the next generation. Further, the positive recommendations based on the strategic analysis can be described as follows in detail.

- As for key factor to success in the console market
  a. Brand - Keep making the investments on branding by a great diversity of marketing and advertising strategies.
  b. Exclusive Games - Strengthen the R&D of exclusive games and increase the diversification of exclusive games (e.g. abundant storyline), to ensure a sustaining development of console and games market.
  c. Innovation - Strengthen the features and diversity of products by effectively combining the software and peripheral.
  d. Online Features - Increase the network function to support a great diversity of network applications.

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<td>(1) Simple Interactive games without cinematic-quality and exquisite Storyline</td>
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Opportunity

(1) Promote the growth of related technology industries
(2) Stimulate more creative ideas to game industries and incentive to disruptive innovation
(3) Attract potential players other than young hardcore gamers
(4) Actively expand market share

Threat

(1) Fake Consoles and Illegal Copy Games may emerge
(2) Competitors may surpass
(3) Rising of Online Games

Table 1 — SWOT Analysis of Strategy Conducted by Nintendo in the Console Market

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Fig. 1 — Console Sales Month-to-Month

Fig. 2 — Cumulative Annual Growth in %
to attract more customers to participate in the virtual community interaction by online platform. 
e Hardware Reliability - Strengthen the quality control of consoles, to ensure a reliable hardware with good qualities.
f Third Party Support - Keep a health relationship with third party via a good communication, to ensure a consistent support from third parties without conflicts.
g Technology - Enhance the processing speed and graphics, to support richer game content with more exquisite graphic realism.

- As for blue ocean strategy, keeping creating blue ocean markets by discovering potential customers.
- As for competition strategy, apply disruptive innovation, to stimulate more creative ideas to game industries and incentive to disruptive innovation, to keep the development of disruptive innovation in a sustainable trajectory.
- As for marketing strategy based on “Four Ps”, on the basis of promotion, keeping maintaining long-term advertising based on humanity for enhancing the image and selects the best timing to sell.
- As for porter five forces analysis, to avoid the threat of substitute products or services by increasing online features.
- As for SWOT analysis, to shorten the weakness, construct a complete supply chain to decrease the shortage of global market supply, and construct a complete IP protection to avoid the threat.

Acknowledgements
Authors are grateful to acknowledge the financial support from the Key Laboratory of Software Engineering of China Yunnan, under the grant number: 2017SE202.

References